MULTI ASSET DYNAMIC PORTFOLIO

NOVEMBER 2021

Monthly Update

- **Our meters indicate having a higher exposure to equities than the benchmark**
- **The global macroeconomic conditions are indicating growth above the long term trend. The risk appetite, especially in the developed markets, although moderating, still remains in risk on zone,.**
- **However, the momentum and technical strength in Indian equities is fading. The recent correction in the equities have eased valuation pressure a bit.**
- **The sequential pick up in the economic activity will eventually pave the way for interest rate normalization, thus making longer duration bonds unattractive.**
- **Despite record high inflation numbers being reported globally, the performance of gold has mostly been sideways to downwards this year due to taper talks and healthy global economic activity**

The month of November was jittery for the domestic equity markets. Nifty 50 index corrected by 3.90% and the Midcap 150 and Smallcap 250 indices corrected by 1.47% and 0.43%. On the other hand, the US equities extended their gains with Nasdaq 100 index rising by 3.99% and S&P 500 index by 1.71%. Gold remained range bound after rising 4.48% in the month of October.

We maintain higher allocation to equity compared to the benchmark (40% equity, 40% debt & 20% Gold) in the portfolio. The **Macrometer** points to an expansionary regime. Indian economy has been in a recovery mode since the second wave of Covid-19 started receding. Easing of restrictions and rapid pace of vaccinations helped many economic indicators bounce back to their pre-Covid level. Both, the manufacturing sector and the services sector saw expansion as indicated by PMI numbers, supported by the festive demand. There was a mild pick up in the credit growth by the scheduled commercial banks. The economic activity in the US has stabilized. The US weekly economic index that tracks retail sales, unemployment claims, consumer confidence, electricity output etc. reported value of 7.31 in November against 7.38 in October.

The global risk appetite measured by **Global RORO** for equities remains in place, especially in the developed markets. Although, the news regarding the effect of the new Corona Virus variant is still evolving, early statements indicate that the new variant causes only mild symptoms.

The forward guidance on the monetary policy expectations in the past few months by the US Fed has been impressive, and communicated well in advance unlike the tapering announcement in 2013 that triggered a sell off in emerging markets. Unlike 2013, when India was a part of "Fragile Five" club, that was reliant on foreign investments to finance their growth ambitions, India is in a much better shape now with a manageable current account deficit and ample foreign exchange reserves.

In terms of valuations. the recent correction in Nifty 50 has eased a bit of valuation pressure, however, the valuations are still in the overvalued zone indicated by **Cyclometer.** The 12 month forward price to earnings and price to book ratio stand at 23.3x and 3.4x which are much above 7 year average of 19.7x and 2.7x respectively.

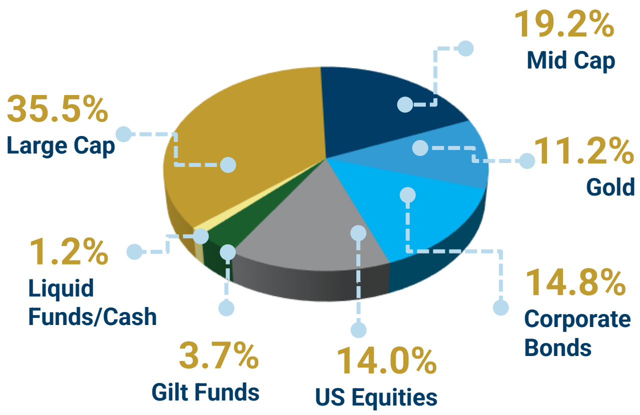
In our earlier newsletter released in September, we wrote that our **Relative Valuation meter** shows that the smaller cap stocks have not yet touched the euphoric levels of 2017 vis-à-vis large caps, which means we might see some more outperformance by midcaps relative to large caps, if the rally in equities continues. Over the last two months, the performance of midcaps has been more resilient than the large caps. However, momentum in both large caps and midcaps is fading and technical strength is weakening as suggested by **Multi Asset Momentum and Technometer**. **Sentimeter**, that captures equity market sentiment is showing fatigue owing to deteriorating advance decline ratio, huge FII selling pressure, increasing volatility and sector rotation from cyclicals to defensives. Over the next few days, we might see more volatility in large and well as midcaps, but we see this correction as an opportunity to increase our equity allocation in a staggered manner.

The central banks in India and the US have started tightening the liquidity tap. A scale up in term reverse repo auctions in India has led to a reduction in the liquidity free float, resulting in hardening of short term money market rates. The sequential pick up in the economic activity will eventually pave the way for interest rate normalization, both in India as well as the US, with longer duration bonds looking unattractive. The model indicates higher exposure to shorter duration funds compared to Gilt funds from hereon, as suggested by **Monetary meter**.

On the other hand, the performance of Gold has mostly been sideways as the start of tapering bond purchases and expectation of rise in interest rates by Fed take center stage. The relative momentum in Gold when compared to DM equities, copper & lumber continues to be weak, as indicated by **Goldmeter**, in addition to high volatility arising from any normalization news from the US.

After incorporating these factors, our quant model is pointing to a higher allocation to equities by making use of the recent correction and well diversified position, with 55% in domestic equities, 14% in the US equities and 31% non-equities (including Gilt, Corporate bonds, liquid funds and Gold).

Current Allocation



The tables below summarize our current quant meter readings and the allocations:

Indicator	Previous Regime (29th September 2021 – 26th November)	Current Regime	Explanation
Macrometer	Deceleration	Steady Growth	The macroeconomic conditions in India and US indicate expansionary regime
Cyclometer	Peak Formation (Highly Overvalued)	Overvalued	Recent correction in Nifty 50 has pulled down the valuation zone of equities from highly overvalued to overvalued.
Monetary Meter	Debt + Equity	Invest in Equities	Rising 10 year bond yield and steepening of the yield curve indicates rising interest rates going forward, that doesn't bode well for bond prices, indicating preference towards equities.
Global RORO	Risk On	Risk On	Global risk appetite remain strong with still ample liquidity in the markets
Sentimeter	Buy	Buy	Although the indicators show fatigue, Sentiment is still in Buy zone
Multi Asset Momentum	Invest in Equities	Distribute Equally	Momentum across domestic equities is fading
Technometer	Buy	Sell	The technicals for Nifty 50 and Midcaps are showing weakness
Relative Value Meter	Overvalued	Overvalued	Midcaps continue to be in overvalued zone vis-à-vis large caps
Goldmeter	Invest in other Asset Classes	Invest in other Asset Classes	The relative momentum in Gold when compared to DM equities, copper & lumber continues to be weak

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