MULTI ASSET

DYNAMIC

PORTFOLIO

JANUARY 2022

Monthly Update

The domestic equity markets staged an impressive comeback post the correction that lasted for more than two and a half months. Having made an intraday low of 16,410 on 20th December, Nifty 50 added 1900 points in just 20 trading sessions, thereby rising 10.1% as on 17th January 2022. Midcaps and smallcaps saw an equally stellar rally, gaining 10.3% and 14.0% respectively since December 20th. The Indian equity market has been the beneficiary of strong inflows from both the institutional and retail markets.

Our proprietary indicators are signaling an overweight on equities compared to the benchmark (40% equity, 40% debt & 20% Gold). As suggested by '**Macrometer**' which gauges economic activity, the domestic economic growth remains strong backed by robust manufacturing and services sector demand. So far, with the current 'Omicron' variant being relatively mild, the third wave is not expected to result into a health crisis that we saw during the second wave and hence, unlikely to derail the growth. Unless there is a serious third wave, many large financial institutions are projecting the Indian economy to expand by north of 9% in 2021-22. While RBI has started the process of policy normalization, it has kept the rates unchanged to record lows to spur the economic growth. Our '**Monetary meter**' suggests exposure to equities that is supported by continuing accommodative policies by RBI. The US economy is on track for healthy growth, driven by private sector, tight labor market conditions and pent-up demand by households having amassed savings during the pandemic.

The sentiment towards domestic equities is back to euphoric levels, as indicated by '**Sentimeter**'. The FIIs are making a comeback as net buyers of Indian equities, while the domestic institutional and retail inflows continue to remain robust. The market breadth has seen improvement over the last 3 weeks. Banks and financial sector are finally participating in the broad-based rally. The indices are showing robust technical strength, suggested by our '**Technometer**'. The small cap premium over large caps, measured by '**Relative Valuemeter**' indicates small and midcaps might continue to outperform large caps in near to medium term as the indicator still has some distance to cover before we touch peak levels of 2018 and 2007. Our '**Multi-asset momentum meter**' is showing a tilt towards equities since the last week after indicating a cut in exposure at 17,770 Nifty 50 levels in November. The global risk appetite, measured by '**Global RORO**', for equities stays in place, as investors globally remain cautiously optimistic on equities.

While the sentiment towards equities remains buoyant, we are cognizant of the risks that the new year brings along. The equity valuations, by no means are cheap. Our equity valuation indicator '**Cyclometer**' is flashing an orange signal. The market cap to GDP ratio is hovering around 125%, highest since late 2007, the 12-month forward price to earnings and price to book ratio stand at 24.8x and 3.6x which are much above 7-year average of 19.7x and 2.7x respectively. Unless justified by strong corporate earnings growth, the equity valuations have limited room to move further north. However, a bigger risk lurking is global central banks moving faster towards policy normalization to address the increasing inflation and rate hikes. As we write this note, the 10-year US bond yield has already spiked to 1.79%, with financial markets expecting the first Fed fund rate hike in as early as March and a total of 4 rate hikes this year. This doesn't bode well for risky assets and might result in the heightened volatility. In addition to that, expectations of roll back of accommodative policies and rising yields have kept gold prices range bound and relative momentum in Gold when compared to equities, copper & lumber continues to be weak, as indicated by '**Goldmeter**'. We are keenly monitoring this development on rising bond yields and dollar strength and their potential impact on emerging market equities and commodities.

In the times of heightened volatility and global policy uncertainty, having an all-weather multi asset portfolio becomes an optimal investment approach. Our multi asset portfolio – MADP has currently 70% exposure to equities (including 13.5% in US equities) and 30% in other asset classes including 1% cash holdings.

SIDDHARTH VORA
Fund Manager & Head Quant Investment Strategies– PL PMS
E:siddharthvora@plindia.com
M: +91 98334 09193

RITIKA CHHABRA
Quant Portfolio Strategist Multi Asset Products
E:ritikachhabra@plindia.com

NUPUR PATEL
Principal Officer & Head PMS Sales & Marketing
E:nupurpatel@plindia.com
M: +91 98210 97856

Contact us at quantifipms@plindia.com or visit www.plindia.com/QuantifiMADP/