MULTI ASSET DYNAMIC PORTFOLIO

Monthly Update - September 2022

01 **Indian equities continued to rise in the month of August, while the rally in the US equities fizzled out towards the end of the month.**

02 **We have increased our weight in domestic equities backed by the robust economic growth and strong FII flows.**

03 **We have also added slight exposure in long term gilt bonds as most of the front loading of rate hikes by the RBI seems to be behind us.**

The equity rally that started in mid-June continued in the month of August. The Nifty 50 index delivered 3.5%, while broader markets outperformed large caps with Nifty Midcap 150 index rising by 6.0% and Nifty Smallcap 250 index by 5.6%. In the US, however, we saw the rally fizzling out towards the end of the month as markets got spooked by the hawkish comments from the Fed chair Jerome Powell in the Jackson Hole meeting.

In an uncertain economic environment, markets become extremely sensitive to macroeconomic events. Following the July FOMC meeting, risk assets rallied hoping that the Fed will pivot as soon as the US economy shows the first signs of weakness. Investors started pricing in an optimistic scenario wherein by early 2023 the inflation is falling; growth is just below the trend and the central banks are cutting rates to support the growth to bring it back to the trend. The US 10-year bond yield softened to 2.6% from 3.2% and bond prices recovered some of their losses from the worst bond rout seen in more than a decade. However, the Fed realized that the markets misunderstood Powell's July press conference comments and in the Jackson Hole meeting held on 26th August, the Fed made sure that it resets the investors' expectations. Powell's delivered an unequivocally hawkish speech and emphasized on bringing price stability by getting inflation within 2% target as its primary goal even though it might entail sustained periods of below trend growth, softening labor market and pain for households and businesses. Powell's comments spooked the markets with S&P 500 and Nasdaq 100 tanking 3.3% and 4.1% respectively to close the day.

While the Indian markets cannot avoid the global headwinds but thankfully, the India equity markets didn't see as sharp a correction as the US equities. The Indian economy continues to be in a much better place than most the developed and emerging world is in.

The domestic economic growth is robust with the latest Q1 GDP rising by 13.5% y-o-y backed by strong private consumption despite high commodity prices especially oil and weak INR. High frequency indicators such as sales of commercial vehicles, passengers handled at airports, production of cement, railway freight/passenger are showing healthy growth. The private consumption that accounts for around 60% of the GDP will continue to be robust over the next quarter as well given that we are just entering the festive season. The forex reserves that stand at USD 561bn are currently sufficient to cushion the fall in INR against the rising dollar. The FII flows have come back strongly, with inflows over Rs. 51,000 crores over the last month.

PORTFOLIO POSITIONING & METER READINGS:

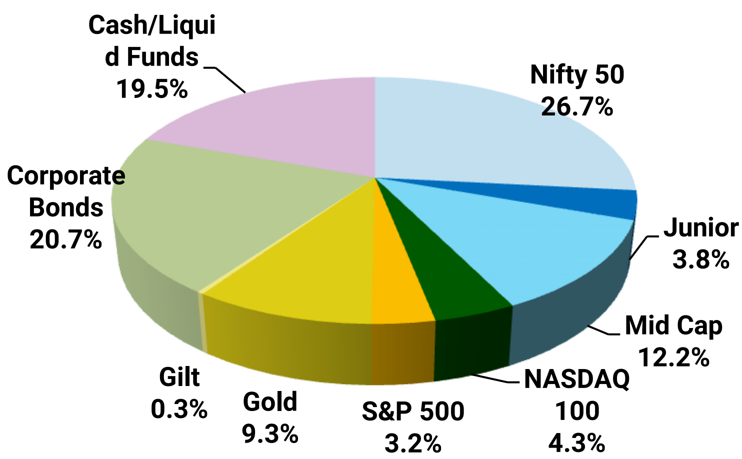
We have increased our exposure to domestic equities and are now marginally overweight vis-à-vis the benchmark. Our quant model suggests improved sentiments, strong momentum backed by robust FII inflows. Our **'Macrometer'** which captures domestic as well as global economic factors indicates robust economic growth in India. Last month saw a jump in auto sales as we enter into the festive season. The manufacturing and services PMI expanded to 58.2 and 57.2 respectively. Our technical indicator **'Technometer'** maintains a buy in Indian equities. The **'Monetary Meter'** is indicating to add duration to the portfolio as inflation inches lower and much of the front loading of rates seems to be behind us. The **'Momentum Meter'** is signaling to invest in equities, the first time since November 2021. The quant sentiment indicator **'Sentimeter'** is suggesting being moderately over-weight in equities as a result of strong inflows by FIIs and high percentage of NSE stocks trading above their 200 DMA price. The **'Global RORO'** remains Risk On with mixed signals across emerging and developed markets.

On the valuation front, equity markets' price to earnings and price to book multiples are at 20.5x and 3.1x respectively, which still conveys a weak value proposition signaled by the **'Cyclometer'**. The **'Relative Valuemeter'** which measures the relative attractiveness of smallcaps vis-à-vis large caps is presenting a similar story of smallcaps currently being overvalued when compared to larger companies. The combined portfolio weight is pointing to being slightly overweight in equities vis-à-vis the benchmark. We have kept our allocation of bond portfolio to 23% at portfolio level with maximum exposure (approx. 20%) to short to medium duration and target maturity funds. We have also maintained our allocation to gold at 9% with gold prices being vulnerable to interest rate hikes. We have reduced our cash allocation equivalent to increase in the equity allocation.

That said, the global growth is slowing sharply. Europe is being hurt by gas disruptions, China's recovery from zero-Covid lockdowns is faltering and US Fed will find it difficult to meaningfully support growth or markets while inflation is still so high. These global headwinds might put brakes on the sharp rally that we have seen since mid-June. However, we believe that like the first half of this year, the Indian equity market will continue to outperform its global peers given the strong domestic tailwinds. We continue to monitor the global developments and any material changes in our ecosystem that warrant significant change in allocations.

CURRENT ALLOCATION

Previous Allocation



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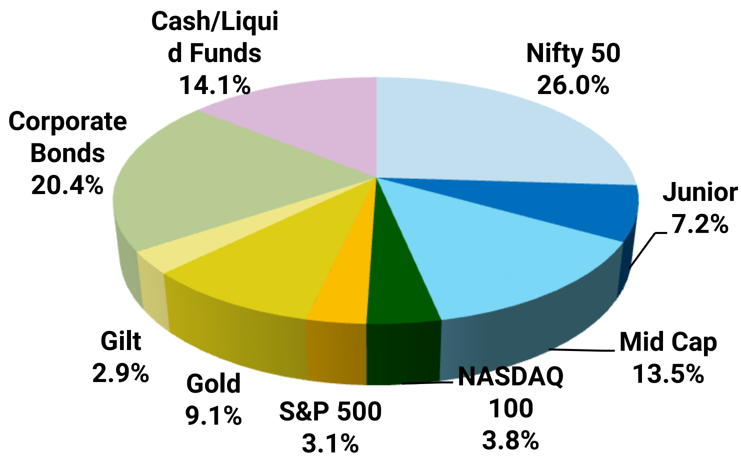

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Strategy may invest substantially in equity, debt, gold and international securities Equity securities and equity related securities are volatile and proven to price fluctuations The liquidity of investments made in the portfolio may be restricted by trading volumes and settlement periods Settlement period may be extended significantly by unforeseen circumstances The inability of the portfolio to make intended securities purchase due to settlement problems could cause the portfolio miss certain investment opportunities Similarly, the inability to sell securities, held in the strategies portfolio may result, at times, in potential losses to the strategy, should there be a subsequent decline in the value of securities held in the strategies portfolio Investment in Securities is subject to market risk and there is no assurance or guarantee that the objectives of the investment will be achieved, as with investment in securities, the value of portfolio may go up or down depending upon the factors and forces affecting in capital market and the portfolio manages is not responsible or liable for the losses resulting from the operations of the portfolio Investments in equity and equity related securities involve a degree of risk and investors should not invest in the strategy unless they can afford to take the risk of losing their investment performance related information is not verified by SEBI.