

Executive Summary of the 63rd Global Investment Advisory Committee (GIAC) Meeting

7th September 2023

Current stance

The committee agreed to maintain its ongoing stance on equity allocation, which remains overweight, given the consistently optimistic outlook on the equity ecosystem and the potential to create robust alpha. It was further decided that the allocation to the mid and small-cap space would also remain consistent with the previous months.

Key variables to monitor:



US guidance on
rate movement



FII inflows in
emerging markets



RBI's attempts at
NDF intervention

What's changed since our last meeting?

Even though US inflation data for July matched estimates, the Federal Reserve has stated that more hikes may be on the anvil. In India, this week saw the RBI's largest intervention in the non-deliverable forward market in over two years and this has prompted caution regarding possible liquidity tightening. Separately, India's July domestic retail inflation figure came in at 7.44%, sharply breaching RBI's comfort zone, even as GDP growth accelerated to 7.8% in Q1 FY2024.

Global Investment Advisory Committee Viewpoints



Equity

The main highlight of the market remains the stellar surge in the mid and small-cap segments, with the Nifty index moving up 11% against a 30% rise in mid-caps and a 34% spike in small-caps. The ongoing euphoria exceeds the one witnessed in 2017, given the broad-based index rally of 30% amidst strong earnings. The market is experiencing a strong inflow of capital and given the lack of depth, this liquidity is prompting a surge in prices. Going ahead, we believe that the outlook for companies is far better and more broad-based, especially in the mid and small-cap segments, when compared with the previous upward cycle of 2017. Every sector, except oil and gas, is in the green. Further, emerging markets, especially India, continue to witness robust FPI inflows in the small and mid-cap markets.

In this backdrop, the persistent view is that a massive correction is not expected in small and mid-caps. However, there is a possibility of money rotation occurring from these segments to large caps, in the near term. Additionally, in the absence of negative rate hike guidance from the US Fed, FPI inflows into Indian equities are expected to remain robust, despite a slowdown in August. Given the strengthening of the global economy, even in the face of quantitative tightening, there are strong expectations of a rebound in growth. Also, important to note that “3.1 billion people (representing 80% of global equity market cap, 60% of global GDP, 40% of global population) go to the polls next year including India.” By implication, you can forget austerity really, anywhere that matters, despite egregious and ultimately unsustainable budget deficits in many developed countries. In this scenario, an easing of interest rates will trigger further buying action in India. In the absence of any major negative triggers, it is advisable to maintain equity allocation at current levels.

Debt

The portfolio continues to consider A and AA-rated corporate bonds for investment, especially in the 2.5 year tenure, in addition to placing proceeds from profit booking in multi-asset funds. Given the removal of indexation benefits, new investments are being made only in the 3-4 year tenures, while long and dated bonds are being considered for duration play. Off-the-run government securities, which fall under odd lots of 9- and 11-year tenures, may also be added to the portfolio, in addition to short-term positions in 30- and 15-day T-bills, CPs, and CDs for higher returns.

Since inception, the fixed income portion of the portfolio including REITs, InvITs, and bonds has delivered strong outperformance. Going ahead, there is consensus regarding the maintenance of a stronger focus on debt, because timely pivots, from debt to equity, have the potential to offer robust returns.

Divergent Views

Utilising arbitrage funds for parking proceeds from profit-booking exercises was suggested instead of multi-asset funds, given their attractive tax and returns. However, the possibility of mid-month exits, which would require a complete exit from arbitrage funds, was cited as the reason for disregarding this suggestion.

Co-Chair Committee member



Shiv Sehgal
President & Head
Institutional Securities



Alok Saigal
President & Head
Nuvama Private

Other Committee members

- ▶ Amit Rajawat, Fund Manager, Infinity, Nuvama Private
- ▶ Ajay Marwaha, Head, Nuvama Fixed Income Advisory
- ▶ Ajay Vora, Head, Equities, Nuvama Asset Management
- ▶ Dhawal Dalal, CIO, Fixed Income, Edelweiss Asset Management
- ▶ Kapil Gupta, Executive Director, Equity Research, Nuvama Institutional Equities
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