



Executive Summary of the 64th Global Investment Advisory Committee (GIAC) Meeting

26th October 2023

Current stance

The committee maintained its slightly overweight stance on equity allocation, across its conservative, balanced, and growth portfolios. The committee debated market-cap allocation. The committee also maintained its stance on gold, having decided to increase allocation to the yellow metal in its September 2023 meeting. Further, it was decided to take some exposure to gold via ETFs.

Key variables to monitor:



Movement in
Oil prices



US 10-year
Treasury yield



Geopolitical developments,
particularly in the Middle-East

What's changed since our last meeting

In its September 2023 meeting, the Federal Reserve held interest rates steady at 5.25%–5.50%. This was largely in line with expectations, as this move gives the Fed additional time to evaluate if the current rates are managing to keep inflation at bay without hampering economic growth. India's retail inflation cooled to a three-month low in September 2023 due to softer vegetable prices, but remained above 4%, a target that the Reserve Bank of India (RBI) has signalled would be key before easing rates.

Viewpoints

Equity

In the previous quarter, we took a call to increase equity allocation in the balanced portfolio to 55% – 50% in domestic equities and 5% in international stocks. This move has played out well and we continue to be positive on equities. However, we are also taking cognisance of the current environment where the cost of capital and risk has moved higher as a result of which the equity risk premium has also increased. At the same time, volatility is also expected to increase due to a host of factors including heightened geopolitical tensions in the Middle East and Europe and threat to India due to its sensitive borders. A global risk-averse sentiment will inevitably percolate into India as well and may lead to a short-term correction in the market. At the same time, we continue to believe in the India growth story and suggest that any imminent correction can be dealt with through exposure to large-cap stock. This is because, historically if you observe, during volatile times, even though equities pull back, large-cap stocks tend to be more stable than their mid-and-small-cap counterparts.

Debt

It is important to underscore that interest rate risk, especially in the US, is currently fairly elevated. This is because the current crisis is not stemming from weakness in private sector balance sheets, i.e., it is not credit risk. Rather, it is more systemic in nature and is primarily coming from sovereign debt, i.e., interest rate risk. At the same time, demand for US treasuries is thinning because China is no longer buying and Russia and Japan have also stepped back.

Gold

Our view on gold turned positive last month which compelled us to increase allocation to the yellow metal. The move proved to be timely in nature as gold has generated 6.47% returns so far. Our view on gold continues to be positive and we expect the asset class to not only do well in the next year but also outperform other asset classes over the next 6 months. Overall, we will consider an increase in allocation to gold in the coming few months and continue taking exposure to the yellow metal through ETFs. We would like to maintain this stance at least till the 2024 general elections, i.e., till March – April 2024.

Divergent Views

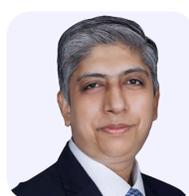
Within equities, allocation to mid-and-small caps was considered and heavily debated. In the backdrop of the current geopolitical landscape and the consequent impact on oil prices, mid-and-small caps might take a hit on their margins. Currently, in the mid-cap space, the topline is not seeing much growth, however, margins remain robust due to steady crude oil prices. In an environment where crude oil prices are at the risk of spiking, mid-cap margins might suffer which will impact profits. Hence, in the current environment, large-caps provide more comfort than mid-caps.

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
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