

Executive Summary of the 72nd Global Investment Advisory Committee (GIAC) Meeting

18th July 2024

Current stance

The committee discussed the impressive alpha generated by the growth portfolio over the past financial year, emphasising the robust nature of India's bull market. Post-election, the committee decided to go fully overweight on the equity allocation side, with this increase including allocations to large caps, and mid and small caps. Additionally, the committee maintained a neutral stance on mid and small cap allocations. Given the strong market optimism, the committee is also bullish on gold, with allocations made towards gold, REITs and InvITs, and duration bonds. Although last month's returns were relatively flat, the one-year period saw robust returns and the committee has decided to maintain status quo on the allocations till mid-November.

Key variables to monitor:



Union Budget



US elections



US Fed
rate movement



RBI MPC
outcomes

What's changed since our last meeting:

US Federal Reserve officials noted signs of a slowing economy and decreasing price pressures during their June 11-12 meeting but chose a cautious approach before committing to interest rate cuts. The minutes highlighted a weak May consumer price index and slower wage growth, alongside reports of reduced pricing power among major retailers. Despite indications that inflation was easing, policymakers were not yet ready to lower the federal funds rate and decided to wait for more evidence to confirm that inflation was moving sustainably toward the 2% target.

RBI Governor Shaktikanta Das stated that with retail inflation above the 4% target, it is too early to discuss interest rate cuts. He highlighted that the country is on track to achieve a 7.2% growth rate in 2024-25 and is heading towards 8% GDP growth. The May CPI was 4.7%, and June inflation has come in at 5.08%, indicating the need for caution on rate cuts.

Viewpoints



Accordingly, over the next year, equities might experience some strain. The market has already factored in a Fed rate cut in September and an additional 60 bps cut within the calendar year, providing equities with some tailwind. Once this euphoria subsides, increased volatility is expected, necessitating a more conservative approach post-November 15. Until Diwali, maintaining an overweight allocation is advisable, with potential portfolio de-risking thereafter while leveraging ongoing liquidity.

In terms of the upcoming Union Budget, it is expected that the large RBI dividend might be used to boost sentiment, possibly through tax cuts, without causing major disruptions to the bond markets. Fed easing isn't a discrete catalyst but instead an ongoing tailwind, and even though "everyone expects" a Sept cut, that doesn't mean anticipation of such a move still won't help catalyse continued gains. Rates should continue sliding, hurting the appeal of cash as an asset, which in turn will help drive funds back into equities.

The U.S. stock market has featured countless "never-before-seen and unprecedented" characteristics regarding capital-concentration; combined market-cap of a few U.S. mega-caps greater than the GDP of almost every individual economy in the world; extreme single-sector performance and performance divergences in small-caps relative to large-caps; and the "narrowest" advance led by a small number of mega-cap stocks in the S&P 500 and Nasdaq 100 in U.S. stock-market history, among many others.

US Technology as a group had simply become too crowded and overbought at a time when the macro narrative is pivoting away from a Fed perpetually on hold to a scenario characterised by monetary easing and disinflation, the type of landscape that tends to favour cyclical/value stocks.

In India, the economic landscape remains in a favourable goldilocks period, with growth normalising while inflation cools. Certain companies may face some top line pressure in the current environment, but this is more than being made up for with cost controls, allowing EPS to outperform expectations.

Globally, early signs indicate a slowdown in US consumerism, which might lead to two rate cuts this year. A significant downturn in the global economy, led by the US, is anticipated. The US-China trade war is escalating, and with erstwhile President Donald Trump likely to return to power, there could be a rise in US treasury yields due to potential Chinese actions.

Over the past year, the Nifty index has performed well; with mid and small cap stocks offering even better returns. However, domestically, broad-based economic indicators are not very strong – aggregate indicators are average to below average, with BSE 500 companies showing a top-line growth of 8-9% and a profit CAGR of around 20% over the last four years. Profits are mainly driven by margins or cost-cutting rather than increased demand. Further, banks are raising rates, increasing costs for smaller companies. If these rates decrease, following an RBI Monetary Policy Committee rate cut, it would benefit smaller companies positively. However, given the asymmetrical relationship between rate cuts by the RBI and the US Fed, there is no assurance that the RBI would cut rates in tandem with the US Fed.

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