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A Monthly Publication from Wiseinvest Advisors Private Limited

# WEALTHWISE®

Wiseinvest®
With YOU, in meeting
FINANCIAL CHALLENGES

## Inside



## Wealthwise

"Wealthwise" is a monthly publication brought to you by Wiseinvest Advisors, which is a quality investment advisory firm that specializes in mutual funds. Our CEO, Hemant Rustagi, is a well known personal finance expert. He brings with him an experience of around 30 years in this field. He regularly writes articles for major national dailies and business magazines as well as appears as a personal finance expert on many investments related TV shows. Besides, our team of advisors has professionals who have spent years in the mutual fund industry. In the last fifteen years, thousands of our clients have benefitted from our quality advice and have made mutual funds as the mainstay of their portfolio. You can benefit too from our expertise for your existing as well as new investments. All you need to do is to just call up any of the offices or email your requirements at **information@wiseinvestadvisors.com** and our professional advisors will do the rest.

Dear Investor,

The month of August saw the highest FII net inflows of more than ₹ 47,000 crore in over a decade. In the last three months, total net FPI inflows have been nearly ₹ 80,000 crore. The mid and small cap indices continued to out-perform their large-cap counterparts. While the benchmark BSE Sensex was up 4.57 percent, the mid and small ap indices of the BSE were up 11.09 percent and 13.96 percent respectively. Market jubilation could be attributed to a variety of factors, but a strong comeback by banks contributed significantly to the rally during the month. However, fresh tensions on the India-China border and SEBI's refusal to extend the date for a new margining system resulted in the Sensex shedding 2.1 percent on the last day of the month.

The country's retail inflation spiked to 6.93 per cent in the month of July mainly on account of higher food prices. The retail inflation which is measured by the Consumer Price Index (CPI) for the month of June was also revised to 6.23 per cent from 6.09 per cent, the data revealed. Prior to June's data, the government had not released the headline retail inflation data in April and May. However, in April, it had revised the CPI data for the month of March to 5.84 per cent from 5.91 per cent.

The MPC voted unanimously to leave the policy repo rate unchanged at 4 per cent and continue with the accommodative stance of monetary policy as long as necessary to revive growth, mitigate the impact of COVID-19, while ensuring that inflation remains within the target going forward. The Marginal Standing Facility (MSF) rate and the Bank rate remain unchanged at 4.25 per cent. The reverse repo rate stands unchanged at 3.35 per cent. RBI kept the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.

India's Gross Domestic Product (GDP) for the April-June quarter (Q1) slipped by a sharp 23.9 per cent on account of stringent lockdown. However, Consumer finance-one of the biggest drivers of sales- is inching towards pre-Covid level as a share of total transactions. The return of consumer finance will further boost sentiments and trigger high value discretionary purchase ahead of the festival season-which accounts for 40-45 percent of annual sales.

Warm regards,

**Hemant Rustagi**
**Editor**

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## The Stock Market Performance During August 2020.

| Indices | 3rd August 2020 | 31st August 2020 | Change in (%) |
|---|---|---|---|
| Sensex | 36,939.60 | 38,628.29 | 4.57 |
| MIDCAP | 13,716.79 | 15,238.14 | 11.09 |
| SMLCAP | 13,154.61 | 14,990.55 | 13.96 |
| BSE-100 | 10,991.48 | 11,480.92 | 4.45 |
| BSE-200 | 4,592.18 | 4,805.58 | 4.65 |
| BSE-500 | 14,182.52 | 14,890.06 | 4.99 |

# Fixed Income Market Update

Yields on 10 year G-sec hardened in the month of Aug'20 and breached the 6% level on account of continued high borrowing from the government, subdued revenue collection as well as the MPCs view on inflation during the Aug'20 RBI policy meeting. To offset the rising G-sec yields, RBI in the last week of Aug'20, announced various measures such as special OMO and Operational Twist. In addition, RBI also took decision to hold term repo operations for an aggregate amount of ₹ 100,000 crore in the upcoming month, to counter any liquidity pressures that may emerge due to advance tax payments. Further RBI reiterated that it is ready to use variety of instruments to ensure orderly market movement. During the Aug'20 RBI MPC meeting, the RBI decided to keep status quo and continued its accommodative stance. Globally, the COVID led crisis continued to impact the major economies and market remained uncertain due to factors such as resurgence in the US-China tensions, continuous increase in virus cases as well as the weak economic growth numbers for the major economies. During the month of Aug'20, Federal Reserve's decided to adopt a flexible form of average inflation targeting whereby it laid out a plan to allow inflation to run above the 2% target to boost job growth and overall economy. US 10 Year Treasury yields hardened by 0.18% during the month and ended at 0.70%. Also, in line with global central banks, the Bank of England decided to leave the interest rates unchanged at 0.1%.

On domestic front, the extended lockdown and slower fattening of virus curve has impacted consumer behavior. On the back of stalled economic activity across industrial as well as services sector, India's economy contracted sharply by 23.9% in Q1FY21. Nominal GDP growth also declined significantly by 22.6% which led to the lower revenues for the government and impacted fiscal deficit adversely. For the period Apr-Jul'20, the fiscal deficit was at ₹ 8.2 lac crs, 103% of the budgeted fiscal deficit of ₹ 8 lac crs for FY21(BE). Retail inflation rose to 6.9% in Jul'20 as compared to 6.09% in Jun'20, on account of elevated prices in food, pan, tobacco and miscellaneous segment. Also, the core inflation scaled a 21-month high at 5.9% for July 2020. WPI based inflation continued to remain in negative territory for the month of Jul'20 as well and recorded at -0.6% as compared to -1.8% in the previous month on the back of subdued price pressure in manufactured commodities and negative growth in the fuel component. Indian 10yr G-sec (5.79% GS 2030) increased to 6.12% on 31st Aug'20 from 5.84% on 31st Jul'20. Brent Crude continued to trade higher in the month of Aug'20 and ended at USD 45.28 per barrel on 31st Aug'20 an increase of USD1.98 per barrel during the month due to supply cut by the OPEC+. Indian Rupee appreciated by ₹ 1.19/$ to close at ₹ 73.62/$ on 31st Aug'20 as compared to ₹ 74.82/$ on 31st Jul'20 on the back of accrual in forex reserves due to FPI inflow in the economy.

## Outlook

On the global front, central banks across economies during the pandemic led crisis has supported the government fiscal efforts, ensured high liquidity and tried to reduce the impact on fiscal on rates. However, going forward the prospect of global growth recovery could be extended for some quarters due to continued spread of COVID-19 leading to slower opening of economic activities and impact the employment. In addition, global central banks are likely to remain accommodative for extended period on the back of declining GDP projection.

Locally, on the back of elongated lockdown, the financial stress faced by the government with the sharp decline in its income and an increase in expenditure has led to the significant widening of the fiscal deficit which could increase further during the FY20-21. Going forward, the economic activity could continue to be limited and consequently the government's revenue could have impact.

With good monsoon and favourable base effect food Inflation could see some relief which could bring down the retail inflation to well within the RBI's comfort level in the second quarter of FY21 which may open some space for policy action soon.

In the first half of FY21, government bond supply has remained high which is likely to reduce in the second half of the year. In addition, RBI is expected to do more OMOs and Operational Twist to help the yields ease in upcoming month. With large supply of government bond, the meaningful rally has not happened in the bond market yet. With supply expected to normalize bond market is likely to outperform. Going forward, amidst ample liquidity and with expectation of continued support from RBI on the liquidity side, shorter end of the curve is likely to remain supportive. We recommend investments in high quality Short Duration Funds and Corporate Bond Funds depending on the investment horizon of investors as well as Gilt Funds for investors with high risk appetite.

Source: **ICRA MFI Explorer, Bloomberg, RBI, MOSPI.

**Avnish Jain**
Head of Fixed Income
Canara Robeco Mutual Fund

## Disclaimer

# Equity Market Outlook

The markets (India is no different from the world!) continue to rally like there is no tomorrow. The MSCI India Index (consisting primarily of large caps) is up 4.0% in Aug and down only -4.8% YTD (all in USD terms). Further, small caps have also joined the party. The MSCI India Small Cap index was up 10.3% in Aug, down only 2.9% YTD, but still down 30.7% from the peak in Jan 2018. On the back of a risk-on sentiment, some sector leaders after outperforming over the last few months, are now giving way to the laggards to catch up (see Chart of the Month).

## Covid19 – still spreading:

India is adding ~80,000 new cases and ~1000 deaths per day. Total cases are ~3.6mn, soon poised to overtake Brazil in 2nd place – but by no means an achievement. From 89% in mid-May to 79% in July, active cases in the top eight states as a proportion of overall states have further fallen to 73%, which suggests that the infection continues to spread through the rest of India. New daily tests of 925k took total tests to ~38.6m or 2.9% of the Indian population. The government issued Unlock 4.0 guidelines – more relaxed than before in order to aid economic revival, but still maintaining some restrictions till 30th Sep.

## GDP growth falls, unsurprisingly

One could be forgiven for thinking -18 and -24 refer to temperatures near the poles, but these are the consensus expectation and actual GDP YoY % growth respectively for the Jun quarter. Led by a strict lockdown and labor migration, construction was the worst hit sub-sector, down 50%, followed by 'trade, hotels, transport and communication' down 47%. Govt. expenditure, the silver lining, grew 16.4% - most of the spending going into rural development, agriculture and railways. Private consumption declined 26.7% while Investments fell 47.5%.

## Flows and INR have strengthened

Foreign Institutional Investors (FIIs) bought ~US$ 6.2bn in equities in August, led by participation in capital raising in Financials. This impacted the Indian Rupee, which appreciated ~2.9% versus USD in the last few weeks to ~72.8. It had hit a peak of 76.8 in Apr-20. The Reserve Bank of India's FX intervention was probably limited as well, given the inflation uptick (July's CPI print of 6.9% - temporary in our view). Domestic equity mutual funds saw outflows of US$ 0.5 bn in July - the first monthly outflow since Mar'16 - and after peak monthly inflows of US$ 3 bn in mid-2017.

## On the Ground update

Based on high frequency indicators, aggregate demand (at ~67% of pre-Covid levels in July) lags aggregate supply (~82%) by a fair bit. Further, the sequential pace of normalization is slowing, so some sectors may plateau before reaching pre-Covid levels. The monsoon has been good though with cumulative rainfall tracking 8% above normal. As per CMIE*, the wage bills of manufacturing have been hit 20-25%, while services has been hit harder at ~30%. On the other hand, telecom, banks and brokerages saw an increase in wage bills by 10-15%.

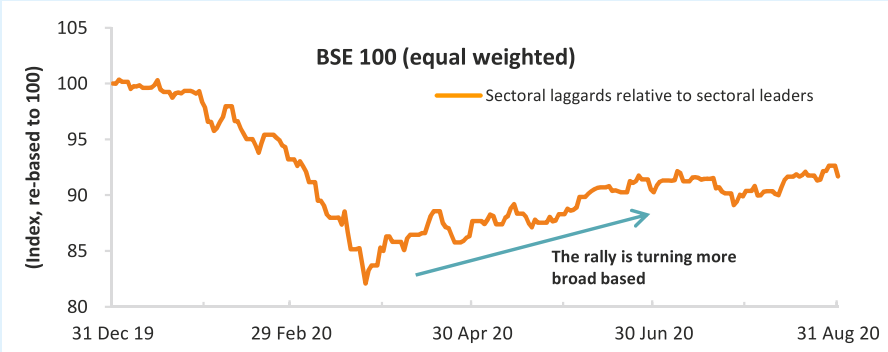
## Financials seeing renewed interest

This sector, a laggard in this rally over the last few months, has outperformed the market by ~8% in the last ~10 sessions. The Reserve Bank of India's moratorium to banks - enabling the latter to defer collections - ended on 31st August. The RBI has allowed loans to be restructured for 2 years beyond the moratorium period. Is this good, or déjà vu? In the past, a restructuring cycle has led to 30-50%+ slippages from restructured books. The large private sector banks have managed to raise capital (as observed in the flows section above), so the overall systemic risk reduces with their increased ability to provision and withstand stress. For the weaker banks and shadow lenders however, restructuring success would depend on the strength of the economic recovery.

## India as a manufacturing hub

We get a lot of questions around this, and whether India can replicate China as a global supply chain hub. The Indian govt. announced a Production Linked Incentive (PLI) scheme across sectors like pharma and electronics (more to be added). Companies that setup shop in India would be eligible for certain incentives. For example, a 4-6% fillip a year for mobile phone manufacturers, assuming pre-defined levels of expansion and exports over a few years. Such a scheme can eventually help shift global supply chains to India and in the process create jobs and increase the share of manufacturing in GDP (stuck at ~18%). No doubt a very good beginning, but these are early days, and execution will be key.

**Chart of the Month:** Is risk-on sentiment back? The global safety trade is unwinding, with EMs outperforming DMs, cyclical outperforming defensives. This is now rubbing off on equities here with sector leaders now underperforming their respective sectors. The orange line below represents an equal-weighted index constructed to highlight the dispersion in performance of the top 2-3 stocks in each sector versus all the other stocks in that sector.




**Sources for India Rewind:** Internal, Bloomberg, Goldman Sachs Research, Macquarie Research, CLSA Research, Spark Capital Research, Citi Research, Edelweiss Research. * CMIE is Centre for Monitoring Indian Economy.

**Jay Kothari**
Senior Vice President
Fund Manager
DSP Investment Managers Private Limited

## Disclaimer



## Risks

# Performance Of Select Funds

**Data as on August 28, 2020**

## EQUITY FUNDS

### Large Cap, Large & Midcap, Multi Cap

| Fund | Launch | 6 Mth* | 1 Year* | 2 Year** | 3 Year** | 5 Year** | 7 Year** | 10 Year** | 15 Year** |
|---|---|---|---|---|---|---|---|---|---|
| ABSL Frontline Equity Fund | Aug-02 | 2.89 | 5.13 | -1.56 | 2.08 | 7.09 | 14.10 | 10.00 | 14.67 |
| ABSL Equity Fund | Aug-98 | 0.14 | 9.16 | -0.77 | 2.41 | 9.06 | 17.99 | 10.45 | 13.76 |
| Axis Bluechip Fund | Jan-10 | -0.82 | 7.82 | 3.89 | 9.85 | 10.73 | 15.43 | 11.03 | — |
| Axis Focused 25 Fund | Jun-12 | -1.48 | 9.36 | 0.32 | 7.35 | 11.40 | 16.55 | — | — |
| Canara Robeco Equity Diversified Fund | Sep-03 | 3.25 | 15.28 | 4.21 | 8.20 | 9.65 | 14.81 | 10.34 | 13.61 |
| Canara Robeco Emerging Equities | Mar-05 | 3.02 | 18.47 | 1.52 | 5.73 | 11.47 | 25.03 | 15.96 | 15.60 |
| HDFC Equity Fund | Jan-95 | 0.46 | -2.14 | -3.94 | 1.14 | 6.23 | 14.47 | 8.31 | 14.15 |
| HDFC Top 100 Fund | Oct-96 | 1.60 | -2.22 | -3.25 | 1.70 | 6.76 | 13.52 | 8.25 | 14.10 |
| ICICI Prudential Bluechip Fund | May-08 | 4.11 | 6.20 | -0.45 | 4.30 | 8.43 | 14.14 | 10.73 | — |
| IDFC Core Equity Fund - Regular Plan | Aug-05 | 0.07 | 7.82 | -2.88 | 1.36 | 8.08 | 12.36 | 7.57 | 10.08 |
| Kotak Bluechip Fund - Regular Plan | Dec-98 | 3.80 | 9.50 | 1.07 | 5.52 | 7.76 | 14.52 | 9.27 | 12.84 |
| Kotak Equity Opportunities Fund | Sep-04 | 1.51 | 10.88 | 2.88 | 4.39 | 9.12 | 16.21 | 10.33 | 14.21 |
| Kotak Standard Multicap Fund Regular | Sep-09 | 0.11 | 4.92 | -0.04 | 4.07 | 9.30 | 17.30 | 11.59 | — |
| Mirae Asset Emerging Bluechip Fund | Jul-10 | 6.96 | 16.24 | 6.43 | 8.57 | 14.41 | 26.51 | 18.57 | — |
| Mirae Asset Focused Fund - Regular | May-19 | 8.51 | 16.02 | — | — | — | — | — | — |
| Mirae Asset Large Cap Fund - Regular | Apr-08 | 4.72 | 7.95 | 2.00 | 6.14 | 10.50 | 18.29 | 12.90 | — |
| Motilal Oswal Multicap 35 Fund | Apr-14 | -0.54 | 3.28 | -2.76 | 0.04 | 8.37 | — | — | — |
| Nippon India Large Cap Fund | Aug-07 | -1.25 | 1.99 | -3.38 | 2.31 | 6.45 | 14.97 | 9.89 | — |
| Invesco India Contra Fund | Apr-07 | 5.45 | 14.38 | 0.89 | 7.92 | 11.07 | 20.57 | 12.20 | — |
| SBI Bluechip Fund | Feb-06 | 3.71 | 5.93 | 0.26 | 3.33 | 7.57 | 15.70 | 10.66 | — |
| SBI Focused Equity Fund | Oct-04 | -1.05 | 13.24 | 4.57 | 9.32 | 11.11 | 18.15 | 14.02 | 13.82 |

### Midcap & Smallcap

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Axis Midcap Fund | Feb-11 | 4.34 | 20.60 | 5.75 | 11.67 | 10.34 | 21.57 | — | — |
| DSP Midcap Fund - Regular Plan | Nov-06 | 5.35 | 21.80 | 4.84 | 6.32 | 11.06 | 22.60 | 12.97 | — |
| HDFC Mid-Cap Opportunities Fund | Jun-07 | 3.82 | 13.86 | -2.22 | 1.99 | 8.31 | 20.21 | 13.92 | — |
| Kotak Emerging Equity Fund Regular | Mar-07 | 0.83 | 15.94 | 1.72 | 4.29 | 9.76 | 22.91 | 12.59 | — |
| L&T India Value Fund | Jan-10 | 3.14 | 6.39 | -3.12 | 0.18 | 7.59 | 18.96 | 12.08 | — |
| Motilal Oswal Midcap 30 Fund | Feb-14 | -8.22 | 8.24 | -4.98 | 0.21 | 4.42 | — | — | — |

### Sectoral / Thematic Fund & Tax Saving

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ICICI Prudential Banking and Financial | Aug-08 | -15.73 | -10.17 | -7.25 | -3.02 | 8.65 | 18.54 | 11.81 | — |
| Nippon India Banking Fund | May-03 | -18.87 | -15.36 | -13.22 | -5.94 | 5.11 | 15.48 | 8.08 | 13.96 |
| ICICI Prudential Pharma Healthcare | Jul-18 | 47.99 | 65.06 | 20.36 | — | — | — | — | — |
| Nippon India Pharma Fund | Jun-04 | 42.45 | 61.41 | 18.47 | 21.19 | 8.45 | 18.04 | 15.64 | 19.25 |
| SBI Healthcare Opportunities Fund | Jul-99 | 37.09 | 59.76 | 16.02 | 12.60 | 3.02 | 15.40 | 15.90 | 13.12 |
| Axis Long Term Equity Fund | Dec-09 | -1.79 | 8.62 | 1.77 | 7.82 | 9.23 | 19.80 | 14.98 | — |
| IDFC Tax Advantage (ELSS) Fund | Dec-08 | 5.08 | 8.95 | -2.99 | 1.79 | 7.15 | 15.73 | 11.04 | — |
| Kotak Tax Saver Regular Plan | Nov-05 | -0.54 | 7.62 | 1.36 | 4.19 | 8.11 | 16.40 | 9.22 | — |
| Mirae Asset Tax Saver Fund - Regular | Dec-15 | 7.72 | 13.42 | 4.64 | 8.51 | — | — | — | — |

## ARBITRAGE FUNDS

| Funds | Launch | 3 Mth* | 6 Mth* | 1 Year* | 2 year** | 3 Year** | 5 Year** |
|---|---|---|---|---|---|---|---|
| ICICI Prudential Equity Arbitrage Fund | Dec-06 | 0.15 | 1.63 | 4.50 | 5.57 | 5.67 | 5.88 |
| IDFC Arbitrage Fund - Regular Plan | Dec-06 | 0.25 | 1.25 | 4.16 | 5.52 | 5.62 | 5.77 |
| Kotak Equity Arbitrage Fund Regular | Sep-05 | 0.27 | 1.68 | 4.68 | 5.71 | 5.80 | 5.98 |

## HYBRID

| Fund | Launch | 6 Mth* | 1 Year* | 2 Year** | 3 Year** | 5 Year** | 7 Year** | 10 Year** | 15 Year** |
|---|---|---|---|---|---|---|---|---|---|
| ABSL Equity Hybrid '95 Fund | Feb-95 | 1.83 | 1.53 | -3.32 | -0.01 | 5.73 | 12.76 | 9.06 | 12.67 |
| Canara Robeco Equity Hybrid | Feb-93 | 4.00 | 14.24 | 5.93 | 7.64 | 9.72 | 15.73 | 11.21 | 14.65 |
| DSP Equity & Bond Fund | May-99 | 0.14 | 10.75 | 3.94 | 5.79 | 8.85 | 15.25 | 9.66 | 13.39 |
| DSP Dynamic Asset Allocation | Feb-14 | 4.48 | 10.41 | 7.63 | 6.04 | 7.67 | — | — | — |
| ICICI Prudential Bal. Advantage | Dec-06 | 4.91 | 9.73 | 6.18 | 6.74 | 8.39 | — | — | — |
| ICICI Prudential Equity & Debt | Nov-99 | 3.28 | 5.99 | 1.22 | 3.68 | 8.26 | 14.70 | 11.96 | 12.26 |
| IDFC Dynamic Equity Fund | Oct-14 | 4.17 | 12.25 | 4.91 | 6.56 | 6.93 | — | — | — |
| Kotak Balanced Advantage | Aug-18 | 6.23 | 11.27 | 7.63 | — | — | — | — | — |
| Kotak Equity Hybrid Fund | Nov-99 | 1.78 | 8.56 | 2.73 | 4.34 | 7.69 | 11.35 | 8.42 | 10.93 |
| SBI Equity Hybrid Fund | Dec-95 | 0.37 | 8.14 | 4.96 | 7.16 | 8.87 | 15.57 | 11.03 | 12.94 |
| IDFC Equity Savings Fund | Jun-08 | 5.41 | 8.39 | 3.95 | 4.74 | 5.31 | — | — | — |
| Kotak Equity Savings Fund | Oct-14 | 4.03 | 7.98 | 4.91 | 6.11 | 7.27 | — | — | — |

## DEBT

### Debt Oriented & Ultra Short Term Debt Fund

| Funds | Launch | 1 Mth* | 3 Mth* | 6 Mth* | 1 Year* | 2 Year** | 3 Year** | 5 Year** |
|---|---|---|---|---|---|---|---|---|
| ABSL Short Term Fund | May-03 | -0.11 | 3.36 | 5.65 | 8.75 | 9.22 | 7.55 | 8.21 |
| Invesco India Short Term Fund | Mar-07 | -0.69 | 1.83 | 4.48 | 8.86 | 9.09 | 7.33 | 7.54 |
| Axis Corporate Debt Fund | Jul-17 | -0.09 | 3.28 | 5.77 | 10.63 | 8.62 | 7.95 | — |
| HDFC Corporate Bond Fund | Jun-10 | -0.63 | 2.27 | 5.48 | 9.99 | 10.56 | 8.48 | 8.87 |
| Kotak Corporate Bond Fund | Sep-07 | 0.05 | 2.57 | 4.93 | 9.20 | 9.47 | 8.42 | 8.41 |
| Kotak Banking and PSU Debt Fund | Dec-98 | -0.58 | 1.96 | 4.55 | 9.71 | 10.44 | 8.40 | 8.63 |
| SBI Banking and PSU Fund | Oct-09 | -0.96 | 1.56 | 4.31 | 9.10 | 9.61 | 8.49 | 8.25 |
| ICICI Prudential Savings Fund | Sep-02 | 0.32 | 2.37 | 4.42 | 8.53 | 8.64 | 7.89 | 8.15 |
| Kotak Savings Fund Regular Plan | Aug-04 | 0.28 | 1.42 | 3.38 | 6.66 | 7.48 | 7.18 | 7.43 |
| L&T Ultra Short Term Fund | Apr-03 | 0.26 | 1.06 | 3.34 | 6.43 | 7.33 | 7.06 | 7.43 |

*Absolute ** Annualised. Past performance may or may not be sustained in future.

## Dividends declared by equity and equity-oriented funds during the month of August 2020

| Scheme name | Date | Dividend declared in ₹ Per unit |
|---|---|---|
| Tata Hybrid Equity Fund | 04/08/2020 | 0.23 |
| ICICI Prudential Equity & Debt Fund | 13/08/2020 | 0.05 |
| PGIM India Hybrid Equity Fund | 17/08/2020 | 0.11 |
| L&T Large and Midcap Fund | 24/08/2020 | 0.13 |
| Edelweiss Aggressive Hybrid Fund | 24/08/2020 | 0.19 |
| Kotak Equity Opportunities Fund | 25/08/2020 | 0.46 |
| Aditya Birla Sun Life Equity Advantage Fund | 25/08/2020 | 4.96 |
| Aditya Birla Sun Life Small cap Fund | 25/08/2020 | 0.84 |
| BOI AXA Tax Advantage Fund | 26/08/2020 | 0.30 |
| L&T Midcap Fund | 26/08/2020 | 1.50 |
| LIC MF Equity Hybrid Fund - Plan A | 28/08/2020 | 0.10 |

Please check whether you have received dividend for the fund/s that you may have in your portfolio out of this list. In case, you do not maintain any portfolio statement, Wiseinvest Advisors can do that for you free of charge. Once we have the details, we would send your updated statement every month. You can contact our corporate office or our branch to avail of this free service.

# Large May Become Larger

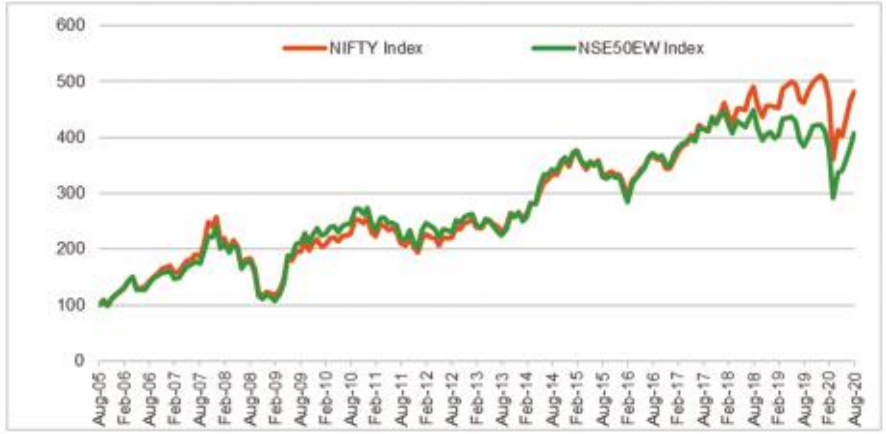
## Earnings disappointment and risk aversion led to market polarization:

Since late 2017, we have been witnessing market polarisation where few large cap stocks have been driving market gains. Top 10 to 15 stocks drove market performance whereas the broad market underperformed. The chart below shows the ratio of the Nifty index to the Equal Weight Nifty index over the past 15 years. It shows that especially since 2017, a select few heavy weight stocks have driven most market gains. In fact, the ratio of the two indices is near the highest it has been over this period.

It is generally a healthy sign for the equal weighted index to outperform the main index. This would indicate a) an ongoing economic expansion that provides an opportunity for smaller firms to also grow and for investors to diversify their portfolios, and, b) firms with new/disruptive business models are gaining prominence and challenging the leaders. We saw the former for the Nifty index between 2002 and 2007. We saw the latter after the 2008 crisis, when investors became more discerning of the companies they were investing in, and thus the leaders of the index changed and those have only become bigger since then.

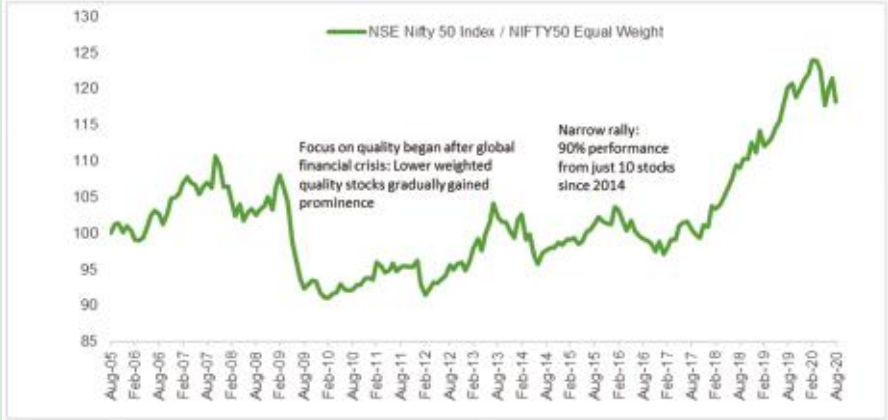
The reasons may have been different then, but the trend has been same. The primary reason could be disappointment in earnings delivery. The inability of the broad market to deliver earnings growth skewed the flow of money towards a few large cap stocks.

**Performance of Nifty Index vs Nifty Equal Weight Index (rebased to 100)**




Source: Bloomberg, BNP Paribas Securities. Past performance, including such scenarios, is not an indication of future performance. Data as of August 26, 2020.

**Ratio of the Nifty index to the Equal Weight Nifty index (rebased to 100)**




Source: Bloomberg, BNP Paribas Securities. Past performance, including such scenarios, is not an indication of future performance. Data as of August 26, 2020.

## Why we believe large may become larger:

Today's trend does not seem to be different. The polarization can be attributed to pandemic-led risk aversion. We believe large companies with stronger balance sheets may lead to a market share gain in FY22. Highly leveraged weak players already seem to be yielding to the pressure and exiting/restructuring their business. Companies with strong balance sheets though are suffering equally on P&L, seem to be effortlessly gaining market share because of the sector consolidation. Further, the tension around Chinese imports seems to be already hurting several unorganised players who used to be competitive because of the cheap Chinese goods. Hence, we believe LARGE MAY BECOME LARGER.

In an era where growth is scarce, we believe such polarization and divergence may persist till earnings see broad-based recovery. In this scenario, we believe large cap leadership companies will continue to deliver superior performance and gain market share. In the current situation, we prefer to avoid companies with high leverage and back companies with stronger balance sheets offering products/services that can create customer delight and better market access, can continue to gain market share until recovery is more broad-based.

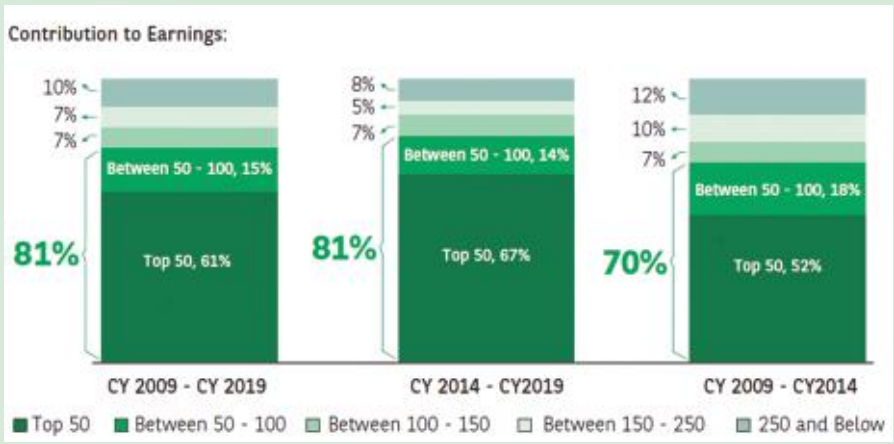
## Contribution to earnings is led by top 100 Stocks:

We analyzed the contribution to earnings (PAT) basis their market cap. Since 2009, top 100 companies (by market cap) have consistently contributed a large proportion to the market earnings. This is one of the reasons for large caps to be market darlings.

*Cont. on page 6...*

# Large May...

...Cont. from page 5




Source: Morgan Stanley Research, Bloomberg

(The above graph depicts the earnings growth of stocks on the basis of their market cap (largest to smallest) for the respective time frames. Past performance, including such scenarios, is not an indication of future performance. The data has been obtained from publicly available information, internally developed data and other sources believed to be reliable, but BNP Paribas Asset Management India Private Limited (BNPPAMIPL) does not represent that it is accurate or complete. Further, the information on earnings of companies is provided for information purposes only, and does not, in any manner, indicate any future performance).

## Large Cap Fared Well in Bull and Bear Phases:

We found that Nifty 50 (proxy for large cap) performance has been marginally behind the mid and small cap indices in the "up market" or "recovery phase", whereas mid and smallcap indices(proxy for mid and small cap funds) tend to give up the outperformance in the "down market" or "correction phase"(see exhibit below). Also on cumulative basis last 16 years data suggests almost similar returns for large cap (Nifty 50) and Midcap but with higher volatility while small caps have been weaker.

## Market Phases: Recovery vs Correction

| Point to Point | 31/12/2004 to 07/01/2008 | 07/01/2008 to 09/03/2009 | 09/03/2009 to 08/10/2010 | 08/10/2010 to 28/08/2013 | 28/08/2013 to 27/01/2015 | 27/01/2015 to 26/02/2016 | 26/02/2016 to 23/01/2018 | 23/01/2018 to 23/03/2020 | 23/03/2020 to 21/08/2020 |
|---|---|---|---|---|---|---|---|---|---|
| Nifty 50 | 44% | -53% | 71% | -6% | 45% | -20% | 27% | -16% | 49% |
| Nifty Midcap 100 | 48% | -64% | 105% | -14% | 65% | -11% | 39% | -27% | 55% |
| Nifty Smallcap 100 | 64% | -72% | 107% | -19% | 71% | -19% | 49% | -38% | 68% |
| Number of Years | 3.0 | 1.2 | 1.7 | 2.8 | 1.4 | 1.1 | 1.9 | 2.2 | 0.4 |

## Market Phases: Bull vs Bear


Source: Bloomberg. Data as of Aug 21, 2020. Data less than 1 year is absolute, rest is annualised. Past performance, including such scenarios, is not an indication of future performance.

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**Mutual Fund investments are subject to market risks, read all scheme related documents carefully before investing.**

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