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WEALTHWISE®

Wiseinvest®
AMFI-registered Mutual Fund Distributor

Inside | Pg No.

Wealthwise

"Wealthwise" is a monthly publication brought to you by Wiseinvest, an AMFI-registered Mutual Fund Distributor. Our CEO, Hemant Rustagi, is a well known personal finance expert. He brings with him an experience of more than 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. Providing quality service is our top priority. In keeping with that, we constantly take steps to provide up-to-date information to our clients. In the last twenty years, thousands of our clients have made mutual funds the mainstay of their portfolios. You can benefit too from our service support 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@wiseinvest.co.in.**

Dear Investor,

Equity benchmark indices Sensex and Nifty closed at fresh lifetime highs on the last day of the month, driven by a strong global market trend and renewed foreign fund inflows. While the BSE Sensex was up 0.76%, the mid cap and small cap indices of the BSE were up 0.89% and 1.25 % respectively.

The recent downward revision of US jobs data, along with the minutes from the latest FOMC (Federal Open Market Committee) meeting, has strengthened expectations of a rate cut in the next US FOMC meeting scheduled for September 17-18. As for the magnitude of the rate cut, the key would be how the Fed views the employment and inflation balance in the run-up to the September meeting.

Corporate India's profits shrunk by 3.1% in the first quarter of FY25 compared to a 31% growth in the corresponding quarter last year. In terms of earnings growth, this is the worst first-quarter performance after the pandemic (since Q1FY21). India Inc experienced a slowdown in profit growth despite stable interest rates and lower input costs mainly on account of an unfavourable base effect. While an unfavourable base and increased input costs could weigh on corporate profitability going forward, the support will come from a pickup in demand due to the festive season, moderation in inflation and a pickup in rural demand. Besides, interest costs too are likely to decline once the RBI cuts rate.

India's retail inflation eased to 3.54% in July, from 5.08% in June and 4.75% in May 2024. It is the first time in nearly five years that India's CPI inflation fell below RBI's target of 4%. The Reserve Bank of India (RBI) had kept benchmark repo rate unchanged at 6.50% in its last monetary policy meeting. The RBI has maintained that the MPC will remain focused on withdrawing accommodation to ensure that inflation does not obstruct growth prospects and will take actions promptly and appropriately as required to bring inflation down to the target.

Warm regards,

HRustagi

Hemant Rustagi
Editor

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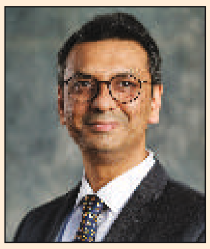
The Stock Market Performance During August 2024.

Indices	31st July 2024	30th August 2024	Change in (%)
Sensex	81,741.34	82,365.77	0.76
MIDCAP	48,634.46	49,065.36	0.89
SMLCAP	55,332.24	56,021.55	1.25
BSE-100	26,438.85	26,726.58	1.09
BSE-200	11,579.81	11,679.27	0.86
BSE-500	37,172.81	37,459.06	0.77

Overconfidence And Investing



I attended the Behavioural Finance class at the Amsterdam Institute of Finance under Professor Hersh Shefrin, one of the renowned academicians in the field. One of the assignments given by the professor was to answer a set of questions by giving a range with 90% confidence (such that the answer will lie between the low and the high guess). A 90% confidence level can be understood in the following way: We had to answer 10 questions in a way that we should be able to get atleast 9 right. To give you a flavor of the questions, here are two of them:
1. What is the diameter, in miles, of the moon?
2. In what year was Wolfgang Amadeus Mozart born?

The test was designed not to understand what you know, but to understand how confident you are about what you think you know. When we got the answers, the average accuracy of the class turned out to be around 65% vis-a-vis the targeted 90%. Prof. Shefrin told us that we were like any other class he taught. We were clearly overconfident as we kept the range of our guesses too tight.

When faced with complex situations, we must use our subjective judgement in determining the answer and its probability. But most of us display too much faith in our guestimates and keep our range narrow. Let's take a complex calculation of determining the intrinsic value of a company's equity. There are so many elements of the business that need to be predicted to forecast a long-term revenue, profit and cashflow trajectory of the company. Add to that, we must choose the right valuation method and then the right valuation range of the selected method. Despite its inherent complexity, investors and analysts insist on determining one price as the fair/target price of the company. Even in the book, "Security Analysis", Graham and Dodd don't insist on a definitive intrinsic value of a company. "… It is a great mistake to imagine that intrinsic value is as definitive and as determinable as is the market price", they write. We haven't even added the concept of reflexivity here where the actions of market participants can impact intrinsic values and keep it fluctuating.

A lot of investors put too much faith in their ability to precisely forecast target prices and hence fluctuations in the stock price keep them trading around those numbers. Terrence Odean (one of the leading researchers in behavioral finance) shows that overconfident investors—who believe that the precision of their knowledge about the value of a security is greater than it actually is— tend to trade more frequently. And furthermore, that investors who trade more frequently tend to have inferior outcomes on an average.

Market Timing

In one of the presentations from Jason Zweig (a renowned financial writer, author and columnist), I found a small experiment that I sometimes use during my workshops on investment psychology. I have a set of cards; 80% of them are Green and 20% Red. I draw them one by one and the audience must guess the colour of the card that will be drawn next. People obviously try to guess a Red being drawn after a short run of Greens. I haven't had anyone calling all the cards right. Then I give them the math: the person who guesses 'Green' all the time will be right 80% of the time. However, in your attempt to guess that rare 'Red', if you call the cards wrong 20% of the times, the accuracy drops to 68%. The audience doesn't know the number of cards I am carrying, and the sequence is random. With very little information available, the audiences' belief in their ability to time the 'Red' correctly shows overconfidence. The same goes for market timing. It is difficult to determine a medium to long term trend of the market. It is even more difficult to time the interim tops and bottoms. Here too, overconfident investors, who try to time the market, tend to trade more and end up with lower returns.

Being More Calibrated

Overconfidence leads to mistakes in investment decisions and also to investors taking too many risks. Investors needs to be mindful of the general tendency of human beings to be overconfident and thereby practice humility. There are ways to correct this bias at the source itself:

Confirmation bias – When people believe something to be true, they seek out only the information that conforms to their views. Due to this bias, the investors overestimate their knowledge and tend to make investment decisions with overconfidence. This bias can be handled by seeking out counter arguments to our own ideas. In a team of professionals, a person can be assigned to play the role of devil's advocate to highlight what can go wrong in the proposed idea.

Availability Heuristic – Another important source of overconfidence is the Availability Heuristic: a tendency to assume that our memories are a representative sample of reality. We give importance to issues which we can retrieve in our mind with ease and discount events that are outside of our immediate recollection. We jump to conclusion quickly using short cuts and do not estimate the probability of the events correctly. To handle this heuristic, investors need to follow a set process which involves collecting the right sample data and calculate probabilities correctly. Anchoring to the long-term base rates of occurrence of a particular event and then adjusting from there to incorporate new information is also a good way to handle this bias.

Recent successes or illusion of superiority – Charlie Munger says "Bull markets go to people's heads. If you're a duck on a pond, and it's rising due to a downpour, you start going up in the world. But you think it's you, not the pond." Being successful at one investment can lead to illusion of superiority and overconfidence in the ability to consistently deliver favorable results. In such situations, individuals are less likely to listen to others or disregard opposing opinion. It is important that investors keep an investment journal to later analyze and dissect the outcome between luck and skill thereby aiding better decision-making.

Optimism, confidence and conviction are important in investment decision making, but in the right measure. An investor who is less accurate and overconfident will quickly lose money. On the other hand, an investor who is highly accurate but too much in doubt is also not in a good position. Such an investor may just sit on the sidelines and not invest at all. The ideal path is the middle path where the investor takes decision based on well calibrated range of forecasts coupled with well thought out probabilities. Happy Investing!

Nimesh Chandan
Chief Investment Officer
Bajaj Finserv AMC

Keep Your Portfolio On Track To Achieve Your Goals

It's a proven fact that a goal-based investment process is the key to achieve investment success for investors. While a time horizon assigned to each of the goals helps in ascertaining an appropriate asset allocation, it also ensures that investment process kickstarts on the right note. Having a well-defined time horizon and asset allocation also makes it easier for investors to tackle the market volatility and stay focused on the goals during the periods of turbulence in the stock market.

However, despite having a clear roadmap, some internal and external factors can create challenges for investors from time to time. The level of investment success an investor can achieve will also depend upon how these challenges are tackled and whether basic investing principles are followed or not. Therefore, you must stick to your asset allocation and make rational investment decisions during your defined time horizon. Here are some of the factors that can derail your investment portfolio, if not tackled well.

Lack of diversification and/or over diversification

While diversification is the key to curb volatility in the portfolio, lack of diversification and/or over-diversification in the portfolio can expose you to higher risk. Remember, a concentrated portfolio has the potential to generate higher returns, but the losses could be higher too. Similarly, over-diversification in the portfolio allows non-performing investment options to remain in the portfolio and that can make a dent in your portfolio return. Therefore, you must avoid over-diversification and monitor the progress of the portfolio regularly to weed out non-performers from the portfolio.

Investing in "flavour of the month" funds

Investing in aggressive funds like small caps, sector and thematic funds, topping the chart during certain market phases, can result in much higher volatility and losses in the portfolio. While it is true that these funds have the potential to deliver higher returns during certain market phases, there is no guarantee that it will happen. In fact, if the timing of entry and exit is not right, the losses can be detrimental to your investment process.

Relying on recent performance

Relying on short-term performance for fund selection can either make your portfolio very aggressive or very conservative based on what's working out at that point of time. While higher allocation to equity based on short term performance in a rising market can take you beyond your risk-taking capacity, a conservative portfolio can bring your real rate of return down.

Disregarding your time commitment

Remaining committed to your time horizon can help you manage losses. Since equities do well over the long-term, losses should be treated as drop in portfolio valuation rather converting them into real losses. Over time, equity portfolio can deliver positive real rate of return. Therefore, once time horizon is decided, stay committed to it to benefit from the true potential of equities and enhance the chances of achieving your long-term goals.

Ignoring opportunity losses

Opportunity loss is the value or potential gains that an investor forgoes by choosing a specific type of asset, investment option or strategy. Frequent instances of opportunity losses can make a significant impact on what you get to accumulate over time. Therefore, monitor your portfolio regularly and be aware of opportunities that can help you improve your portfolio returns. Of course, making frequent changes can become counter-productive.

Investing conservatively can backfire

There can be a temptation to invest in less risky investments like bonds, FDs, small saving schemes to avoid losses in the portfolio. However, ignoring the risk of inflation and staying away from market linked products can result in a heavy loss in terms of negative real return. Therefore, including equity and equity related funds should be a priority for long-term investments.

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

A Note To Our Esteemed Readers

Wealthwise is being sent to some of you on a Complimentary basis as a part of our humble effort to ensure that more and more investors get the best from their investments. We sincerely hope that you would like the contents of Wealthwise and in some way benefit from it. However, if you do not wish to receive "Wealthwise" on a regular basis, please let us know by sending us a mail on information@wiseinvest.co.in. You can also write to us at our Corporate Office address mentioned on page number 6.

Performance Of Select Funds

Data as on August 30, 2024

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	18.91	37.32	23.69	16.55	20.03	14.09	13.95	14.53
HDFC Top 100 Fund	Sep-96	16.37	39.70	26.77	21.12	20.43	15.41	13.78	14.29
ICICI Prudential Bluechip Fund	May-08	17.15	42.64	27.61	20.39	22.16	16.50	15.24	15.92
Kotak Bluechip Fund	Dec-98	18.88	37.32	23.08	15.82	20.63	15.38	14.35	13.70
Nippon India Large Cap Fund	Aug-07	17.73	39.33	29.33	22.99	23.15	16.83	15.82	15.29
ABSL Flexi Cap Fund	Aug-98	20.29	40.13	26.07	16.37	21.24	14.54	15.54	15.08
Bandhan Focused Equity Fund	Mar-06	21.43	43.17	25.95	17.84	20.79	12.60	12.72	11.70
HDFC Flexi Cap Fund	Jan-95	19.41	44.60	31.45	26.94	24.92	18.18	15.76	16.44
Kotak Flexicap Fund	Sep-09	19.30	37.00	24.33	16.95	19.61	14.71	15.76	-
Motilal Oswal Flexi Cap Fund	Apr-14	26.67	54.30	32.57	18.49	18.73	12.43	16.92	-
Parag Parikh Flexi Cap Fund	May-13	14.42	39.04	28.30	18.38	26.35	20.57	18.55	-
Quant Flexi Cap Fund	Oct-08	16.14	56.14	34.93	25.83	36.39	22.74	21.22	13.71
SBI Focused Equity Fund	Oct-04	20.41	29.94	20.21	13.13	19.89	16.00	15.56	18.05
Axis Growth Opportunities Fund	Oct-18	22.02	42.14	26.20	17.55	24.83	-	-	-
Bandhan Core Equity Fund	Aug-05	26.33	58.92	38.80	26.87	27.06	17.95	17.10	14.51
HDFC Large and Mid Cap Fund	Feb-94	20.95	44.91	32.98	25.65	26.81	18.57	15.09	13.64
ICICI Prudential Large & Mid Cap Fund	Jul-98	21.73	48.64	32.25	26.30	26.62	18.22	16.05	15.93
Kotak Equity Opportunities Fund	Sep-04	22.30	42.61	29.46	21.47	24.58	17.32	17.34	15.95
Motilal Oswal Large and Midcap Fund	Oct-19	27.85	55.82	40.11	24.67	-	-	-	-
SBI Large & Midcap Fund	Feb-93	19.09	35.80	25.95	21.07	24.18	17.24	16.59	16.10
Invesco India Contra Fund	Apr-07	26.41	52.41	31.56	22.33	25.00	18.89	17.93	17.07
Kotak Multicap Fund	Sep-21	21.35	55.03	37.97	-	-	-	-	-

Midcap & Smallcap

HDFC Mid-Cap Opportunities Fund	Jun-07	20.67	46.77	38.82	29.27	30.74	19.91	19.92	21.45
HSBC Midcap Fund	Aug-04	26.41	59.22	37.49	24.50	26.71	16.48	18.93	18.68
Kotak Emerging Equity Fund	Mar-07	30.54	48.17	32.23	24.85	30.10	20.18	20.82	19.75
Motilal Oswal Midcap Fund	Feb-14	32.94	63.11	43.53	37.29	33.75	22.05	21.57	-
Nippon India Growth Fund	Oct-95	26.96	52.94	38.27	28.22	31.62	21.27	19.90	17.49
UTI Mid Cap Fund	Apr-04	26.75	42.26	29.45	21.32	28.71	17.98	17.58	19.17
Bandhan Small Cap Fund	Feb-20	34.30	73.91	48.01	28.88	-	-	-	-
HDFC Small Cap Fund	Apr-08	17.64	36.37	36.94	26.88	30.47	20.94	20.31	18.58
Kotak Small Cap Fund	Feb-05	26.99	40.50	29.26	22.25	33.75	21.17	20.86	19.91
Nippon India Small Cap Fund	Sep-10	26.32	48.62	41.70	32.27	38.69	24.47	24.32	-
Quant Small Cap Fund	Nov-96	17.60	53.90	45.53	32.26	49.14	27.63	21.76	19.47
SBI Small Cap Fund	Sep-09	22.05	37.42	27.93	24.16	30.37	21.57	23.64	-

Sectoral / Thematic Fund & Tax Saving

ICICI Prudential Banking and Financial	Aug-08	16.02	25.03	18.83	12.97	15.11	10.76	14.63	16.37
ICICI Prudential Pharma Healthcare	Jul-18	27.13	61.15	41.87	21.09	31.86	-	-	-
Nippon India Banking & Financial	May-03	13.93	27.36	23.08	17.87	17.71	11.97	14.34	15.87
Nippon India Pharma Fund	Jun-04	20.70	49.80	36.97	18.08	29.71	22.79	16.76	20.36
Nippon India Power & Infra Fund	May-04	22.28	66.64	50.41	35.92	33.13	19.56	17.95	11.77
SBI Healthcare Opportunities Fund	Jul-99	19.03	46.65	38.30	20.35	29.86	19.11	14.59	19.01
ABSL PSU Equity Fund	Dec-19	14.91	82.91	53.18	41.31	-	-	-	-
Bandhan Transportation and Logistics	Oct-22	25.61	55.72	-	-	-	-	-	-
Kotak Pioneer Fund	Oct-19	24.03	44.91	30.35	19.69	-	-	-	-
Bandhan ELSS Tax Saver Fund	Dec-08	15.52	33.63	26.16	20.50	25.51	16.88	17.06	17.04
Kotak ELSS Tax Saver	Nov-05	19.47	38.77	26.57	19.73	23.14	16.69	16.63	14.85
Nippon India ELSS Tax Saver Fund	Sep-05	21.15	44.24	28.43	20.52	22.59	11.70	12.67	15.31

ARBITRAGE FUNDS

Funds	Launch	3 Mth*	6 Mth*	1 Year*	2 year**	3 Year**	5 Year**
Bandhan Arbitrage Fund	Dec-06	1.81	3.71	7.53	7.09	5.77	5.05
ICICI Prudential Equity Arbitrage Fund	Dec-06	1.85	3.77	7.58	7.12	5.86	5.24
Kotak Equity Arbitrage Fund	Sep-05	1.83	3.81	7.85	7.36	6.11	5.43

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	16.19	29.90	19.25	12.57	16.03	10.86	12.12	12.98
Canara Robeco Equity Hybrid	Feb-93	15.89	30.57	19.79	13.48	18.17	14.02	13.87	14.21
DSP Equity & Bond Fund	May-99	18.96	31.04	22.18	13.59	18.13	13.69	14.12	13.41
ICICI Prudential Equity & Debt	Nov-99	15.55	39.06	27.61	23.47	24.37	17.83	16.67	17.10
Kotak Equity Hybrid Fund	Nov-99	20.84	34.22	22.54	17.50	20.75	15.06	14.02	13.06
SBI Equity Hybrid Fund	Dec-95	15.21	27.23	16.98	12.44	16.16	13.26	13.20	13.31
ABSL Bal. Advantage Fund	Apr-00	13.52	24.14	17.17	12.17	14.41	-	-	-
Bandhan Bal. Advantage Fund	Oct-14	12.04	21.27	14.17	9.41	12.46	-	-	-
ICICI Prudential Bal. Advantage	Dec-06	10.88	23.80	16.68	13.82	14.83	-	-	-
Kotak Bal. Advantage Fund	Aug-18	13.10	23.22	16.12	12.04	13.72	-	-	-
Nippon India Bal. Advantage	Nov-04	12.84	26.71	17.27	12.79	14.18	-	-	-
Bandhan Equity Savings Fund	Jun-08	5.32	10.53	8.67	6.71	8.53	-	-	-
Kotak Equity Savings Fund	Oct-14	9.82	21.53	15.65	12.84	12.33	-	-	-

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	0.66	2.06	3.89	7.45	6.91	5.75	6.63
Axis Corporate Debt Fund	Jul-17	0.72	2.18	4.01	7.60	6.94	5.64	6.72
HDFC Corporate Bond Fund	Jun-10	0.75	2.24	4.28	7.96	7.36	5.81	6.81
Kotak Banking and PSU Debt Fund	Dec-98	0.72	2.13	3.95	7.69	7.08	5.74	6.59
Kotak Corporate Bond Fund	Sep-07	0.73	2.22	4.15	7.78	7.13	5.72	6.42
SBI Banking and PSU Fund	Oct-09	0.67	2.11	3.79	7.25	6.72	5.06	5.98
ICICI Prudential Savings Fund	Sep-02	0.60	1.96	4.05	7.68	7.60	6.10	6.49
Kotak Savings Fund	Aug-04	0.53	1.70	3.60	6.99	6.76	5.69	5.46

*Absolute ** Annualised. Past performance may or may not be sustained in future.
Source: Value Research

Dividends declared by equity and equity-oriented funds during the month of August 2024

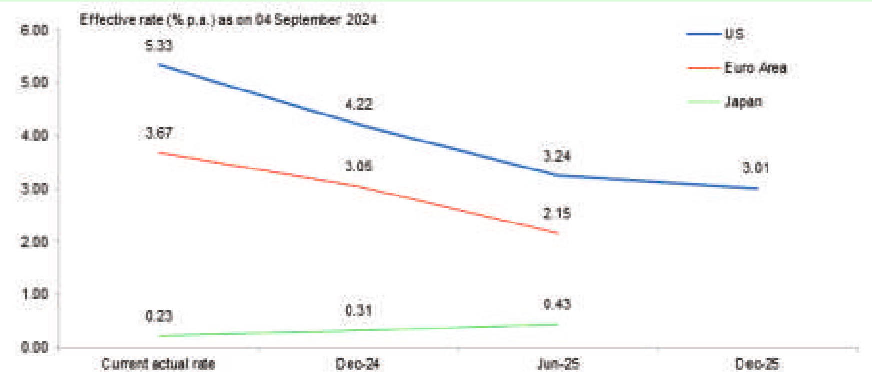
Scheme name	Date	Dividend declared in ₹ Per unit
ICICI Prudential Balanced Advantage Fund - Monthly	01-08-2024	0.07
ICICI Prudential Equity & Debt Fund - Monthly	01-08-2024	0.16
ICICI Prudential Technology Fund	06-08-2024	6.15
ICICI Prudential Pharma Healthcare and Diagnostics (P.H.D) Fund	06-08-2024	2.00
Invesco India Balanced Advantage Fund	08-08-2024	0.15
ICICI Prudential Exports and Services Fund	12-08-2024	3.30
ICICI Prudential Focused Equity Fund	12-08-2024	2.35
Sundaram Balanced Advantage Fund - Monthly	16-08-2024	0.08
Sundaram Aggressive Hybrid Fund - Monthly	16-08-2024	0.25
PGIM India Hybrid Equity Fund - Monthly	16-08-2024	0.18
UTI Aggressive Hybrid Fund	22-08-2024	0.90
Aditya Birla Sun Life Balanced Advantage Fund	23-08-2024	0.16
Aditya Birla Sun Life Equity Advantage Fund	23-08-2024	10.55
Aditya Birla Sun Life Small cap Fund	23-08-2024	2.92
DSP ELSS Tax Saver Fund	23-08-2024	0.66
Edelweiss Aggressive Hybrid Fund	26-08-2024	0.17
Axis Equity Hybrid Fund - Monthly	27-08-2024	0.10
Baroda BNP Paribas Multi Cap Fund	27-08-2024	0.45
Baroda BNP Paribas Aggressive Hybrid Fund	27-08-2024	0.14
Axis Equity Hybrid Fund - Monthly	27-08-2024	0.10
LIC MF ELSS Tax Saver	28-08-2024	0.10
LIC MF Aggressive Hybrid Fund	28-08-2024	0.10
Invesco India Balanced Advantage Fund	30-08-2024	0.15
Canara Robeco Infrastructure	30-08-2024	3.43
Canara Robeco Small Cap Fund	30-08-2024	1.12
Canara Robeco Equity Hybrid Fund - Monthly	30-08-2024	0.76

Source: Moneycontrol

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 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.

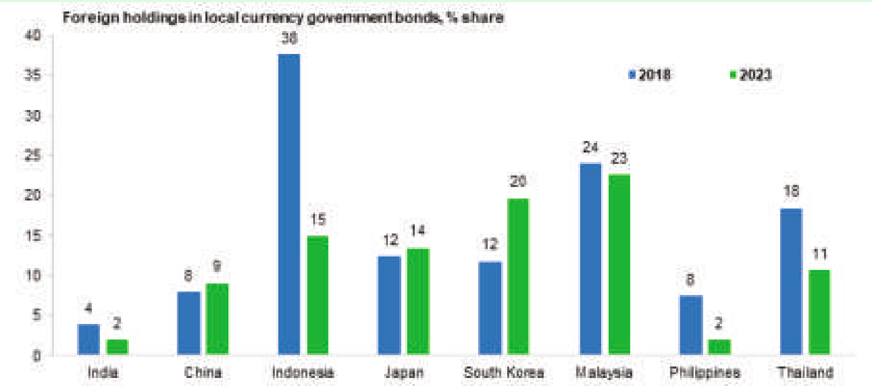
Bonds Are Cheap: A Fixed Income Discussion

Our view remains that Indian bonds, particularly government bonds, are attractively poised given that this juncture represents an intersection of structural bullish factors for India and a global top in interest rates. We have recently noted (https://bandhanmutual.com/article/17365) that given this dynamic, investors should aim for optimizing duration on portfolios. Since then signs of further growth weakening, particularly in US and China, have picked up. On the one hand this has led to picking up in rate cut expectations in the US thereby leading to further fall in yields and dollar weakening, while on the other, weaker Chinese data and global manufacturing growth appearing to stall again is putting downward pressure on commodity prices. The chart below captures current market pricing of policy rate trajectory in the three large developed markets (DMs).



Source: Bloomberg, Bandhan MF Research. Note: For Euro Area and Japan, data shown for Jun-25 is as for Jul-25

As can be seen, outside of Japan, market is now pricing in aggressive rate cuts, particularly in the US. While this tends to move around a bit basis incremental data, the direction is now quite clear and has been flagged thus by the Fed Chair as well. With the 'all clear' sounded, one can now look forward to foreign portfolio investors (FPIs) stepping up allocation to other markets as well. Indeed, there is already evidence of this happening. The following chart is notable, in this context:



Source: AsianBondsOnline, CCIL, CEIC, Bandhan MF Research. Note: China data for 2023 is not available and hence assumed equal to 2022

There are two noteworthy observations here:

One, in some of the hitherto favored EMs like Indonesia, FPI participation has fallen over the Fed rate hike cycle. This will presumably start building now with the cycle turning. Obviously, this will also depend upon the individual country level macro narrative. Also, if the base level of US rates is now higher than in the previous cycle, the ultimate peak allocation may turn out to be lower than before. However, even accounting for that, there seems to be enough room for additional allocations over the next few years.

Two, India is just starting to be discovered from FPI allocation perspective and the scope here is massive. We are the fifth largest market GDP, soon to be third, and one of the best macro narratives for this size. One should expect meaningful India bond allocations to start building now as well. The next couple of years seem particularly well placed for this given the global rate backdrop, starting level of India exposure, and the macro narrative that we present, even as the government and RBI may want to pace the buildup over time.

Having examined the government bond demand environment, let's now briefly turn to supply. The table below projects net government bond supply assuming next year's fiscal deficit at 4.4% and a 1% reduction in central government debt to GDP from FY27. To recall, that is the indicated framework from the government even as the assumption of 1% annual reduction is our own.

	Assuming Debt to GDP falls by 1ppt from FY27		
	% of GDP	Rs. '000cr	%y/y
	Fiscal deficit	Net G-sec borrowing	Net G-sec borrowing
FY19	3.4	423	-
FY20	4.6	474	12.1
FY21	9.2	1143	141.2
Fy22	6.7	863	-24.5
FY23	6.4	1108	28.4
FY24	5.6	1180	6.5
FY25BE	4.9	1163	-1.5
FY26e	4.4	1127	-3.1
FY27e	4.4	1253	11.2
FY28e	4.3	1351	7.8
FY29e	4.2	1456	7.8
FY30e	4.1	1569	7.8
FY31e	4.0	1690	7.7

Source: CEIC, India Union Budget, Bandhan MF Research

As can be seen from the table, the net central government bond supply growth is actually negative this year and next and from there rises at or below nominal GDP growth levels. With the global cycle turning, FPI allocations stepping up, and net supply growth negative during this period, the next year and a half seem exceptionally well poised for government bonds. Even after that, while net supply growth picks up it is likely to lag growth in other aggregates like bank deposits. One word of caution though: states also need to maintain some fiscal discipline for overall bond supply environment to remain favorable. Otherwise, while SDL spreads will widen, eventually this supply may also start weighing on local demand for central government bonds.

Bonds Are Cheap

With the above context of demand vs supply of government bonds, we now present some observations on bond valuation:

1. Distance from repo rate: At the time of writing, the 10 year government bond yield is roughly 35 bps higher than the repo rate. This gap should represent uncertainty on policy rate as well as on demand vs supply. However, hardly anyone doubts that policy rate will be cut in the quarters ahead, even as people debate the magnitude and timing of the cuts. Additionally, as discussed above, the demand vs supply equation is exceptionally favorable thereby not requiring much of 'supply discount'. Thus, there is ample room for the 10 year yield to fall even ahead of the first rate cut from RBI.

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...Cont. from page 5

2. Real Positive Yield: Granted that this is a bit of a nebulous concept in the absence of market traded inflation expectations. Nevertheless, given RBI's credibility on inflation targeting and the government's proactive approach on fiscal as well as supply side management, most forecasters will be happy assuming around 4.5% as medium term inflation. Even from this standpoint, there is more than enough room for nominal yields to fall. It is to be noted that this discussion is in the here and now context: over time we expect real yields to compress much further given the other factors as discussed above.

Summary and Conclusion

1. The current juncture is exceptionally attractive for Indian bonds given that it represents structural tailwinds coinciding with a global rate cycle peak.
2. The demand vs supply equation is particularly attractive for government bonds. This may be somewhat underappreciated currently given the still lingering backdrop of 'oversupply' in the pandemic response years. This scenario has now completely turned on its head, with the government adopting a rigorous consolidation path. For that reason any historic spread analysis when forming a view is virtually meaningless.
3. Real money investors should focus on building appropriate duration with preference for government bonds, in our view. The corporate bond curve is inverted given pressures from credit – deposit ratio at the front end. This is allowing for a good opportunity to build 'carry' income from short – medium duration corporate bonds and money market instruments, while focussing on building duration via government bonds. We are using this strategy in a host of our short / intermediate duration products.
4. Government bonds are cheap in our view, and investors should aim to capitalise on this opportunity.

Source: RBI and Bandhan internal research

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