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WEALTHWISE®

Wiseinvest®
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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 seventeen 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,

Indian stock markets set new record highs and ended August in a buoyant mood. While the Sensex closed at 57,552.39, Nifty was at 17,132.20. The benchmark indices witnessed strong up move led by an on-going economic recovery and continuation of Fed's dovish policy. The Nifty has logged its fastest 1,000-point rally, climbing from 16,000 to 17,000 within a mere 19 trading sessions. The catch-up move in banking would now be the next deciding factor for the prevailing momentum to continue. Besides, European stocks are on course for their seventh straight month of gains. Rupee kept its upstream scaled to 73.10 on back of strong capital market performance.

India's Gross Domestic Product (GDP) for the April-June quarter (Q1) of the on-going financial year 2021-22 (FY22) expanded 20.1% YoY, as per data released on August 31, 2021. The sharp rise in Q1 GDP data can be attributed to a low base last year. This is the third consecutive quarter when positive growth has been witnessed, as GDP had grown by 0.5 per cent in the third quarter of 2020-21 and 1.6 per cent in the fourth quarter of 2020-21. As vaccination pace picks up, there could be further upside to the growth. The corporate sector's performance is expected to witness a significant recovery in 2021-22 with both top line and bottom-line growth expectations to be better than pre-pandemic levels.

India emerged as the third largest recipient of foreign portfolio investment among major emerging market economies -- after China and Brazil -- as domestic equity markets witnessed record rallies in the past one year.

In its third bi-monthly monetary policy review for the financial year 2021-22 announced on August 6, the RBI maintained the status quo for the seventh time in a row, keeping the key lending rates steady. The MPC decided to continue with the accommodative stance as long as necessary to support growth. The central bank retained the gross domestic product (GDP) growth projection for the current fiscal at 9.5 per cent, however, given inflationary concerns, it increased the CPI inflation forecast to 5.7 per cent from 5.1 per cent.

Warm regards,

H Rustagi

Hemant Rustagi
Editor

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The Stock Market Performance During August 2021.

Indices	2nd August 2021	31st August 2021	Change in (%)
Sensex	52,950.63	57,552.39	8.69
MIDCAP	23,330.77	23,853.43	2.24
SMLCAP	27,072.06	26,919.94	-0.56
BSE-100	16,246.70	17,375.21	6.95
BSE-200	6,937.59	7,386.35	6.47
BSE-500	21,939.19	23,174.23	5.63

Smart Option To Get Regular Income

One of the biggest challenges for retirees as well as self-employed people in present times is to generate regular income at a healthy rate through their investments. Although there are a number of traditional and market-linked investment options that can help investors get regular income, there are pros and cons of investing in each one of them. Traditional investment options like Bank Fixed Deposits, Post Office Monthly Income Scheme (POMIS), Senior Citizen Savings Scheme (SCSS) and Annuity plans are quite popular amongst investors for generating regular income.

While the positives are fixed interest, convenient way of investing and low credit risk, the negatives are low interest rates, taxability of interest at one's applicable tax slab and reinvestment risk. As for the market-linked products, every mutual fund product offers two options to investors i.e. dividend and growth. If one opts for dividend payout, the scheme pays dividend at an interval as specified in the offer document. However, the quantum of dividend is not fixed. In market-oriented products there is a potential of getting higher returns than traditional options.

This comes by way of a combination of dividend out of realized profits and appreciation in value of investment, albeit with some amount of volatility depending upon asset allocation of the fund. This helps in staying ahead of inflation over the longer periods. It is also important to understand the risks of relying on mutual funds to generate regular income through dividends. Mutual fund managers may either skip or pay lower dividend during turbulent market conditions. Hence, one shouldn't depend entirely on this option for generating the required regular income.

Moreover, dividend is taxed at one's applicable tax rate and hence for investors in the higher tax bracket, this option is not as lucrative as it was up to March 2020 when fund houses paid Dividend Distribution Tax but the dividend was tax-free in the hands of investors. The Systematic Withdrawal Plan (SWP) is emerging as an alternative option for those looking to earn tax-efficient regular income from their mutual fund investments. SWP allows investors to withdraw fixed amounts at regular intervals, for example, monthly, quarterly or yearly out of their investment. To generate this cash flow, the fund redeems units of mutual fund scheme at the chosen interval.

Simply put, SWP ensures inflow of regular income even from a market-linked product. Investors have the flexibility of deciding the quantum as well as frequency at which they would like to receive this income. For investors in the higher tax bracket, SWP provides tax-efficient returns. While dividend is taxed at one's applicable tax rate, inflows thru SWP are a combination of principle and capital gains. Moreover, under equity or equity-oriented hybrid fund, when one gets money thru SWP, gains are taxed as long-term capital gains @ 10% and capital gains up to ₹ 1 lakh in a year are exempt from tax. Although SWP is an efficient way to generate regular income, one has to be careful about the quantum of withdrawal (usually it should be 6-7%) as aggressive withdrawals can result in loss of capital over the long-term and jeopardize one's financial future.

It is also important to be careful about asset allocation and choice of fund to manage tax efficiency of returns. Ideally, for someone looking to generate income without making portfolio too aggressive, a combination of funds like equity savings, balanced advantage and equity–oriented hybrid funds would be ideal. Overall, a combination of traditional options and market-linked products can be ideal to generate adequate regular income as well as achieve growth to stay ahead of inflation. Of course, the right mix is the key here.

Power of SIP

It is a well known fact that regular investment through SIP in equity funds can produce amazing results. Of course, the key is to continue this process uninterruptedly for the defined time horizon. The table below highlights, how an investment of ₹ 10000 per month in different funds has grown over 5 & 10 Years. Data as on August 31, 2021. SIP - 10th of every Month.

			5 Years			10 Years		
Scheme Name	Date of Launch	Investment Amount Per Month (₹)	Total Investment (₹ in lacs)	Current Value (₹ in Lacs)	Return % (XIRR)	Total Investment (₹ in lacs)	Current Value (₹ in Lacs)	Return % (XIRR)
Aditya Birla Sun Life Frontline Equity Fund	Aug-02	10000	6	9.35	17.85	12	27.31	15.72
Axis Bluechip Fund	Jan-10	10000	6	10.29	21.81	12	30.39	17.70
Axis Focused 25 Fund	Jun-12	10000	6	10.39	22.19	12	-	-
Axis Long Term Equity Fund	Dec-09	10000	6	10.38	22.17	12	34.81	20.22
ICICI Prudential Bluechip Fund	May-08	10000	6	9.45	18.28	12	27.50	15.85
IDFC Flexi Cap Fund	Sep-05	10000	6	8.82	15.46	12	26.30	15.02
Invesco India Contra Fund	Apr-07	10000	6	9.90	20.20	12	32.54	18.97
Kotak Equity Opportunities Fund	Sep-04	10000	6	9.98	20.53	12	30.62	17.84
Kotak Flexi Cap Fund	Sep-09	10000	6	9.45	18.27	12	30.33	17.67
Mirae Asset Emerging Bluechip Fund	Jul-10	10000	6	11.27	25.58	12	45.95	25.36
Mirae Asset Tax Saver Fund	Dec-15	10000	6	11.01	24.59	12	-	-
Motilal Oswal Midcap 30 Fund	Feb-14	10000	6	9.48	18.42	12	-	-
Nippon India Small Cap Fund	Sep-10	10000	6	11.83	27.63	12	47.23	25.87
SBI Focused Equity Fund	Oct-04	10000	6	10.30	21.83	12	32.54	18.97
UTI Flexi Cap Fund	May-92	10000	6	11.25	25.50	12	33.15	19.32

Past Performance may or may not be sustained in future.
As with any investments in securities, the NAV of units can go up or down depending on the factors and forces affecting capital markets.

Fear And Greed Can Expose You To Unwarranted Risks

As more and more investors are investing through Systematic Investment Plan (SIP), equity as an asset class, is finding its rightful place in their portfolios. For all those investors who will continue this approach un-interruptedly, it would make a significant difference to their wealth creation process.

While SIP can be a good starting point for a long-term investment process, one may still have to face anxieties and challenges depending on the behavior of the stock market. The level of investment success one can achieve over time will depend upon how these situations are handled. Let us analyze a few of these and see how one should tackle them to keep one's investment process on track.

Stock market doing exceedingly well

It is quite common to see investors experiencing a mixed feeling of fear and excitement when the market touches dizzy heights. In times like these, some of them feel compelled to either book profit or redeem the entire equity holdings. As a result, they miss out on varying degree of gains depending on the timing of exit.

While booking profits periodically may be essential for a set of investors, for someone who is in the process of building a corpus for certain long-term goals, taking money out of the market in the name of profit booking could make them compromise on their financial future. The major advantage of following a disciplined approach is that one gets to invest at different levels and that helps in "averaging" as well as in avoiding the temptation of exiting every time the market goes up. In fact, regular investments ensure that one invests even at lower levels which an occasional investor does not normally do.

Simply put, a disciplined approach helps an investor in keeping emotions out of the investment strategy. This is important as equities, as an asset class, tends to be more volatile in the short term as compared to other asset classes.

Need to track the portfolio

While some investors develop a habit of looking at their equity fund portfolio valuation almost on a daily basis, there are others who do not feel the need to track their portfolio thinking that a long-term disciplined approach will ensure investment success at all times. Both these approaches have their drawbacks.

Investors must realize that despite a number of benefits of investing regularly, monitoring the performance of the portfolio remains an important ingredient to achieve success over the longer term.

If some of the funds in the portfolio are under-performing their peer group or their benchmark, its impact on the portfolio would make a dent in the corpus that would be required at the completion of the investment time horizon. While keeping a track of the portfolio may sound like a daunting task, in reality it is not so.

Temptations to include a few aggressive funds in the portfolio

In a rising market, aggressive categories of funds like those investing in mid-cap and small cap segments as well as certain sector and thematic funds tend to do well as compared to funds in flexi-cap and multi-cap categories. No doubt, mid and small cap companies have a lot of room for growth as the economy marches ahead and hence can be a good means to enhance portfolio returns. However, a disproportionately higher exposure in them as compared to funds investing across different market caps with a bias towards large caps, can expose investors to much higher risk and that too without a guaranteed success.

Therefore, investors need to be careful while deciding the combination of equity funds. Simply put, aggressive funds should not have a disproportionately high weightage in the portfolio.

Performance Of Select Funds

Data as on August 27, 2021

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	16.28	46.98	23.32	12.14	12.67	12.44	15.61	14.68
ABSL Flexi Cap Fund	Aug-98	18.42	50.27	26.91	13.57	14.33	14.73	17.47	14.37
Axis Bluechip Fund	Jan-10	17.36	43.10	23.91	15.69	17.28	14.40	16.72	—
Axis Focused 25 Fund	Jun-12	19.12	48.62	27.10	14.47	17.94	16.61	—	—
Axis Growth Opportunities Fund	Oct-18	25.46	56.48	35.69	—	—	—	—	—
Canara Robeco Flexi Cap Fund	Sep-03	19.37	46.87	29.65	16.83	17.30	14.05	15.60	15.12
Canara Robeco Emerging Equities	Mar-05	19.29	50.42	32.68	15.56	17.33	18.74	22.05	17.31
HDFC Flexi Cap Fund	Jan-95	11.26	49.46	19.79	10.85	13.13	10.89	14.17	14.01
HDFC Top 100 Fund	Oct-96	10.40	43.32	17.38	9.90	12.36	10.41	13.52	13.64
HSBC Large Cap Equity Fund	Dec-02	13.23	42.90	21.47	11.98	13.75	11.64	13.12	11.52
HSBC Focused Equity Fund - Regular	Jul-20	16.78	48.73	—	—	—	—	—	—
ICICI Prudential Bluechip Fund	May-08	14.37	44.47	22.93	12.47	14.18	12.74	15.53	—
IDFC Core Equity Fund - Regular Plan	Aug-05	16.69	47.57	25.11	11.42	13.57	12.77	13.95	11.27
Invesco India Contra Fund	Apr-07	15.35	44.47	27.53	13.45	16.46	15.76	17.54	—
Kotak Bluechip Fund - Regular Plan	Dec-98	16.70	46.92	26.18	14.39	14.26	13.36	14.78	12.97
Kotak Equity Opportunities Fund	Sep-04	16.89	47.23	27.42	15.89	15.40	15.20	16.70	14.53
Kotak Flexicap Fund Regular Plan	Sep-09	14.09	43.30	21.82	12.50	14.38	14.91	17.31	—
Mirae Asset Emerging Bluechip Fund	Jul-10	19.54	56.15	33.83	20.68	20.34	21.80	24.40	—
Mirae Asset Focused Fund - Regular	May-19	18.25	51.80	32.26	—	—	—	—	—
Mirae Asset Large Cap Fund	Apr-08	15.25	42.56	23.28	13.85	15.88	15.04	17.85	—
Nippon India Large Cap Fund	Aug-07	14.35	46.47	21.04	10.48	13.29	12.50	15.57	—
Nippon India Multi Cap Fund	Mar-05	19.06	57.90	22.97	11.68	12.46	11.44	15.40	14.42
SBI Bluechip Fund	Feb-06	12.16	45.20	23.45	13.25	12.83	13.45	16.54	12.18
SBI Focused Equity Fund	Oct-04	20.89	47.40	28.28	17.16	16.80	16.22	18.40	15.91
UTI Flexi Cap Fund - Regular Plan	May-92	21.44	59.58	36.51	18.13	17.83	15.78	17.68	15.54

Midcap & Smallcap

Axis Midcap Fund	Feb-11	22.87	55.11	36.29	20.04	19.66	17.74	21.10	—
DSP Midcap Fund - Regular Plan	Nov-06	16.99	41.95	30.80	16.04	15.21	16.99	18.39	—
HDFC Mid-Cap Opportunities Fund	Jun-07	17.46	51.97	30.94	13.24	13.88	15.64	18.96	—
Kotak Emerging Equity Fund Regular	Mar-07	19.86	62.77	36.76	18.95	16.85	18.77	20.74	—
L&T India Value Fund	Jan-10	19.89	51.91	26.72	12.34	14.15	15.49	18.98	—
Motilal Oswal Midcap 30 Fund	Feb-14	18.55	52.19	27.24	10.98	11.28	14.90	—	—
UTI Mid Cap Fund - Regular Plan	Apr-04	21.02	59.22	38.62	17.36	14.23	15.52	19.71	15.75

Sectoral / Thematic Fund & Tax Saving

ICICI Prudential Banking and Financial	Aug-08	10.29	54.17	15.61	8.82	13.18	14.88	18.58	—
Nippon India Banking & Financial	May-03	12.36	62.16	14.61	5.66	11.80	12.37	15.00	17.46
ICICI Prudential Pharma Healthcare	Jul-18	23.33	35.51	49.11	25.27	—	—	—	—
Nippon India Pharma Fund	Jun-04	26.86	38.46	49.09	24.85	16.59	15.71	19.30	20.48
SBI Healthcare Opportunities Fund	Jul-99	18.79	32.08	44.90	21.15	9.95	11.71	17.94	13.66
Kotak Pioneer Fund - Regular Plan	Oct-19	14.30	51.09	—	—	—	—	—	—
Axis Long Term Equity Fund	Dec-09	19.28	50.79	27.41	15.92	16.89	16.18	19.94	—
IDFC Tax Advantage (ELSS) Fund	Dec-08	18.66	60.06	31.23	14.52	16.36	15.20	17.90	—
Kotak Tax Saver Regular Plan	Nov-05	17.07	49.66	26.23	15.37	15.16	14.97	15.71	12.66
Mirae Asset Tax Saver Fund - Regular	Dec-15	17.72	53.68	31.16	18.72	20.44	—	—	—

ARBITRAGE FUNDS

Funds	Launch	3 Mth*	6 Mth*	1 Year*	2 year**	3 Year**	5 Year**
ICICI Prudential Equity Arbitrage Fund	Dec-06	1.25	2.34	4.08	4.32	5.10	5.41
IDFC Arbitrage Fund - Regular Plan	Dec-06	1.15	2.12	3.76	3.98	4.95	5.30
Kotak Equity Arbitrage Fund Regular	Sep-05	1.25	2.30	4.11	4.44	5.20	5.53

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	15.51	42.84	19.98	9.95	10.37	11.66	13.64	13.70
Canara Robeco Equity Hybrid	Feb-93	14.15	35.14	23.80	14.86	14.13	13.70	15.06	13.55
DSP Equity & Bond Fund	May-99	15.28	39.22	23.61	14.53	13.42	14.02	14.12	13.68
ICICI Prudential Equity & Debt	Nov-99	14.88	46.84	23.74	14.30	13.67	13.46	15.99	13.26
Kotak Equity Hybrid Fund	Nov-99	12.90	43.53	24.31	14.83	12.81	12.35	13.46	11.48
SBI Equity Hybrid Fund	Dec-95	12.95	34.99	20.19	13.80	13.24	13.21	15.99	13.05
DSP Dynamic Asset Allocation	Feb-14	6.60	16.89	13.25	10.52	8.75	—	—	—
ICICI Prudential Bal. Advantage	Dec-06	6.90	22.75	15.53	11.24	10.64	—	—	—
IDFC Bal. Advantage	Oct-14	10.14	20.81	16.17	10.01	9.93	—	—	—
Kotak Bal. Advantage	Aug-18	7.94	20.41	15.58	11.77	—	—	—	—
IDFC Equity Savings Fund	Jun-08	5.65	13.55	10.68	6.95	6.60	—	—	—
Kotak Equity Savings Fund	Oct-14	5.29	14.62	11.05	8.05	8.67	—	—	—

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	0.60	1.39	3.33	7.06	7.91	8.51	7.54
Invesco India Short Term Fund	Mar-07	0.48	1.02	2.85	4.69	6.81	7.65	6.81
Axis Corporate Debt Fund - Regular	Jul-17	0.50	1.09	2.94	5.99	8.30	7.75	—
HDFC Corporate Bond Fund	Jun-10	0.58	1.27	3.64	6.49	8.23	9.21	8.16
Kotak Corporate Bond Fund - Standard	Sep-07	0.63	1.37	3.26	5.66	7.43	8.20	7.86
Kotak Banking and PSU Debt Fund	Dec-98	0.54	1.25	3.11	5.89	7.77	8.93	7.97
SBI Banking and PSU Fund	Oct-09	0.49	1.11	2.72	5.44	7.28	8.24	7.65
ICICI Prudential Savings Fund	Sep-02	0.64	1.56	2.53	5.62	7.06	7.63	7.49
Kotak Savings Fund Regular Plan	Aug-04	0.30	0.90	1.79	3.60	5.13	6.18	6.49
L&T Ultra Short Term Fund	Apr-03	0.31	0.91	1.79	3.48	4.94	6.03	6.41

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

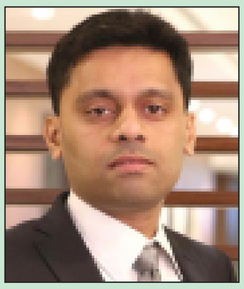
Dividends declared by equity and equity-oriented funds during the month of August 2021

Scheme name	Date	Dividend declared in ₹ Per unit
Tata Hybrid Equity Fund	03/08/2021	0.30
ICICI Prudential Equity & Debt Fund	05/08/2021	0.16
ICICI Prudential Focused Equity Fund	12/08/2021	1.75
ICICI Prudential Technology Fund	12/08/2021	6.00
ICICI Prudential Pharma Healthcare and Diagnostics (P.H.D) Fund	12/08/2021	1.75
UTI Flexi Cap Fund	12/08/2021	4.50
Tata Equity PE Fund - Regular Plan - IDCW Trigger Option B	17/08/2021	1.85
PGIM India Hybrid Equity Fund	17/08/2021	0.13
Sundaram Equity Hybrid Fund	17/08/2021	0.15
ICICI Prudential Exports and Services Fund	18/08/2021	3.00
Edelweiss Aggressive Hybrid Fund	23/08/2021	0.17
IDFC Sterling Value Fund	26/08/2021	1.46
Axis Equity Hybrid Fund	26/08/2021	0.08
L&T Midcap Fund	26/08/2021	3.50
Aditya Birla Sun Life Equity Advantage Fund	27/08/2021	7.00
Aditya Birla Sun Life Midcap Fund	27/08/2021	2.29
Aditya Birla Sun Life Small cap Fund	27/08/2021	1.63
Canara Robeco Equity Hybrid Fund	27/08/2021	0.79
Canara Robeco Infrastructure	27/08/2021	2.00
LIC MF Equity Hybrid Fund - Plan A	31/08/2021	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 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.

Mutual funds, like securities investments, are subject to market and other risks. As with any investments in securities, the NAV of units can go up or down depending on the factors and forces affecting capital markets.

Market Outlook



The annual US FED symposium conducted by the Kansas City Fed at Jackson Hole is a key event on the economic policy calendar. The current year's symposium was keenly watched as the markets expected the FED Chair to lay out the path for "Taper" in the context of strong economic rebound and inflation above the target range. The outcome has been favourably received by the markets as the FED Chair made a clear distinction between "start of taper" and an eventual "lift off " with respect to policy rates. While based on current estimates, tapering could potentially start by the year end, the marker for eventual rate actions has been clearly set higher based on substantial further progress on employment along with sustainable inflation of 2% or above. Noise surrounding Delta variant could possibly push back even the modest normalisation which has been laid down, thereby supporting risk assets in the near term.

Equity:

A key concern for investors globally over the past few weeks has been the likely normalization of central banks' easy money policies and the consequent impact on economies especially Emerging Markets (EM). Consequently, FPIs had been pulling money out from EM which in turn have continued to underperform Developed World equities through the year. Recent comments by Fed Chair however have acted to ease concerns a bit and FPIs appear to be looking at EM favorably again. Monetary policy in key developed markets may broadly stay accommodative considering the feedback loop into risk asset markets as well as to allow fiscal policy, the space to operate. We therefore expect normalization to be very gradual and well signalled. While the risks from policy mistakes are non-trivial, the bigger worry in the near term stays the course of the Virus and its impact on growth and inflation owing to continued, localized disruptions in several parts of the world.

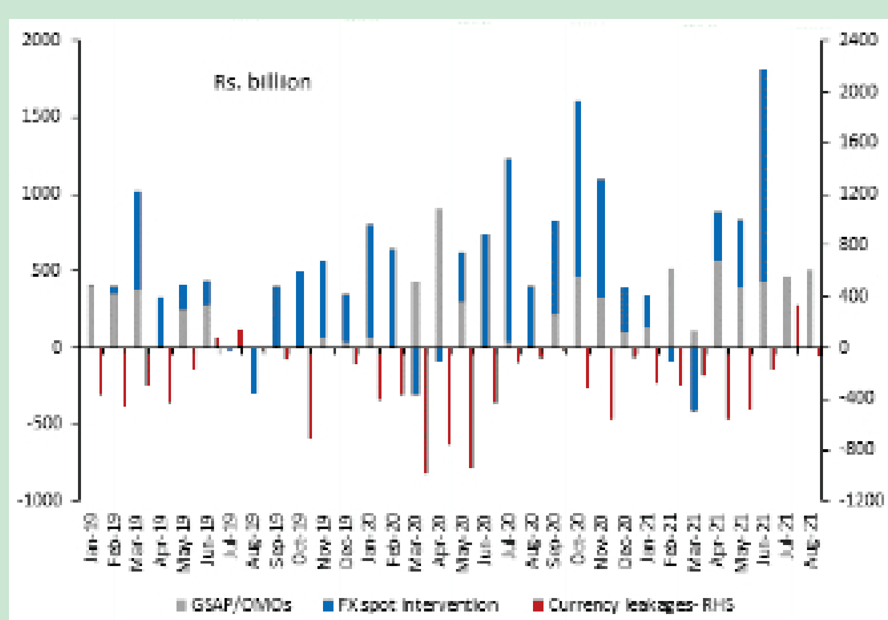
Amidst these worries, Indian equities continued with their strong performance with the Nifty and the Sensex rising 8.7% and 9.4% respectively in August. On a relative basis, Indian equities have stayed strong outperformer relative to Emerging Market equities leading to a significant expansion in their valuation premium, with the latter having struggled on account of a combination of factors including Fed taper fears, renewed growth concerns and Chinese regulatory clampdown on Tech companies over the past few months.

Performance picture beyond large caps was not as rosy with the Nifty Midcap 150 gaining a more modest 2.1% and the Nifty Small Cap 250 declining 3% for the month. This was in sharp contrast to the trend of the past year or so wherein mid and small caps have significantly outperformed large caps. This reversal in relative performances was not completely surprising, however. We had highlighted last month that after the strong relative performance of mid-small caps versus large caps, their valuation differential had reverted to historical norms suggesting that the risk-reward was more balanced on that front now.

On overall equity valuations as well, the sharp run up has meant that even measures such as earnings yield relative to bond yields, attractiveness for equities has receded and a recovery in earnings is vital to support further upsides. And we continue to be constructive on corporate earnings. The strong prints on corporate earnings over the past few quarters at a time when economic growth is yet to find a footing suggests that the over a decade long declining trend on the corporate profits to GDP ratio has been arrested. At a time when economic growth has likely troughed, an uptick in profits to GDP could lead to non-linear uptick in earnings over the next few years. Thus, the longer outlook stays constructive premised on our view that we are in early stages of an earnings upcycle, even as investors would do well to moderate their return expectations. Key near term risk continues to be a stretched reading on our equity market sentiment measure, but we would continue advising any significant pullbacks to add on to pro-economy assets.

Fixed Income:

While the focus has remained on any tapering announcement by the US Fed, the RBI monetary policy has reaffirmed an accommodative stance, though with one MPC member's dissenting opinion. The RBI did take hesitant steps towards normalisation of liquidity with the announcement of an increase in the 14 Day Variable Rate Reverse Repo auctions in stages to ₹ 4 trillion from ₹ 2 trillion. Subsequent interviews by the Governor have reaffirmed the dovish assessment as the RBI remains willing to tolerate Inflation closer to the upper end of the target range given the growth backdrop. While in the current environment, policy rate adjustments are ruled out, the tolerance for excessive liquidity, resulting in both the Weighted average Call rate as well as the Weighted average overnight rate trading much lower than the reverse repo rate has been supportive of market action in the recent weeks. This is evident from the chart below showing the monthly primary liquidity injection. CY21 y-t-d the net liquidity injected through Fx and Government bond purchases have amounted to more than ₹ 5 trillion. Considering the impact of currency leakage, the net injection has been more than ₹ 3 trillion which has led to system liquidity surplus remaining closer to ₹ 10 trillion.



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Market Outlook

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The debate within the MPC as evident in the minutes, has been around modulating the excessive liquidity within the broader accommodative stance, even as Prof Verma dissented around the accommodative stance and preferred to raise the money market rates closer to the Repo rate.

Market action remains vulnerable to potential actions on liquidity in the near term. While the effective operating rate remains the reverse repo for monetary policy, the weighted average rate in the overnight markets remain way below the reverse repo and is likely to remain so in the near term. While the gradual increase in VRRR under the 14-day auctions may be a small shift, the efficacy of this to modulate either the quantum of liquidity or the price of overnight liquidity is doubtful. The asymmetric liquidity distribution within the system would have warranted market-based instruments such as Market stabilisation bonds/bills. The fiscal cost of a provision to conduct MSS T bill auctions to the extent of say ₹4 trillion through 1 y bills would amount to less than ₹150 Bn (at the latest cut offs in the auctions). The cost of a disorderly unwinding down the road would be felt through larger adjustments in borrowing costs across the system. Alternatively non-bank participants would need to be provided access to the VRRR auction being conducted, like the window provided by the US FED for Money market funds to access the central bank reverse repo facility.

While a delayed liquidity normalisation is a near term market positive, further delay in modulating the same even as flows remain robust would compound the problem of normalisation and lead to larger actions down the line with potentially destabilising impact on markets. The challenges faced by the RBI currently reflect the constraints of the "impossible trinity". With an Open Capital account and Independent Monetary Policy, a fixed exchange rate cannot be sustained for long. By extension, Inflation Targeting, ultra-loose liquidity and targeting bond yields are conflicting objectives to the extent that all 3 cannot be simultaneously managed smoothly. Choosing loose liquidity and targeting yields through intervention may make inflation targeting difficult. With respect to the Trilemma of the Impossible Trinity, allowing currency appreciation as seen in recent times has been the trade off with intervention likely to worsen the problem of liquidity overhang. The potential impact that may have on exports, which have rebounded strongly in a positive global growth backdrop remains unknown. Interestingly export growth in April- Aug 21 has been around 23% higher as compared to the same period of 2019. Q1FY22 GDP data trends point to exports remaining the key support driver from the demand side even as Private Consumption and Gross Fixed Capital formation lags on a 2y CAGR basis. Government spending remained muted relative to last year trends even as government revenues have shown a steady pick up in the fiscal year till date.

The current context provides a short-term window for tactical positioning with a slightly higher duration as the central bank signals have been dovish. Portfolio duration strategies need to be more flexible with downside protection. Consistent with an individual's specific asset allocation framework, low to moderate duration exposure within the fixed income space may be ideal from a medium-term allocation perspective.

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

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