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WEALTHWISE®

Wiseinvest®
AMFI-registered Mutual Fund Distributor

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,

The stock market turned range bound in the month of July. While the benchmark BSE Sensex was up 0.51%, the mid-cap and small cap indices of the BSE were up 2.64% and 5.82% respectively. FIIs remained net sellers to the tune of ₹19,000 in cash segment of the Indian stock market. However, DIIs did well in absorbing the pressure.

The markets are expected to do well since there is a considerable amount of optimism around corporate performance and earnings growth in the coming two to three years. With the two waves of the pandemic almost out of our way, economic revival should gather speed, and, with it, corporate performance. The conditions for corporate performance -- right from liquidity to lower interest rates -- are conducive.

GST collection of ₹ 1,16,393 lakh crore in July, after missing the mark in the month of June, confirms resumption of uptrend in business activity and the economy as most states have eased restrictions imposed during the second wave of the pandemic.

The Centre's fiscal deficit narrowed to an eight-year low of ₹ 2.7 lakh crore, or 18.2% of the budgetary estimate in the first quarter ended June on account of higher revenue and lower spending. The fiscal deficit was less than half of ₹ 6.6 lakh crore reported in the first quarter of 2020-21. While this was expected since the first quarter last year faced the brunt of Covid-19 disruptions, it is encouraging to note that the lockdowns have not affected the revenues of the government as sharply as last year. There has been a doubling of almost all tax collections: income, corporate, GST, excise and customs.

The RBI is likely to keep benchmark rates unchanged in the bi-monthly monetary policy on August 6, 2021 amid efforts to regain the country's growth impetus. In its June policy, the RBI lowered India's GDP forecast year by a percentage point to 9.5%, citing lockdowns during the second wave. The inflation projection was at 5.1% for FY22, well above the ballpark normal target of 4%. Of course, RBI's commentary on inflation trajectory will be keenly watched.

Warm regards,

H Rustagi

Hemant Rustagi
Editor

Address to be affixed here

If undelivered, please return to:

Wiseinvest Pvt. Ltd.
602, 6th Floor, Sri Krishna Complex,
Opposite Laxmi Industrial Estate,
New Link Road, Andheri (W),
Mumbai 400 053.
Tel : 2673 2671 / 2673 2676

The Stock Market Performance During July 2021.

Indices	1st July 2021	30th July 2021	Change in (%)
Sensex	52,318.60	52,586.84	0.51
MIDCAP	22,494.14	23,087.22	2.64
SMLCAP	25,312.59	26,786.62	5.82
BSE-100	15,977.59	16,108.48	0.82
BSE-200	6,808.66	6,878.74	1.03
BSE-500	21,430.82	21,753.68	1.51

Investment Process – The Nippon Way

Investment is the backbone of Asset Management Companies (AMCs). It is absolutely critical for AMCs to have robust investment processes to generate sustainable performance and mitigate risks. Mutual funds are highly regulated and have stipulated limits on various parameters to ensure prudent management of schemes. While stringent guidelines help deliver diversified portfolios to mutual fund investors, at Nippon India Mutual Fund, we have taken additional measures to strengthen investment processes further.

While investment process is a wide field, spanning areas of how research is conducted, how the same flows to portfolio construction, effective feedback loop to monitor portfolios & performance and take corrective actions from time to time, we will specifically dwell on the portfolio construction (or Fund Casing) in this editorial.

Before we dive deep into the subject, please have a look at the below Table. The details mentioned are the Sector exposure details of the market, in this case the Nifty Index as of July 2021.

Weightage in Index (%)	
Sector	**Weight**
Banks – Private	23.1
Banks – Public	2.4
NBFC + Insurance	11.6
Total Banks + Finance	**37.2**
Technology	17.5
Oil and Gas	11.2
Consumer	10.9
Total of Top 4 Sectors	**76.8**
Automobiles	4.9
Health Care	3.7
Metals	4.1
Capital Goods	2.8
Cement	2.7
Miscellaneous	1.4
Utilities	1.7
Telecom	1.9
Total	**100**

The top sector 'Banks + Finance' accounts for 37.3% of the entire market!

The current regulations do not stipulate any sector limit / constraint. Technically, a Fund Manager could take extreme calls on any sector. i.e., a Fund Manager (FM) may choose to have extreme Overweight (O/w) or Underweight (U/w) positions in any and / or multiple sectors. There may not be anything wrong with taking such extreme calls; after all, that's why investors have entrusted their investments with Fund Managers – to take investment decisions on their behalf and generate superior returns. The above approach, if it works, could generate substantial returns (or alpha as we call it – the extra returns generated by the fund over the market / index). On the flip side, if the strategy were not to work out, the fund would substantially underperform, disappointing the investors.

The Nippon Way

At Nippon India Mutual Fund, we understand that mutual funds cater to a variety of investors, including retail and high net worth individuals. While the endeavor is to generate alpha, we should also strive for consistent and sustained fund performance. Hence, as part of our investment processes, to mitigate excessive risks, we have placed limits on sector deviation for the largest sector in select funds. The Fund Manager cannot take excessive deviations away from the market, which is equivalent to taking a big macro call. Instead, the FM is encouraged to function within the defined framework, designed to prune away excessive risks – freedom within framework. For example, a fund may have a Sector Deviation limit of, say, not exceeding 6% in the biggest sector – Banks and Finance. This would mean that if the market / index weight for Banks + Finance is 36%, the Fund may not go below 30% on the lower side or 42% on the higher side. Essentially, the Fund Manager cannot take a big macro call on the sector and be, let us say, tremendously underweight the sector, like having only 10% weight vs 36% of the index. A severe underweight position in a domestic cyclical theme like Banks and Finance, in line with the Fund Manager's assessment may result in significant under performance, if the opposite were to play out. While the above paragraphs explained in detail about the Sector Deviation framework, the Fund Casing also considers several other parameters to define the framework for various funds.

Risk Rating of Securities – At Nippon Mutual Fund, we internally rate all the stocks under our coverage on a Scale of A to D, by considering Business Risks and Management Quality. Companies, based on our assessment, which are relatively high on risks, by considering both Business and Management Quality, will be assigned a score of D. The Fund Casing would not permit investing into such stocks, beyond a very small limit, to mitigate portfolio risk.

Active Share – a measure of how much the fund is similar to or different from the benchmark (or market). Active Share of Zero would mean the fund is mimicking the index, where as Active Share of 100 would mean that the fund is entirely different from the index. For various funds, depending on the nature of the Fund, Active Share thresholds have been defined. For example, if a Fund is designed to generate relatively consistent returns, the Active Share range would be lower, where as a Fund meant to generate relatively aggressive returns vs markets, would have a higher Active Share limit.

Stock Concentration – Specific type of funds, especially Mid Cap and Small Cap Funds, have stock concentration limits. The Funds would not be allowed to invest, say, beyond a maximum of 4% in an individual stock. This would ensure that the fund is well-diversified and is not exposed very highly towards any particular stock, which would be critical in the relatively less liquid mid and small cap segments of the market.

Style Diversification – Different Factors, such as Growth vs Value, Size, Momentum, etc., tend to perform at various points in time. At Nippon India Mutual Fund, we check for Style exposures, and strive to have reasonably balanced exposures to the different factors. This is very similar to not taking big macro calls in the case of Sector Deviation limits discussed in the early part of this editorial.

It should be noted that the above list is not exhaustive, and not all of the above constraints would be applicable for all the funds. And, the thresholds would also be different for the various funds. It would completely depend on the objectives and the imperatives of the fund. For instance, stock concentration limit may not be applicable for a Large Cap Fund, as it may be for a Small Cap Fund. Similarly, Sector Deviation limit may not be applicable for Small Cap Fund, as the Fund would be focused on bottom-up stock picking.

Bottomline

Fund Casing – the Nippon India Mutual Fund's way – with limits defined for various parameters defines the framework for Fund Managers to operate within, eliminating excessive risks at the design stage and possibly generate returns on a relatively consistent and sustained manner. The Freedom within Framework has been designed for the Fund to potentially generate alpha, yet not take excessive risks. The framework brings clarity and transparency about how the funds would be managed and setting the expectations right up front for all the stakeholders, including the investors.

Nippon India Mutual Fund

Disclaimer

Make Your Investments Sustainable

An ever-expanding investment universe provides a number of interesting, effective and flexible investment options for investors with different risk profiles. However, one must follow the right selection process to get the best out of this situation. Every investor must understand that selection of investment option should be the last step in the selection process. The process must begin with establishing investment objectives. Assigning a time horizon to each of these goals helps in determining an ideal asset allocation. While equities should be the mainstay of a long-term portfolio, debt and debt-related instruments should be at the forefront of a short-term portfolio. Hybrid options can play a significant role in achieving medium-term goals.

In reality, a number of factors impact the final outcome of an investor's investment process over different time periods. Hence, one must follow certain principles that not only help at the start of the process but also keep the portfolio on track during the defined time horizon. Here are some of the priority areas to ensure sustained investment success.

Focus on what you want to achieve

As an investor, you must avoid following a haphazard investment approach as it may compel you to make investment decisions depending on how different asset classes behave at certain points. Besides, it can make you miss out on opportunities in the market. Therefore, keep your focus on the bigger picture at the start by establishing your goals to be achieved over short, medium and long-term horizons. A goal-based investment process propagates budgeting, risk management and asset allocation model that helps you create the right balance between risk and reward.

Remain committed to your time horizon

Once a time horizon is assigned to a goal, you must remain committed to it irrespective of how the market behaves and continue your investment process. This approach not only helps you tackle the volatility but also allows you to benefit from averaging over time.

Work closely with your advisor

Today, a lot of information is available on various investment options and strategies to invest in them through different mediums. Therefore, you must always be open to absorb this knowledge and use it in your investment process. If you find it overwhelming, take help of an advisor. It helps if you listen to your advisor as it allows you to understand the complexities of the investment world. Remember, unwillingness to do so can make it difficult for you to adapt to the ever-changing investment and economic environment.

Be flexible

While investment is an on-going process, there is no straight path to investment success. Therefore, your investment process as well as options must have the flexibility required to rebalance your portfolio in line with changes in your own circumstances as well as in the economic and political environment. Also, be prepared to tackle the challenge of non-performance of some of the investments in your portfolio. Although monitoring the performance holds the key to long-term investment success, don't get tempted to make frequent changes just because you have the flexibility to do so. Besides, avoid discussing your portfolio with all and sundry as conflicting views can make you lose your focus and compel you to compromise your financial future.

Plan your tax investments well

To get the best out of your tax savings investments, you must integrate them into your overall investment program. It not only allows you to choose options in line with pre-decided asset allocation but also avoid investing haphazardly at the fag-end of the year. This strategy creates place for options like Equity-Linked Savings Schemes (ELSS) of mutual funds. Being equity-oriented funds, these have the potential to generate positive real rate of return. Another notable feature is a lock-in period of 3 years, which is the shortest amongst tax savings instruments.

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 below.

Performance Of Select Funds

Data as on July 30, 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	19.61	48.65	20.30	11.60	11.84	12.31	13.68	15.02
ABSL Flexi Cap Fund	Aug-98	24.08	57.82	25.20	14.42	14.71	14.70	15.61	15.01
Axis Bluechip Fund	Jan-10	16.26	40.26	21.15	13.92	15.90	14.05	14.57	—
Axis Focused 25 Fund	Jun-12	19.45	48.10	24.12	12.88	16.69	16.17	—	—
Axis Growth Opportunities Fund	Oct-18	33.54	64.86	32.56	—	—	—	—	—
Canara Robeco Flexi Cap Fund	Sep-03	22.55	49.76	26.96	16.34	16.51	13.97	14.05	15.63
Canara Robeco Emerging Equities	Mar-05	26.76	60.35	31.03	15.95	17.48	19.23	20.36	17.87
HDFC Flexi Cap Fund	Jan-95	25.19	61.13	17.99	12.44	13.15	11.59	12.48	14.65
HDFC Top 100 Fund	Oct-96	18.35	47.29	14.30	10.49	11.79	10.66	11.61	14.02
HSBC Large Cap Equity Fund	Dec-02	13.89	40.55	18.62	11.15	12.60	11.31	11.15	11.78
HSBC Focused Equity Fund - Regular	Jul-20	19.77	47.06	—	—	—	—	—	—
ICICI Prudential Bluechip Fund	May-08	18.11	46.13	20.26	12.29	13.21	12.67	13.55	—
IDFC Core Equity Fund - Regular Plan	Aug-05	26.20	59.94	24.16	12.12	13.54	13.39	12.50	11.81
Invesco India Contra Fund	Apr-07	22.43	49.38	26.47	14.01	16.52	16.35	16.13	—
Kotak Bluechip Fund - Regular Plan	Dec-98	19.42	47.26	24.13	13.81	13.19	13.45	12.97	13.26
Kotak Equity Opportunities Fund	Sep-04	24.30	52.66	26.77	15.97	15.20	15.76	15.08	15.05
Kotak Flexicap Fund Regular Plan	Sep-09	19.77	45.85	20.61	12.58	14.04	15.44	15.63	—
Mirae Asset Emerging Bluechip Fund	Jul-10	28.09	65.64	33.39	22.01	20.71	22.58	22.94	—
Mirae Asset Focused Fund - Regular	May-19	25.60	58.33	32.11	—	—	—	—	—
Mirae Asset Large Cap Fund - Regular	Apr-08	18.67	45.36	20.95	13.81	14.98	15.24	15.95	—
Nippon India Large Cap Fund	Aug-07	21.32	53.69	16.39	10.56	12.61	12.54	13.43	—
Nippon India Multi Cap Fund	Mar-05	34.47	73.49	19.40	12.38	11.94	11.58	13.53	15.00
SBI Bluechip Fund	Feb-06	18.78	49.30	21.19	12.74	12.06	13.63	14.78	12.57
SBI Focused Equity Fund	Oct-04	26.29	52.74	24.61	16.57	16.05	16.07	16.85	16.51
UTI Flexi Cap Fund - Regular Plan	May-92	23.52	63.45	34.06	18.19	16.94	15.83	15.87	15.77

Midcap & Smallcap

Axis Midcap Fund	Feb-11	30.03	62.72	35.38	21.07	19.33	17.94	19.50	—
DSP Midcap Fund - Regular Plan	Nov-06	25.31	56.06	31.57	16.55	15.70	17.83	17.13	—
HDFC Mid-Cap Opportunities Fund	Jun-07	31.96	72.94	31.15	14.35	14.91	16.73	17.89	—
Kotak Emerging Equity Fund Regular	Mar-07	35.24	80.23	36.91	19.81	17.40	20.00	19.55	—
L&T India Value Fund	Jan-10	29.45	60.58	25.22	12.96	13.77	15.92	17.25	—
Motilal Oswal Midcap 30 Fund	Feb-14	28.80	65.40	27.98	12.38	10.78	15.24	—	—
UTI Mid Cap Fund - Regular Plan	Apr-04	32.05	76.25	39.04	17.58	14.68	16.75	18.26	16.66

Sectoral / Thematic Fund & Tax Saving

ICICI Prudential Banking and Financial	Aug-08	25.76	66.65	13.69	9.56	13.22	15.23	16.18	—
Nippon India Banking & Financial	May-03	29.50	77.13	12.11	6.71	12.16	12.52	12.86	18.15
ICICI Prudential Pharma Healthcare	Jul-18	23.78	42.33	47.60	27.47	—	—	—	—
Nippon India Pharma Fund	Jun-04	27.54	47.13	49.66	28.56	16.98	17.33	18.05	21.97
SBI Healthcare Opportunities Fund	Jul-99	21.44	44.18	47.16	26.21	9.98	13.28	17.33	14.84
Kotak Pioneer Fund - Regular Plan	Oct-19	25.70	63.27	—	—	—	—	—	—
Axis Long Term Equity Fund	Dec-09	21.11	51.31	24.27	14.40	15.24	16.05	18.07	—
IDFC Tax Advantage (ELSS) Fund	Dec-08	33.82	76.56	30.38	15.51	16.42	15.88	16.31	—
Kotak Tax Saver Regular Plan	Nov-05	24.05	54.69	25.04	16.01	14.90	15.69	13.93	13.23
Mirae Asset Tax Saver Fund - Regular	Dec-15	25.01	61.52	29.51	19.45	20.14	—	—	—

ARBITRAGE FUNDS

Funds	Launch	3 Mth*	6 Mth*	1 Year*	2 year**	3 Year**	5 Year**
ICICI Prudential Equity Arbitrage Fund	Dec-06	1.19	2.34	3.99	4.39	5.08	5.47
IDFC Arbitrage Fund - Regular Plan	Dec-06	1.09	2.15	3.75	4.06	4.96	5.36
Kotak Equity Arbitrage Fund Regular	Sep-05	1.17	2.35	4.14	4.50	5.20	5.59

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	19.27	45.92	17.92	9.85	9.93	11.67	12.51	14.07
Canara Robeco Equity Hybrid	Feb-93	16.75	36.97	22.24	14.51	13.86	13.78	13.98	13.89
DSP Equity & Bond Fund	May-99	19.14	43.78	23.39	14.81	13.45	14.46	13.06	14.05
ICICI Prudential Equity & Debt	Nov-99	26.99	53.68	21.53	14.88	13.88	13.79	14.93	13.61
Kotak Equity Hybrid Fund	Nov-99	19.12	48.99	23.15	14.65	12.63	12.39	12.32	11.75
SBI Equity Hybrid Fund	Dec-95	17.13	36.44	18.51	13.57	12.73	13.40	14.40	13.39
DSP Dynamic Asset Allocation	Feb-14	7.65	19.08	13.20	10.44	8.76	—	—	—
ICICI Prudential Bal. Advantage	Dec-06	10.40	26.46	15.07	11.19	10.45	—	—	—
IDFC Bal. Advantage Fund	Oct-14	11.22	21.05	15.62	9.72	9.54	—	—	—
Kotak Bal. Advantage Fund	Aug-18	8.65	21.71	15.06	—	—	—	—	—
IDFC Equity Savings Fund	Jun-08	5.69	14.64	9.65	6.76	6.42	—	—	—
Kotak Equity Savings Fund	Oct-14	6.26	15.50	10.87	7.98	8.53	—	—	—

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	1.27	2.31	6.14	7.96	8.50	7.62
Invesco India Short Term Fund	Mar-07	0.70	0.98	1.80	3.50	7.01	7.68	6.90
Axis Corporate Debt Fund - Regular	Jul-17	0.52	1.06	2.25	5.16	8.64	7.77	—
HDFC Corporate Bond Fund	Jun-10	0.63	1.30	2.13	5.04	8.39	9.20	8.20
Kotak Corporate Bond Fund	Sep-07	0.57	1.23	2.20	4.97	7.62	8.18	7.88
Kotak Banking and PSU Debt Fund	Dec-98	0.51	1.44	1.86	4.60	7.94	8.95	8.04
SBI Banking and PSU Fund	Oct-09	0.64	1.11	1.49	3.89	7.50	8.26	7.68
ICICI Prudential Savings Fund	Sep-02	0.47	1.40	2.05	5.21	7.10	7.61	7.50
Kotak Savings Fund Regular Plan	Aug-04	0.35	0.84	1.75	3.57	5.32	6.28	6.56
L&T Ultra Short Term Fund	Apr-03	0.33	0.83	1.78	3.43	5.12	6.12	6.48

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

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

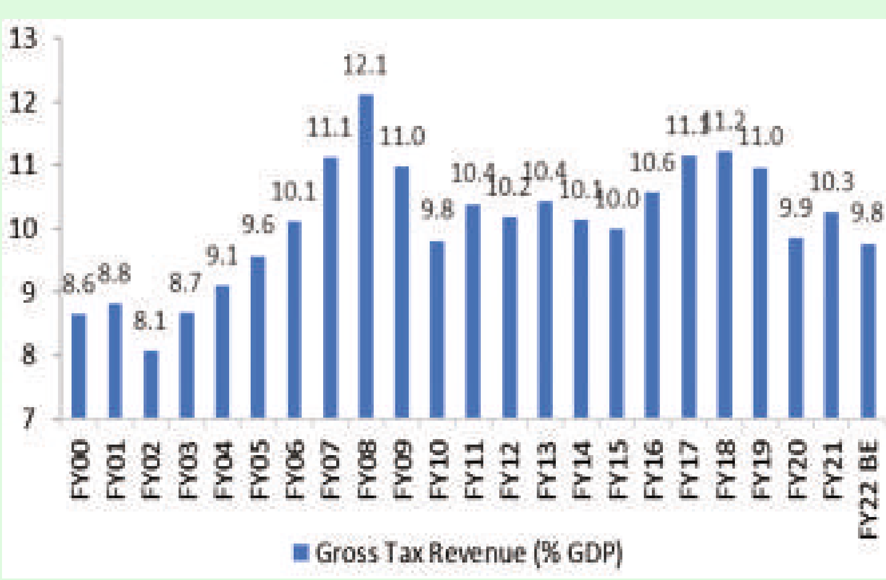
Scheme name	Date	Dividend declared in ₹ Per unit
ICICI Prudential Equity & Debt Fund	05-07-2021	0.16
Tata Hybrid Equity Fund	05-07-2021	0.30
PGIM India Hybrid Equity Fund	19-07-2021	0.13
IDFC Tax Advantage (ELSS) Fund	22-07-2021	1.27
IDFC Focused Equity Fund	22-07-2021	0.77
IDFC Large Cap	22-07-2021	0.89
IDFC Core Equity Fund	22-07-2021	0.95
Aditya Birla Sun Life Pure Value Fund	23-07-2021	1.73
L&T Large and Midcap Fund	23-07-2021	0.17
Sundaram Equity Hybrid Fund	23-07-2021	0.15
L&T Hybrid Equity Fund	23-07-2021	0.13
L&T Business Cycles Fund	23-07-2021	1.00
Edelweiss Aggressive Hybrid Fund	26-07-2021	0.17
LIC MF Equity Hybrid Fund - Plan A	27-07-2021	0.10
Axis Equity Hybrid Fund	27-07-2021	0.08
Aditya Birla Sun Life Digital India Fund	28-07-2021	2.24
Aditya Birla Sun Life Focused Equity Fund	28-07-2021	1.10
DSP Equity & Bond Fund	28-07-2021	0.15
BOI AXA Large & Mid Cap Equity Fund	29-07-2021	0.25
BOI AXA Tax Advantage Fund	29-07-2021	0.90
BOI AXA Manufacturing & Infrastructure Fund	29-07-2021	0.40
BOI AXA Mid & Small Cap Equity & Debt Fund	29-07-2021	0.80
BOI AXA Small Cap Fund	29-07-2021	1.00

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.

Market Outlook

The narrative of "Transitory" inflation as espoused by the FED seems to have largely percolated down to asset pricing as far as price actions of the last month goes. Even as the FED has initiated discussions around tapering, bond yields have settled down over the last month even as other asset classes maintain their buoyancy. The challenges around the Delta variant as well as renewed bout of infections in various jurisdictions also have come to the forefront. At the same time, expectations seem to have broadly converged around towards "peak growth", "peak inflation" and probably "peak stimulus" in this economic cycle in the developed markets. Once the impact of the pent-up demand starts to fade, it is expected that growth and inflation would revert to a more sustainable trend. At the same time, given the larger fiscal and monetary support in economies such as the US, the growth inflation dynamics across various markets may start to diverge, warranting eventual unwinding of the extent of monetary stimulus which may not be synchronous. Given this possibility, Emerging market central banks would need to be more mindful of the spill over effects as well as the domestic macro vulnerabilities.

One of the redeeming features recently has been the recent trend in central government finances. The central fiscal deficit during Q1 FY22 at 18.2% of Budgeted Estimates (BE) compares favourably against the trend of 60-80% in earlier years and 83% of BE in the previous year. This has been aided by a robust tax collection along with a contained expenditure. Gross tax collection in Q1 FY22 has grown by 97% y-o-y (vs. BE of 17%). Non-Tax receipts are also healthy on the back of dividend transfer from RBI. The central government has realised around 30% of its Budgeted revenue receipts for the financial year in Q1 as against the trend of around 15% in Q1FY20 and FY19. At the same time, uncertainty remains with respect to the realisation of the entire divestment proceeds as well as additional expenditure commitments. This probably explains reluctance to moderate fuel taxes even as gross tax collections provide some cushion. The evolution of Tax/GDP ratio remains an interesting variable to track, that could provide a positive backdrop on an incremental basis to government finances.



The central Government revenue picture so far, looks promising and with pickup in economic activity going forward, the projected GTR/GDP could exceed the budgeted estimates of 9.8%. This should provide a cushion in case the divestment proceeds were to fall short.

Equity

While large cap indices have stayed rangebound of late with the Nifty and the Sensex inching up by about 0.3% and 0.2% respectively in July, broader markets continued to outperform as Nifty Midcap 150 and Nifty Small cap 250 delivered 3.2% and 8% respectively. Economic activity has continued to pick up and is trending at levels similar to April. However, with the risk of a potential third wave looming, and concomitant reluctance around the pace of unlocking, some headwinds do persist for growth in the near term. Globally, markets have moved from worrying about a potential Fed taper to worrying about economic growth. Longer end bond yields have therefore fallen with the US 10 year plunging below 1.2%. Consequently, unlike the bear steepening following the taper tantrum of 2013, the US treasury curve has bull flattened this time around (longer end yields have fallen now versus sharply rising then). A potential moderation in US demand which has been helped by one-off benefit transfers during the pandemic, renewed worries on rising infections due to Covid variants and slowdown in China may all have contributed to growth fears in the near term. For EM investors, spate of regulatory clampdowns on internet companies in China further dampened sentiment.

Tactically, our equity market sentiment measure continues to suggest stretched readings, indicating that sentiment is overheated and any perceived risks on either side- taper or growth, could lead to volatility. Longer term, we continue to believe that fiscal policy will need to do the heavy lifting to revive western economies. On the other hand, growth moderation is a real near-term risk, even as there too we believe that eventually as western infrastructure spends fructify, they should lead to job creation and more sustainable increase in growth and inflation. We also remain constructive on domestic economic growth recovery in the medium term amid multiple levers in place to support growth, including but not limited to aggressive fiscal expansion in addition to super accommodative monetary policy in the West, most notably the US; stronger balance sheets for banks; healthier corporate balance sheets; leaner cost structures; rising vaccination coverage; continued policy support and the spate of reforms we have witnessed around formalization of the economy, corporate taxes, PLIs, GST, real estate, etc.

On valuations, after the strong relative performance of mid-small caps versus large caps, their valuation differential has reverted to historical norms suggesting that the risk-reward is more balanced on that front now. On

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Market Outlook

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equities overall, the sharp run up has meant that on valuation 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 that stays our base case as we continue to be constructive on corporate earnings. At a time when economic growth has likely troughed, profits for listed corporates as proportion to GDP appear to have troughed too. This was reflected in FY21 numbers as profits for Nifty companies grew healthily even as GDP contracted 3% in nominal terms. A normalization in GDP as well as profits to GDP, from their respective troughs, could mean non-linear uptick in earnings over the next few years. We would therefore use any significant near-term pullbacks on the back of stretched sentiment readings to add on to pro-economy assets.

Fixed Income

The CPI inflation print for the month of June, though being above the upper band of the MPC ‘s range, provided some respite as it printed below market consensus. This enabled a partial retracement of the spike in yields triggered by the previous month’s inflation data. Over the month, apart from the steepening of the curve, at the margin we have witnessed the central bank letting go of its earlier preferred price point on the benchmark 10 y security yield. Over the month, the yield on the new benchmark has drifted up to 6.20% as compared to the cut off yield of 6.10% in the primary auction. This probably has been a subtle, though significant change in the RBI’s yield management efforts. The central government choosing to make the first tranche of Rs 750 bn GST compensation to states without resorting to incremental borrowings was a positive surprise to markets, which has enabled the shorter end of the sovereign curve to retrace. At the same time, this also validates the better than expected revenue position of the central government at this time of the fiscal year.

While the debate about the Transitory and permanent component in India's CPI readings play out over the coming weeks, the focus of Monetary policy will invariably have to shift to managing an orderly unwinding from 'crisis era' liquidity conditions. Interestingly, CPI has printed above the 6% level in 13 out of the last 24 readings. While supply bottlenecks have played a part in the immediate phase post the pandemic, the fact that readings below 6% have been the "transient" feature in the recent time frame remains a point of worry. However, in the upcoming monetary review, it is unlikely that the RBI makes any material change in its stance or guidance as the focus may remain on ensuring easy financing conditions to enable growth revival.

At the same time, like the subtle shift undertaken in the implicit yield curve targeting done so far, with the central bank more tolerant of market pricing on the benchmark, the challenge remains in anchoring expectation around an exit from excessively surplus liquidity conditions as well as flagging potential risk factors. A readjustment of forward inflation projections may be in order even as the RBI pushes back on the timelines to incrementally absorb liquidity. Between sustaining crisis era liquidity conditions and premature tightening, a middle path that recognises the potential risk factors as well as avoids drastic back ended tightening measures may be in order.

From a domestic fixed income investor, the challenge remains in anchoring expectations of moderate returns along with potential volatility as we go forward.

Data Source: Bloomberg, SBI MF research, CCIL

Rajeev Radhakrishnan
CIO for Debt
SBI Funds Management Private Limited

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