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WEALTHWISE®

Wiseinvest®
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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 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,

At the outset, I would like to wish you and your loved ones a very Happy, Healthy and Prosperous 2022, on behalf of Team Wiseinvest. We remain committed to serve you with the best of our abilities and support you in your efforts to achieve your investment goals in 2022 and beyond.

Indian stock market indices ended 2021 with a gain of over 21%. In the last three months of the year, the stock market corrected around 10% from lifetime high levels of 62245 for the Sensex and 18604 for the Nifty. The decline was mainly on account of heavy selling by FIIs due to tightening of monetary policies by the US Federal Reserve as well as concerns over the new covid variant.

The year 2021 turned out to be a bumper period for the Indian IPO market too. More than 60 companies collectively raised ₹1.2 lakh crore - the highest ever collected in a single calendar year. With Indian market on a record breaking run for most part of the year, investors lapped up majority of IPOs. However, among the top 15 IPOs by issue size, only 6 are trading above their issue size.

Bank credit picked up 7.1% in November, higher than 5.9% clocked in the same period a year ago, driven by better growth in retail, agriculture and MSME loans. The Centre's fiscal deficit at the end of November came at 46.2% of FY 22 budget estimate on the back of robust revenues. The current account- the sum of import and export of goods and services- in the balance of payments ended in a deficit of $9.6 billion during the July-September quarter.

We expect equities to be the best performing asset class in 2022. A revival in foreign flows from foreign investors is also likely to boost the market. However, investors will do well to follow asset allocation based on their time horizon and risk profile and be prepared for bouts of volatility in the face of hawkish US Fed and impact of omicron. The key would be to maintain balance in risk and reward by having a large cap bias in the portfolio as well as reasonable expectations in terms of returns.

Warm regards,

H Rustagi

Hemant Rustagi
Editor

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The Stock Market Performance During December 2021.

Indices	1st December 2021	31st December 2021	Change in (%)
Sensex	57,684.79	58,253.82	0.99
MIDCAP	24,934.68	24,970.08	0.14
SMLCAP	28,013.77	29,457.76	5.15
BSE-100	17,494.04	17,625.51	0.75
BSE-200	7,458.16	7,536.67	1.05
BSE-500	23,488.72	23,811.00	1.37

Market Outlook

We have witnessed very strong performance of Indian equities since the Covid lows of 2020. This was possible due to attractive valuations during the Covid panic, better than anticipated economic recovery in general and strong corporate profitability in particular and more importantly huge liquidity support all through.

The year 2021 was continuation of the bull-run started from Covid lows in 2020.The year was marked by all-round equity performance. The Nifty 50 index went up by 24.1% for the year, while the Nifty Midcap 150 and Nifty Smallcap 250 indices were even stronger with returns of 46.8% and 61.9% respectively. All sectoral indices ended in green for the year. Major outperforming sectors were Metals, IT and Real Estate. These sectoral indices gave returns of 69%, 59% and 54% respectively in 2021.

As 2022 looms large, some of the favourable conditions listed above may have changed significantly. The loose monetary policies and frequent stimuli of the last decade are beginning to reverse in most parts of the globe. Given strong performance of equities over past few quarters, the valuations too have been elevated as compared to the long period averages and there more visible pockets of overvaluation in the market currently. The new Covid variant, Omicron has also created a few flutters across the global economy though it is expected to be less lethal than earlier variants, as per initial assessments.

Therefore, we believe that the year 2022 could bring in more volatility in equity markets. One should not extrapolate the kind of returns generated during 2020 and 2021. The equity market is likely to be choppier and more moderate as compared previous years.

The events such as Union Budget and various State elections thereafter could set the tone for the market for the year. And of course, the global cues on emerging market flows and interest rate cycle will also be critical for market direction.

The investment themes for 2022 are :

- Big becoming bigger, strong becoming stronger
- Revival in investment cycle
- Export opportunities
- Real estate and home improvement
- Digitization and
- Financialization

We are in an era where consolidation is happening across industries. A decade ago there were dozen plus telecom operators now there are four. Across Industries such as Banks, Steel, Cement, NBFC and Aviation we are seeing consolidation resulting into big companies becoming bigger and strong companies becoming stronger. Survival of the fittest is the law of nature. It's equally applicable in the corporate world.

Over last few years, private investment was on back foot. Now with all time high levels of cash generation/ deleveraging and visibility on economic revival, many companies are looking to invest. Capital Goods companies are likely to do well in the years to come as their operating leverage comes into play with higher volumes.

Global Supply Chain Managers are pursuing China + 1 policy to diversify their sourcing base. With the PLI scheme, India is attracting serious players to become part of Global supply chain management. Multi decade growth which we saw in IT and Generic Pharma sector is likely to be repeated across many sectors supported by PLI schemes like Electricals, Electronics, Textiles, Bulk Drugs, Mobile Handsets, Chemicals, Automobiles and Auto Component etc.

Stars seem to be aligned for Real estate sector. Housing has become more affordable thanks to stagnation in house prices over last few years. Interest rates on housing loans are very attractive now. With RERA, consumer and developer interests are aligned. Real estate and home improvement sector will benefit from both primary and secondary market demand.

Digitization is all pervasive. Companies which expand market, improve productivity or reduce costs through digitization will be winners.

Indians are moving from Real Estate and Gold to financial assets. Companies engaged in providing financial solution from sectors like Banks, Fin Techs, Insurance, MFs, and NBFCs will create huge value in the coming years. Digitization in financialization could disrupt existing order.

To sum up, Indian markets have continued to trade at higher valuations given improved economy as well as expectations of further momentum in corporate profitability cycle. However, at current valuations, one cannot rule out corrections and earnings delivery will be crucial for stocks to trade at higher multiples and/or sustain those elevated valuations. The strong out performance of mid/small caps as against large caps may also see some pressure going forward.

As we all know, volatility is inherent to equity markets, and is unpredictable in the short term. However, long term investors, across markets and market cycles have generally made better returns. A regular and disciplined investing overcomes the ill-effects of market volatility. Prudent asset allocation, long term focus and regular investments are three important tenets of sustainable wealth creation.

Harsha Upadhyaya
President and CIO – Equities
Kotak Mahindra Asset Management

Here's How To Get The Best From Mutual Funds

Mutual funds are fast emerging as a preferred investment option for investors in our country. Considering that mutual funds are a diversified, transparent, flexible, tax-efficient and well regulated investment option, investors can rely on them to ensure that they have enough money at every stage of their life. However, this can happen only if they understand different aspects of mutual fund investing and follow the right process for investing in them. Making common mistakes while investing in MFs can cost investors dearly as it can result in either taking higher risk or earning lower returns as well as compromising some of their important investment goals.

Here is what you need to do to realize the full potential of what mutual funds have to offer.

Asset allocation should get top priority

While mutual funds allow you to build a portfolio comprising of different asset classes through a variety of funds, investing haphazardly without ascertaining the right mix of asset classes in the portfolio can make your investment process ineffective. Remember, a random approach either makes your portfolio very aggressive taking you beyond your accepted level of risk or very conservative resulting in negative real rate of return. In reality, asset allocation is important as it determines the level of risk in your portfolio and what can be expected in terms of returns. Therefore, you must begin your investment process by ascertaining an ideal asset allocation and fund selection should be the last step since they help you realize the potential of chosen asset classes over your defined time horizon.

Avoid having too many funds in the portfolio

It is quite common to see investors owning a number of funds thinking that it would provide them higher level of diversification and protection from risks. In reality, having an over-diversified portfolio makes it difficult to track performance of funds and invariably non-performing funds pull down the overall portfolio return. Therefore, you must build a compact portfolio consisting of a few well selected funds for each of your investment goals.

Invest in hybrid funds for the right reasons

A variety of hybrid funds are a great option if you may like to have varying degree of exposure to equity for growth along with debt to provide some stability. Hybrid funds usually can be a great option for investment goals to be achieved over the medium term. These funds also offer regular dividend i.e. monthly, quarterly and yearly. Considering that dividend is taxed at one's applicable tax rate, opting for growth option and then enrolling for a Systematic Withdrawal Plan (SWP) to generate regular income will be smart option if you are liable to pay taxes at higher rates. Therefore, combine these funds in the right proportion with other options depending upon your risk-taking ability and income requirement.

Avoid over reliance on past performance

Past performance is an important criterion in the fund selection process. However, relying on short term performance alone can back fire and cause disappointment as top performing funds keep changing every quarter. Therefore, you must look beyond performance and consider factors like suitability in terms of risk profile and time horizon and opt for funds that have consistent performance track record.

Always align SIPs to goals

Investing in a disciplined manner through Systematic Investment Plan (SIP) is a powerful mechanism as it allows you to invest regularly and turn market volatility to your advantage through averaging. However, investing thru SIP without having a defined time horizon can make it difficult for your to tackle volatility in the market. Aligning investments through SIP to your goals will keep you focused through your defined time horizon. For example, you will find it hard to stop SIP if it is aligned to your child's education and/or your retirement planning.

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

Performance Of Select Funds

Data as on December 31, 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	11.62	27.90	20.84	16.27	14.78	11.66	16.62	13.60
ABSL Flexi Cap Fund	Aug-98	9.98	30.28	22.93	17.94	15.99	13.92	18.94	13.14
Axis Bluechip Fund	Jan-10	10.45	20.64	20.15	19.62	20.27	13.29	17.55	—
Axis Focused 25 Fund	Jun-12	12.07	24.00	22.46	19.80	20.21	15.42	—	—
Axis Growth Opportunities Fund	Oct-18	15.13	44.56	34.21	27.99	—	—	—	—
Canara Robeco Flexi Cap Fund	Sep-03	13.36	32.61	27.27	22.07	20.37	13.85	16.84	14.33
Canara Robeco Emerging Equities	Mar-05	14.20	36.99	30.57	22.83	20.64	16.79	24.44	16.71
HDFC Flexi Cap Fund	Jan-95	9.94	36.17	20.36	15.67	15.36	11.03	16.10	13.51
HDFC Top 100 Fund	Oct-96	8.99	28.54	16.65	13.59	14.12	10.20	14.81	12.91
HSBC Large Cap Equity Fund	Dec-02	10.72	22.70	19.20	17.82	15.62	11.67	14.01	10.46
HSBC Focused Equity Fund	Jul-20	15.11	29.80	—	—	—	—	—	—
ICICI Prudential Bluechip Fund	May-08	12.68	29.17	21.04	17.17	16.19	12.47	16.19	—
IDFC Core Equity Fund - Regular Plan	Aug-05	9.76	34.08	23.02	16.21	15.37	12.79	15.43	10.45
Invesco India Contra Fund	Apr-07	10.04	29.57	25.27	18.47	18.55	14.62	19.20	—
Kotak Bluechip Fund - Regular Plan	Dec-98	10.01	27.74	21.89	19.27	16.49	12.58	15.42	12.01
Kotak Equity Opportunities Fund	Sep-04	8.80	30.42	23.21	19.77	16.93	13.82	17.53	13.67
Kotak Flexicap Fund Regular Plan	Sep-09	7.95	25.37	18.36	16.30	15.92	13.04	18.08	—
Mirae Asset Emerging Bluechip Fund	Jul-10	11.93	39.13	30.45	24.98	22.43	19.69	26.21	—
Mirae Asset Focused Fund - Regular	May-19	15.52	39.56	30.03	—	—	—	—	—
Mirae Asset Large Cap Fund - Regular	Apr-08	10.62	27.74	20.48	17.84	17.63	14.23	18.86	—
Motilal Oswal Large and Midcap Fund	Oct-19	15.68	40.82	25.86	—	—	—	—	—
Nippon India Large Cap Fund	Aug-07	12.09	32.37	17.81	14.19	15.50	11.37	17.03	—
Nippon India Multi Cap Fund	Mar-05	16.66	48.91	22.02	15.02	15.95	10.14	17.06	13.52
Parag Parikh Flexi Cap Fund	May-13	19.53	45.51	38.68	30.09	23.17	18.02	—	—
SBI Focused Equity Fund	Oct-04	19.54	42.98	27.93	23.85	21.46	15.96	20.41	15.10
UTI Flexi Cap Fund - Regular Plan	May-92	15.69	33.98	32.70	25.31	21.51	15.27	18.88	15.07

Midcap & Smallcap

Axis Midcap Fund	Feb-11	15.05	39.93	32.74	25.18	23.57	15.94	22.94	—
HDFC Mid-Cap Opportunities Fund	Jun-07	10.52	39.91	30.47	19.49	16.49	14.16	21.18	—
Kotak Emerging Equity Fund Regular	Mar-07	11.73	47.31	33.94	25.00	19.77	16.71	22.73	—
L&T India Value Fund	Jan-10	14.12	40.33	26.78	18.91	16.03	14.42	20.86	—
Motilal Oswal Midcap 30 Fund	Feb-14	28.76	55.83	30.47	23.16	16.35	14.70	—	—
UTI Mid Cap Fund - Regular Plan	Apr-04	15.50	43.07	37.71	23.71	17.98	14.13	22.23	15.27

Sectoral / Thematic Fund & Tax Saving

ICICI Prudential Banking and Financial	Aug-08	1.27	23.46	7.99	10.11	14.02	11.67	19.87	—
Nippon India Banking & Financial	May-03	2.66	29.73	7.70	8.69	12.82	9.73	16.33	15.83
ICICI Prudential Pharma Healthcare	Jul-18	2.50	18.23	42.27	28.44	—	—	—	—
Nippon India Pharma Fund	Jun-04	2.72	23.93	43.55	27.98	18.50	13.95	19.76	19.99
SBI Healthcare Opportunities Fund	Jul-99	2.42	20.15	41.09	25.60	12.75	10.34	18.34	13.37
Kotak Pioneer Fund - Regular Plan	Oct-19	10.93	36.11	34.54	—	—	—	—	—
Axis Long Term Equity Fund	Dec-09	11.03	24.54	22.48	19.88	19.43	14.47	20.87	—
IDFC Tax Advantage (ELSS) Fund	Dec-08	13.54	49.20	33.03	21.74	20.17	15.19	19.60	—
Kotak Tax Saver Regular Plan	Nov-05	10.22	33.24	23.72	19.92	17.28	13.45	17.07	11.36
Mirae Asset Tax Saver Fund - Regular	Dec-15	11.36	35.29	28.19	23.30	22.05	—	—	—

ARBITRAGE FUNDS

Funds	Launch	3 Mth*	6 Mth*	1 Year*	2 year**	3 Year**	5 Year**
ICICI Prudential Equity Arbitrage Fund	Dec-06	0.90	1.72	3.85	4.07	4.69	5.15
IDFC Arbitrage Fund - Regular Plan	Dec-06	0.81	1.57	3.55	3.68	4.49	5.05
Kotak Equity Arbitrage Fund Regular	Sep-05	0.92	1.74	3.96	4.14	4.78	5.29

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	8.27	24.17	17.73	13.24	11.67	10.04	14.38	12.83
Canara Robeco Equity Hybrid	Feb-93	8.95	22.76	21.18	17.93	15.76	12.53	15.90	13.39
DSP Equity & Bond Fund	May-99	8.43	24.22	20.54	18.38	14.97	12.48	15.30	12.90
ICICI Prudential Equity & Debt	Nov-99	16.00	41.70	24.22	19.05	15.60	13.29	17.49	12.97
Kotak Equity Hybrid Fund	Nov-99	8.93	28.87	21.91	19.27	14.41	12.04	14.20	11.17
SBI Equity Hybrid Fund	Dec-95	9.80	23.60	18.10	16.54	15.09	12.27	17.12	12.35
ABSL Bal. Advantage Fund	Apr-00	4.61	13.41	14.36	12.24	10.41	—	—	—
ICICI Prudential Bal. Advantage	Dec-06	5.92	15.14	13.39	12.52	11.67	—	—	—
IDFC Bal. Advantage Fund	Oct-14	7.68	15.53	14.20	12.32	10.96	—	—	—
Kotak Bal. Advantage Fund	Aug-18	5.02	12.96	13.28	12.90	—	—	—	—
Nippon India Bal. Advantage	Nov-04	4.93	15.71	13.39	11.66	11.85	—	—	—
IDFC Equity Savings Fund	Jun-08	4.32	10.15	9.98	8.34	6.54	—	—	—
Kotak Equity Savings Fund	Oct-14	5.60	11.09	10.72	9.73	9.43	—	—	—

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	0.18	0.63	2.20	3.84	7.38	7.75	7.06
Axis Corporate Debt Fund - Regular	Jul-17	0.20	0.64	2.07	3.68	7.53	7.04	—
HDFC Corporate Bond Fund	Jun-10	0.10	0.64	2.48	3.90	7.77	8.62	7.76
Kotak Corporate Bond Fund - Standard	Sep-07	0.14	0.59	2.27	3.76	6.66	7.64	7.45
Kotak Banking and PSU Debt Fund	Dec-98	0.27	0.69	2.53	3.91	7.15	8.37	7.59
SBI Banking and PSU Fund	Oct-09	0.03	0.48	1.81	2.58	6.45	7.51	7.25
ICICI Prudential Savings Fund	Sep-02	0.03	0.43	1.97	3.77	6.14	7.01	7.08
Kotak Savings Fund Regular Plan	Aug-04	0.28	0.78	1.64	3.21	4.51	5.61	6.17

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

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

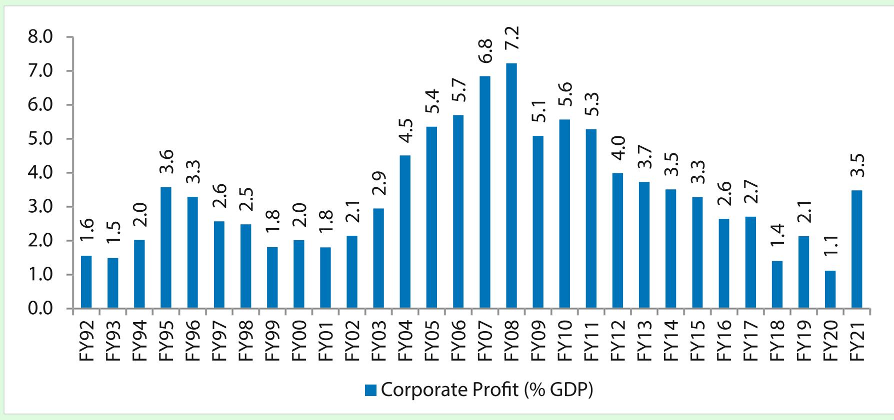
Scheme name	Date	Dividend declared in ₹ Per unit
ICICI Prudential Equity & Debt Fund	02/12/2021	0.16
PGIM India Hybrid Equity Fund	17/12/2021	0.13
Sundaram Diversified Equity	17/12/2021	0.40
ICICI Prudential Long Term Equity Fund (Tax Saving)	22/12/2021	0.70
ICICI Prudential Infrastructure Fund	23/12/2021	1.50
ICICI Prudential Multicap Fund	23/12/2021	2.50
L&T Large and Midcap Fund	23/12/2021	0.17
L&T Hybrid Equity Fund	23/12/2021	0.14
L&T India Large Cap Fund	24/12/2021	1.30
Aditya Birla Sun Life Dividend Yield Fund	27/12/2021	0.26
Aditya Birla Sun Life Equity Hybrid 95 Fund	27/12/2021	2.12
Aditya Birla Sun Life Special Opportunities Fund	27/12/2021	0.82
DSP Equity & Bond Fund	28/12/2021	0.20
Edelweiss Aggressive Hybrid Fund	28/12/2021	0.15
Edelweiss Long Term Equity Fund (Tax Savings)	28/12/2021	0.30
LIC MF Equity Hybrid Fund - Plan A	28/12/2021	0.10
LIC MF Tax Plan	28/12/2021	0.25
LIC MF Large & Mid Cap Fund	28/12/2021	0.25
Edelweiss Flexi Cap Fund	28/12/2021	0.75
Axis Equity Hybrid Fund	28/12/2021	0.10
Axis Equity Hybrid Fund	28/12/2021	0.30
Baroda Hybrid Equity Fund - Plan A	28/12/2021	0.35
PGIM India Large Cap Fund	31/12/2021	0.36
Canara Robeco Equity Hybrid Fund	31/12/2021	0.78

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 key takeaway from 2021 for equity investors was that corporate profits to GDP in India after secularly declining between 2008 and 2020 finally turned the corner, as evinced in the 20% earnings growth in FY21 for Nifty versus a 3% contraction in nominal GDP. This allowed markets to look past the various hiccups that came along. 2021 was full of uncertainties, be it around the second wave of Covid in the first half of the year and a third wave now, or surging inflation in several parts of the world and the consequent monetary policy normalization, or growth fears led by continued supply chain bottlenecks and exacerbated by a Chinese slowdown. Yet Indian equities continued to surge higher, barring a few punctuations, to deliver mid-20s returns through the year. On a relative basis too, India was a significant outperformer with the emerging market benchmarks down for the year. Mid and small caps returned even better with the Nifty Midcap 150 and the Nifty Smallcap 250 indices rising 47% and 62% respectively suggesting strong overall market breadth.

Has India's corporate profit cycle turned the corner?



FY92-FY20 data is based on a sample of ~30,000 and FY21 data is for 10,025 listed unlisted companies in CMIE (includes both financial and non financial companies)

The last few weeks have been marked by increased turbulence. FPI outflows have been a drag, as they cash in on India's strong outperformance and record valuation premium to EM benchmarks. Continued strong primary market activity has weighed on secondary market liquidity too. Fundamentally, news bits around farm laws repeal, the US Fed moving to normalize policy in the wake of sticky inflation and eventually the Omicron surge acted as triggers for correction. In the middle of the year, equity market sentiment, as measured by our in-house sentiment measure, had become extremely stretched pointing to unsustainable euphoria. This correction should provide the much needed cool-off to market sentiment and should be seen as a healthy and necessary pause.

Way forward

Looking ahead, Omicron stays the key monitorable near term. While a third wave has become a certainty now, the degree of impact is still unknown. Activity levels have only been mildly affected so far owing to very limited restrictions. That could however change given the rapidly rising case count. Early trends suggest that while the wave is much sharper, the severity could be lower turning Covid into a far less lethal disease than in the past. While this may still mean short term pain, it could make the medium-term outlook brighter not just on growth but also on inflation as Covid ceases to be the threat it has been thus far. Covid has acted as a circuit breaker of sorts and has interrupted the otherwise free flow of goods and services and people across the globe. This has meant that developing economies have not reaped commensurate benefits of the massive fiscal and monetary stimulus that the developed world has unleashed through the crisis. As a second order impact, this has also impacted flows into these economies. This could change however if Covid ceases to be a threat. On the other hand, easing supply side bottlenecks could also help inflation peak earlier than anticipated.

Inflation however may still settle at a level much higher than what we have witnessed over the past decade as the aggressive policy support helps keep deflationary forces at bay. This may not be a bad outcome and even be desirable given the elevated government debt burdens globally. Higher nominal GDP growth either through higher inflation or higher real GDP growth or both should make debt to GDP ratio sustainable. This should allow developed world governments space for continued fiscal support to create jobs and boost demand till the point that private sector eventually gets interested to incur capital expenditure and the virtuous cycle kicks in.

In this context, we believe that the US Fed, as also most developed world central banks, even as they look to raise rates in 2022, should continue to stay behind the curve. We therefore do not believe that the central bank action should throw a spanner in the works as far as economic growth is concerned. Further if credit growth does pick up on the back of improved consumer and corporate sentiment, money supply growth could increase even with central banks gradually normalizing policy. The period from 2003-2010 was a period where policy normalization stayed behind the curve and investment activity stayed strong leading to robust economic and earnings growth. In addition, China struggling with its own slowdown, may ease policy too in 2022 ahead of communist party's 20th National Party Congress.

Record government debt to GDP = slower policy normalization?

Source: Bloomberg, IMF; annual data till 2020

The still conducive policy backdrop globally should help Indian growth at a time when local macro is already looking up. Emerging as an alternative to China in several industries, and aided by our own policies such as production linked incentives (PLIs), lower taxes, thrust of government spends towards capex, labour code, focus on infrastructure creation like roads, power reforms, and continued low cost of capital to name a few, suggest that Indian economy faces multiple tailwinds ahead. Real estate sector after sluggish trends of the past many years is looking to turn the corner too. Corporate earnings have started to improve which should help expand return on equities.

Cont. on page 6...

Market Outlook...

...Cont. from page 5

Rising ROEs at a time when cheap capital stays abundant both from equity markets as well as with government and corporate bond yields staying low should incentivize private sector capex once capacity utilizations inch higher. For the latter to happen, however, demand must perk up. While on one hand, higher income groups have continued to fare well amidst the pandemic, the unorganized sector and consequently the lower income groups have been hit the hardest. Government finances are in good shape and directed support may be vital to help revive consumption.

Overall, we are likely at the cusp of a revival in the economic cycle. Corporate profits to GDP after secularly declining between 2008 and 2020 have finally turned the corner. A combination of normalizing profit to GDP and normalizing economic growth could imply strong earnings growth for the next few years after sub-par earnings growth of the past decade and more. Valuations look stretched on price to earnings multiples. Further, with normalization on monetary policy front, valuations may see some derating. However, in the context of a likely high growth period ahead for earnings and still modest bond yields, equities may still have upsides left. Yet in our view the real opportunity is beyond headline indexes and in market internals. While last decade has been about deflationary assets doing well amidst the backdrop of low economic growth globally, low inflation and near zero interest rates in many parts of the world, the next few years could look very different with growth, inflation and rates looking up. Pro-economy and pro-inflation assets should be favorably placed in such an environment.

The key risk to watch out for in 2022, in our view, is continued supply chain bottlenecks either due to Covid continuing to mutate into lethal variants or due to geopolitical reasons. Such bottlenecks can hamper both growth and cause inflation to stay elevated at the same time, leading to a global stagflation. A stagflation in turn can force policy makers to get ahead of the curve with respect to tightening in order to curb inflation. This can potentially threaten the still nascent recovery in emerging markets like India. This is not our base case especially with the virus already showing signs of weakening in severity but given its uncertain behaviour and potential mutations this is a risk worth keeping an eye on.

In our base case we look at 2022 with optimism as Covid induced circuit breakers begin to wane to provide comfort on growth as well as inflation and as policy normalizes at a pace slower than that of economic improvement. However, investors would do well to brace for heightened volatility. The unusually low volatility of the past few quarters has been underpinned by an ultra-accommodative policy backdrop. Even as our base case is for policy makers to stay behind the curve, a normalization from current levels is a near certainty and should lead to an increase in volatility. Liquidity normalization should also mean a challenging environment for speculative names as earnings growth becomes the dominant driver of returns. With a mix of tactical asset allocation and right bottom-up stock picking this promises to be an exciting year however!

Gaurav Mehta
Chief Strategist and CIO (AIF & PMS)
SBI Mutual Fund

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

A Note To Our Esteemed Readers

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