Annual Outlook - 2021

presented by **Bhavya Sharma**
B.Com, M.Com, CFP

Market Story of 2020

Anhoni Ko Honi Kar De Honi Ko Anhoni

Ek Jagah Per Jama Ho Tino

Amar, Akbar,Anthony..

Flows, Sentiments And Fundamentals Made Anhoni In 2020

we plan, you gain

Market surprises even the experts

In March / April 2020

Morgan Stanley cuts Sensex target to 32,000 for year-end; 20 stocks figure on focus list

MoneyControl • Mar 25, 2020 10:31 AM IST
By Moneycontrol News

BusinessLine

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Stocks

Goldman sees Nifty at 9,600 by June 2021; UBS 10,000 by March

Our Bureau | Chennai | Updated on April 16, 2020 | Published on April 16, 2020

In November 2020

Morgan Stanley overweight on India, sees Sensex at 50,000 by Dec 2021

3 min read . 16 Nov 2020

Nasrin Sultana

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Markets

Goldman Sachs sets Nifty 50's 2021 year-end target at 14,100

Our Bureau | Chennai | Updated on November 12, 2020 | Published on November 12, 2020

Equity Market: Outlook for next 1-3 years

- Global equity markets will continue to remain volatile in the short term due to the resurgence in COVID, 2nd wave.
- However, gridlock after US Election results should benefit equities and they have. Continuing fiscal and monetary policy support should also provide a supportive backdrop for stocks.
- Abundant liquidity, global as well as domestically provided by RBI, will support the Indian economy and can drive a bull market in Indian Equity markets in medium-to-long term.
- **Short-term (3 months):** Volatility is expected to continue due to global developments. With the recent sharp rally, market may have topped out in the short term.
- **Medium-term (1 year):** Nifty Trailing P/B, which is a better indicator than P/E in the current environment, is close to its LTA. Mid-and-smallcaps are at relatively attractive valuations. Outlook on most sectors is turning positive. Domestic cyclicals and financials can play out well, VALUE Theme looks to be appropriate.
- **Long-term (3 years):** In the current environment, it would be best to take a 3-year view as the economy and earnings would have normalized by then. Over a 3-year timeframe, we can expect a return CAGR of 10-12% for the Nifty.
- **Recommendation:** Investors should BUY Dynamic Asset Allocator Funds for one time lumsum, continue your SIPs. Lump-sum investments in Value Funds should be spread over the next 9-12 months.

Debt Market: Outlook for next 1-3 years

1. Capital gain strategy has played out meaningfully well and going forward returns expectations need to be rationalized. Going forward accrual strategy is expected to take the driving seat.
2. RBI may continue to maintain accommodative stance and may look through the high inflation phase, but may start to rationalize stance once the economy stabilizes. Going forward, we assign low probability for rate cuts due to change in growth and inflation dynamics.
3. In the coming quarters, we expect liquidity to moderate as the growth & economic activity picks-up. In the current phase, more nimble and active duration management strategy is recommended to benefit from high term premium.
4. Duration needs to be managed actively at this current juncture. We advocate having medium to higher duration (3 -5 years) bond portfolio which may provide better carry and lower duration (less than 1 year) bond portfolio to manage interest rate volatility.
5. We recommend Accrual strategy with an aim to benefit from higher carry in the medium to long duration space for investment horizon of 3+ years. Hence Medium duration and Dynamic Bond Funds would be a better place to park.

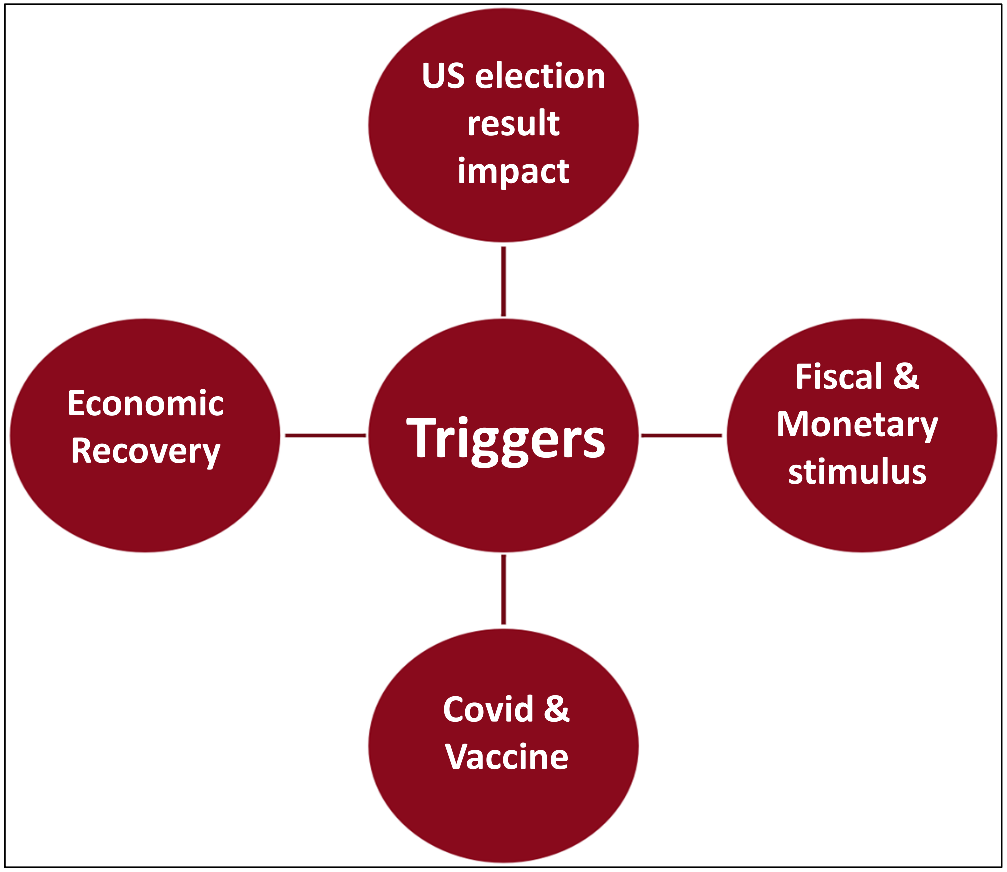
What to look for ?

- **Read - Understand and then Invest :-**
- Step 1 – Global Economical Condition post Covid-19 Pg No 7
- Step 2 – Indian Economical condition at present. Pg No 16
- Step 3 – Indian Market valuation at present (Debt n Equity) Pg No 45 n 53
- Step 4 – Most undervalued theme for next 3 years Pg No 69
- Step 5 – Roadmap for 2021 Pg No 107

Step : 1

Global Economical Update

4 Key triggers will decide global market direction going forward.



POSITIVE - Federal Reserve balance sheet has tripled in last 10 years and surpassed US $7 trillion mark.

POSITIVE - Post US elections and Vaccine news money flows to Emerging Markets have exploded in November 2020.

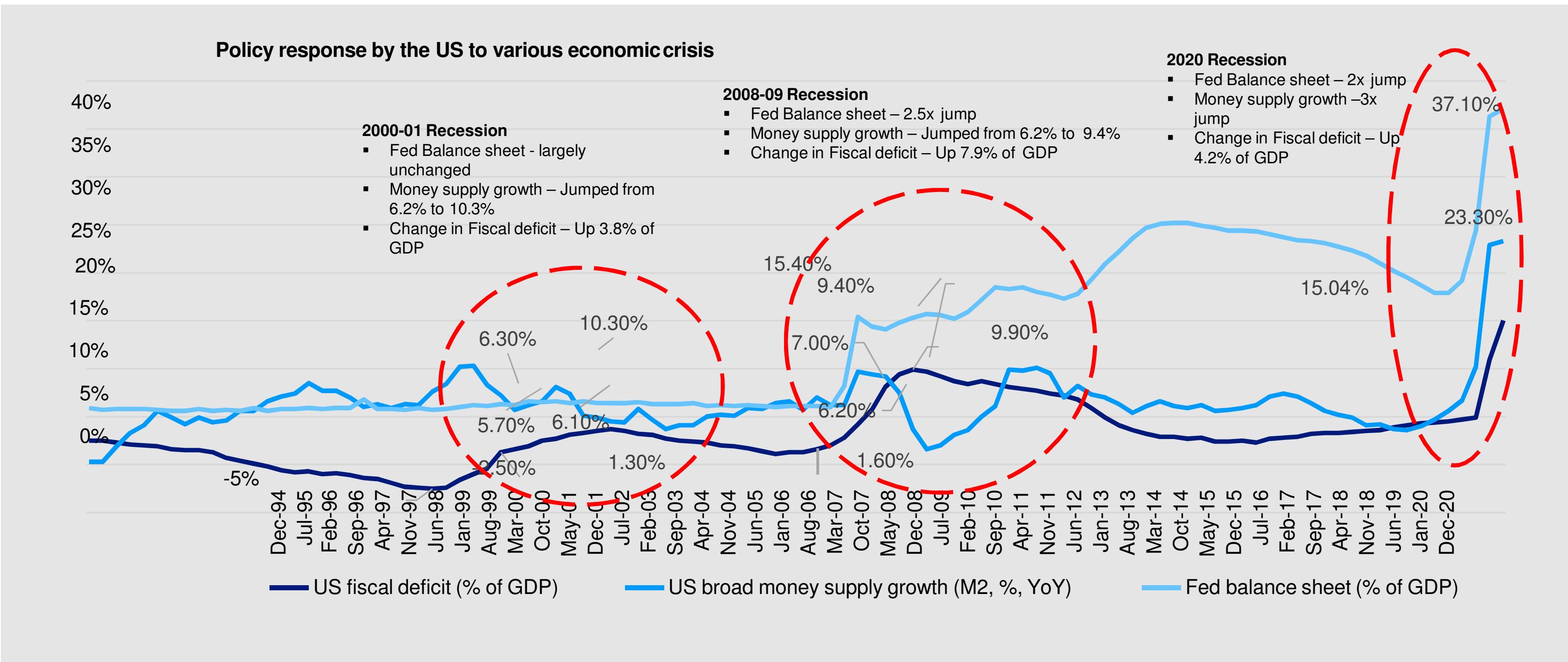
POSITIVE – High levels of Fiscal & Monetary stimulus globally is expected to continue.

POSITIVE - Corporate profits expected to rebound strongly in 2021 as per Morgan Stanley's regional EPS forecast.

NEGATIVE - Global valuations at elevated level. MSCI AC World is at 19.8 PE (12 month forward).

NEGATIVE – Second wave of Covid could derail the growth of global economy.

Fed's Balance sheet (as a % of GDP) still provides policymakers flexibility if the economy rollsover.



Source: Spark Capital

Note: The above chart explain prudent steps taken by US government through policy responses during the three economic crisis in last two decades. Similarly world over global policy makers are using combination of monetary and fiscal easing to combat the Covid-19 led economic recession

Record Debt now trades at negative yield

Bloomberg | Quint Markets Business BQ Blue Exclusive Videos Research Reports

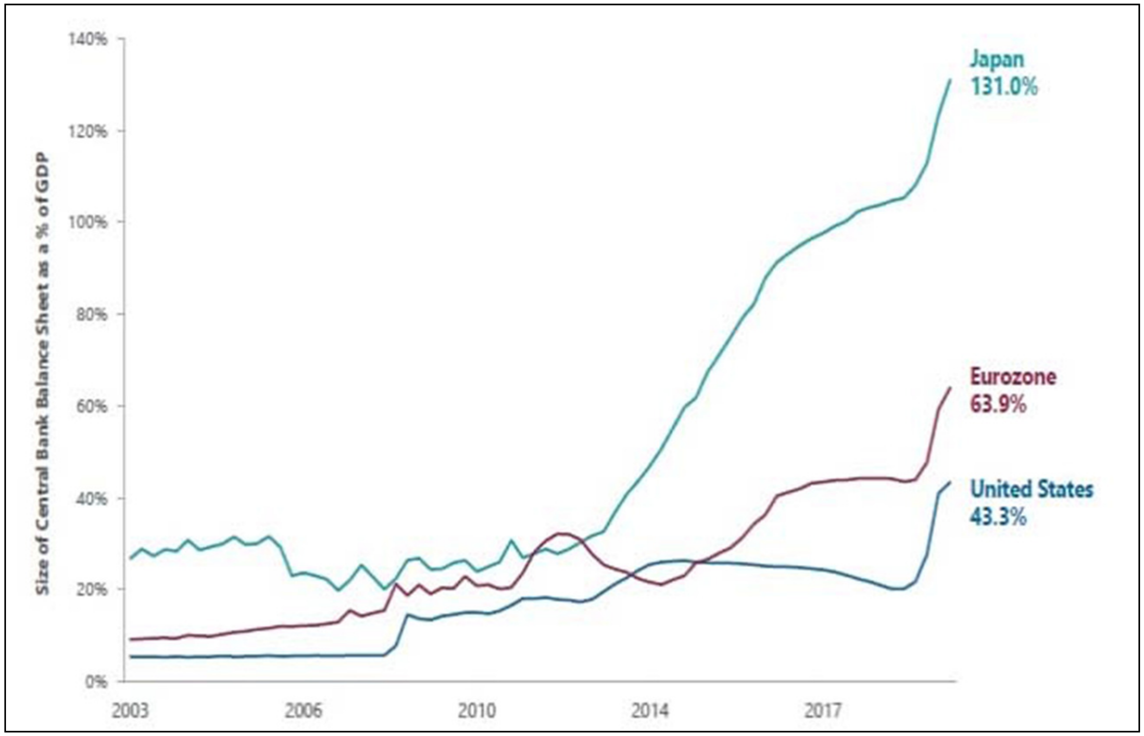
World's Negative-Yielding Debt Pile Hits $18 Trillion Record

Cormac Mullen John Ainger

Published on December 11 2020, 6:10 AM
Last Updated on December 11 2020, 4:21 PM

How long can this money remain in negative yield ?

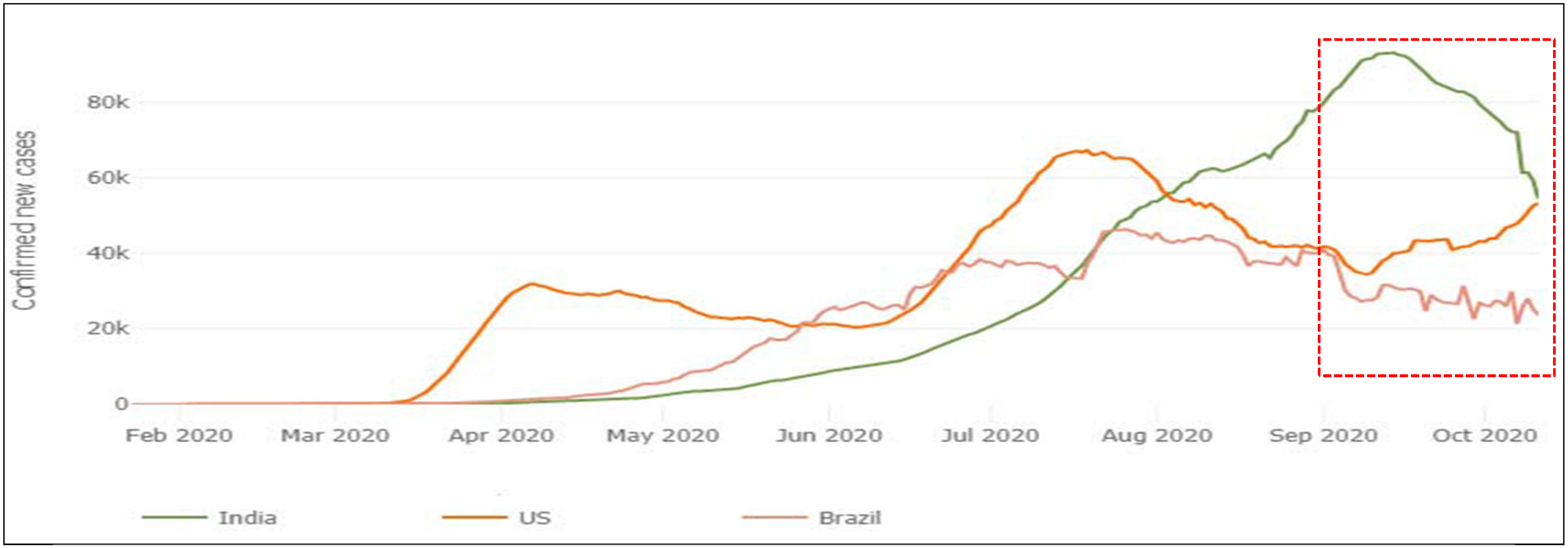
US has headroom for further quantitative easing



Source: Clearbridge

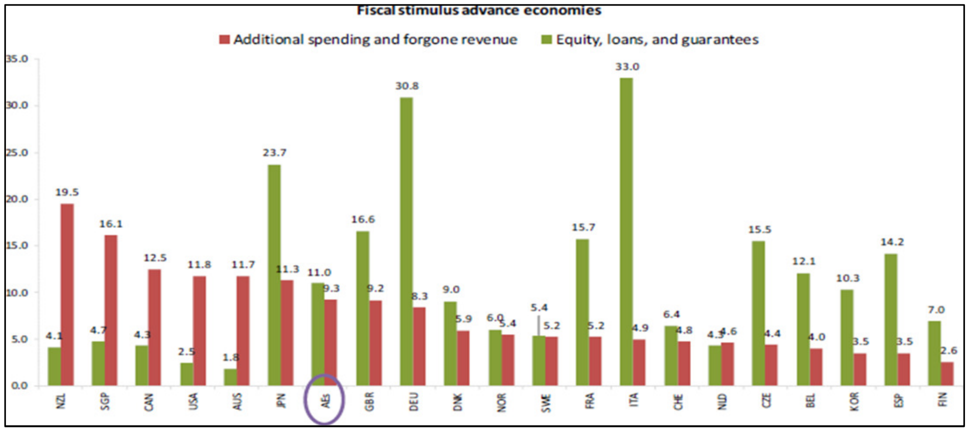
US Debt to GDP over a period may reduce by expanding nominal GDP while reducing the additions to debt in the numerator by gradually reducing the size of the annual budget deficit

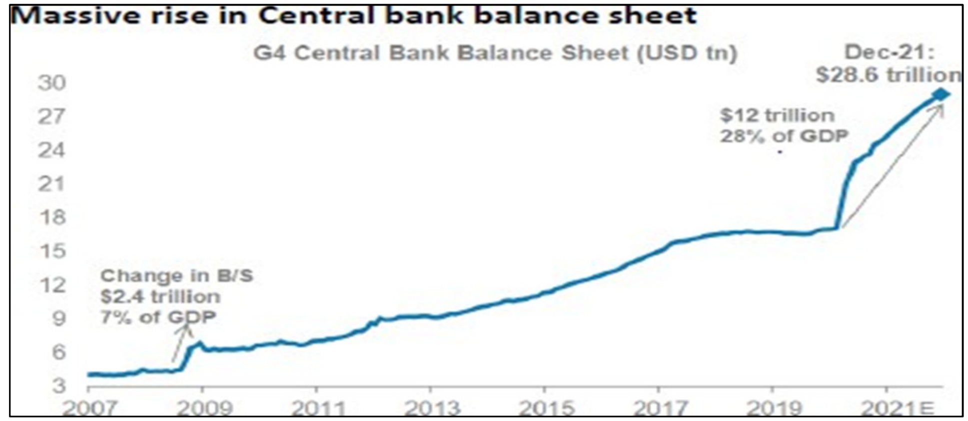
Worst affected countries showing signs of slowdown in new case reporting

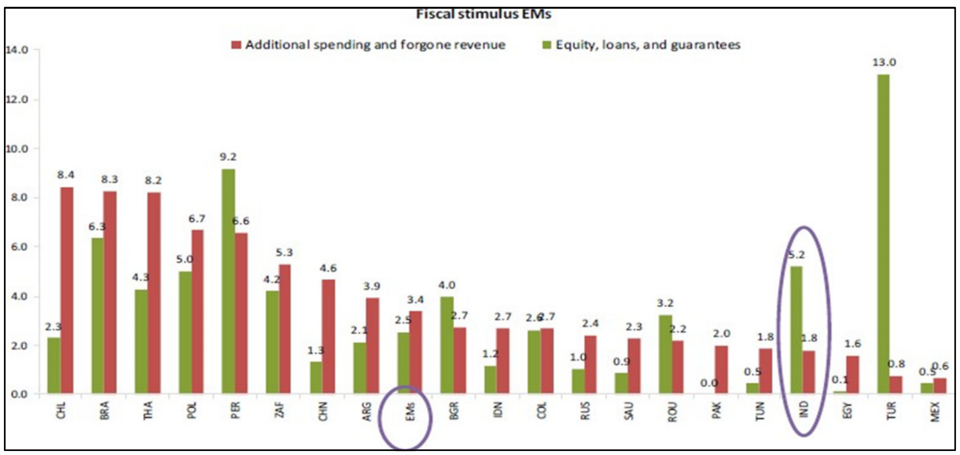


Sharp economic resurgence across the world is seen but sustainability amidst second wave is the key.

High level of Fiscal and Monetary stimulus Globally is expected to continue.

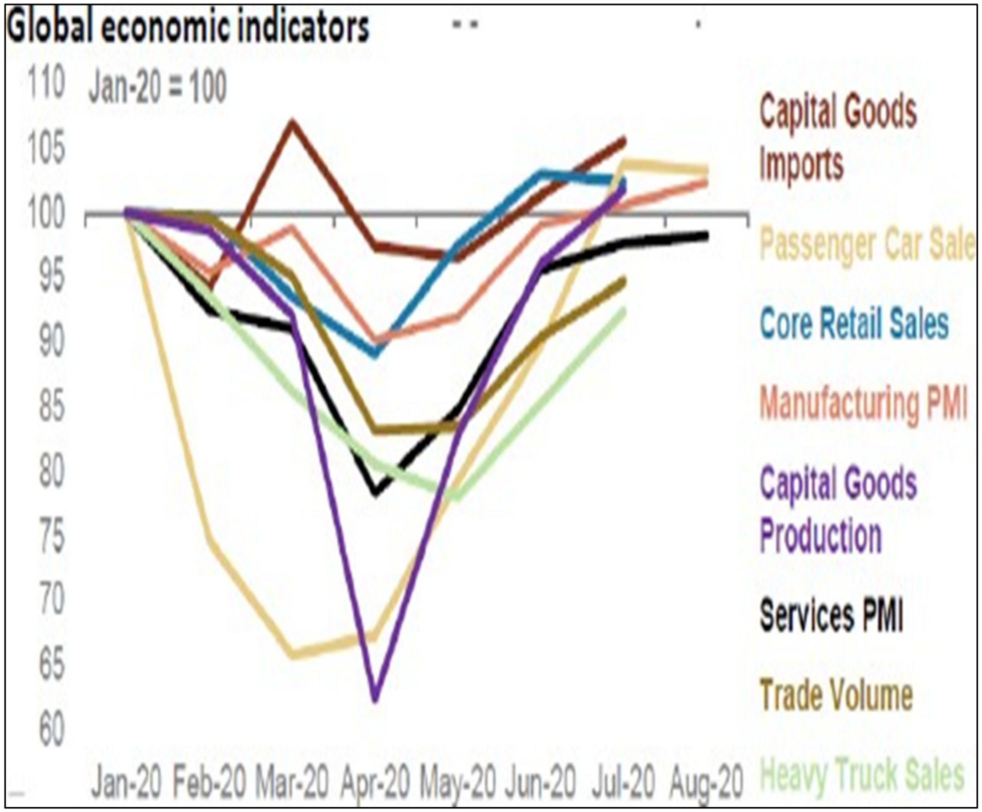






- US Fed will maintain accommodative monetary policy till 2024 and indicated that they stand ready to make changes to their asset purchase program to increase their pace of accommodation if needed.
- ECB also maintained its policy rate at -0.5% and hinted at additional QE by the end of the year.
- Bank of England has also increased its QE program

Global Economic Recovery: Global high frequency data shows V shaped recovery



- While we have consistently been positive on the global recovery, the pace of recovery has surprised most market participants as well as policy makers.
- After upgrades from OECD, *IMF in its recent report has revised upwards its forecasts for world economy and many major economies.*
- *Retail sales has recovered quite fast in many economies* aided by strong policy support. Within retail spending the impact of pandemic is visible across sectors with services being particularly badly hit.
- *Industrial production has recovered in most economies from pandemic lows*. World trade has seen big shock and is recovering but remains in negative zone.

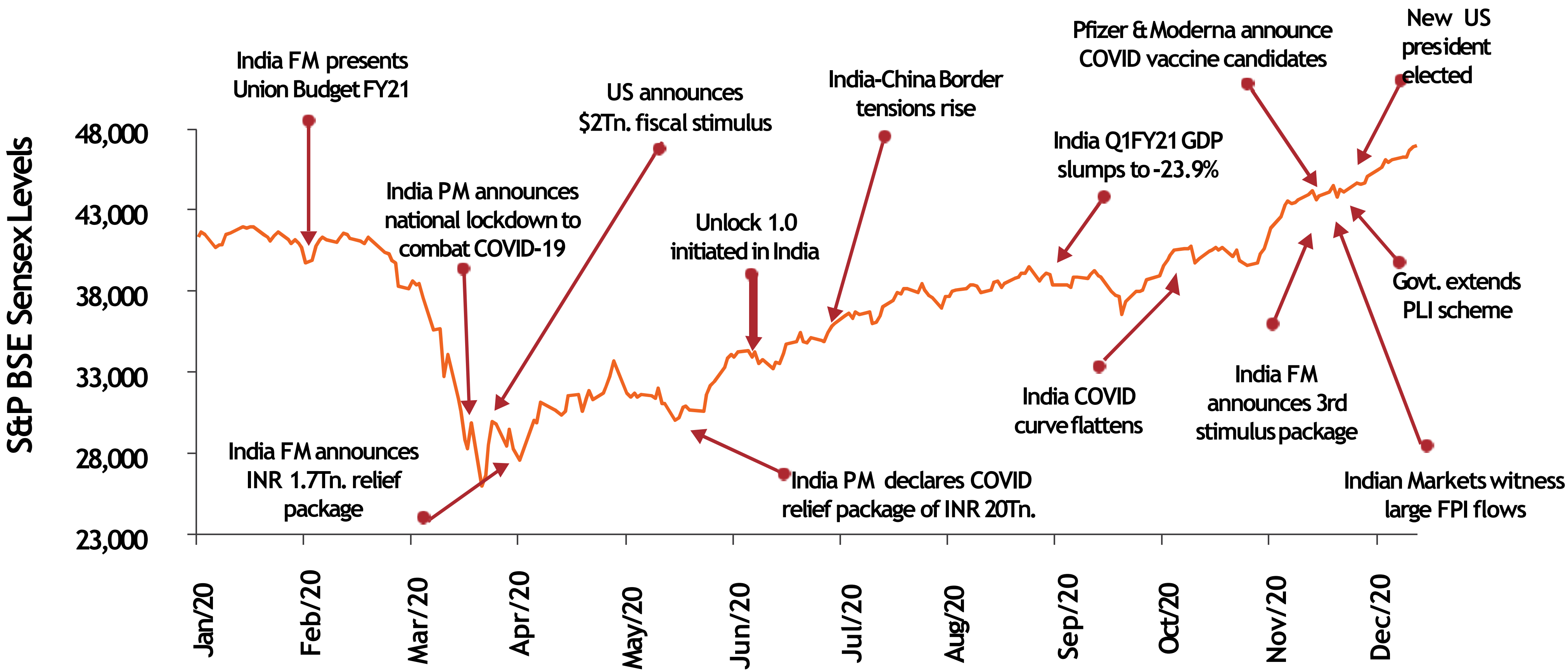
Global Investment: Overview

- **Reason to be Bullish:**
- US election results indicate gridlock with Democrat President and Republican Senate. PMI's rebounding and V-shaped recovery seen.
- Continuing accommodative stance by central banks with high liquidity. Large Fiscal stimulus by governments across the world.
- **Reason to be Bearish:**
- Resurgence of virus in few countries.
- High Valuations.
- **Reason to be Bearish on USD:**
- With a gridlock, US Fiscal stimulus is expected to be USD 2 trillion or less. This should lead to a fall in treasury yields and a depreciation of the USD.

Step : 2

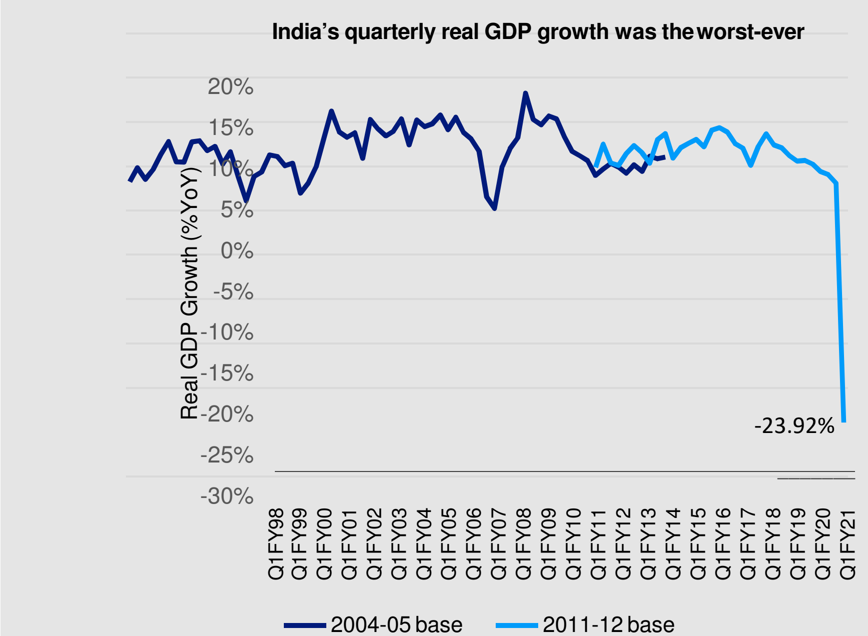
Indian Economy

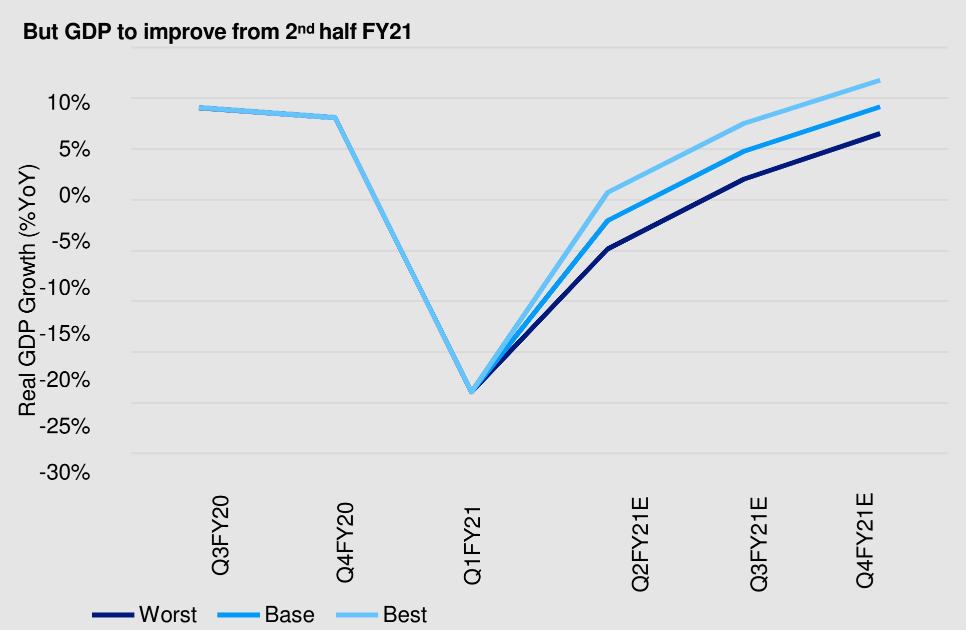
Graphical Look at 2020



Source: KPMG, www.indiabudget.gov.in, Ministry of Finance, NSO, www.pmindia.gov.in, CNN, NSE, BSE, NSDL Data as of Dec 18, 2020 COVID-19 Coronavirus Disease 2019, US – United States, GDP – Gross Domestic Product, FM-

As a fallout of Covid, a technical recession in India can not be ruled out but recovery in 2HFY21 is expected to pickup due to lower base effect. India's 1QFY21 GDP was -23.92% which was the worst ever.





Source: Motilal Oswal Financial Securities Ltd

Note: The estimates expressed herein are based on Motilal Oswal analysis of publicly available information and other sources believed to be reliable. Any such calculations made are approximations, meant as guidelines only. The recipient(s) before acting on any information herein should make his/their own investigation and seek appropriate professional advice

Vaccination has begun

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Covishield gets conditional approval from Expert panel, waiting for DCGI's final approval

Times Now | 01 Jan 2021, 05:44 PM IST

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Home > All India > Bharat Biotech's Vaccine Cleared By Panel, Regulator's Approval Awaited

Bharat Biotech's Vaccine Cleared By Panel, Regulator's Approval Awaited

Although the Drugs Controller General will take the final call, the recommendation of Covaxin comes despite lack of efficacy data and with Phase III trials only half over

All India | Reported by Sukirti Dwivedi, Edited by Chandrashekar Srinivasan (with inputs from PTI) | Updated: January 02, 2021 10:09 pm IST

India's early and extended lockdown helped stem the spread.

Trend of Recovery vs Death rate has improved significantly. Death rate is 1.73% and Recovery rate is 98.27% as on 12 October 2020.

The spread of COVID infection has slowed down in the last two month. Post 1st half of September 2020.

More than half of the cases of India are detected only in just 3 states/Union Territory and they are Maharashtra-Karnataka-Kerala and other states.

Trend of Recovery vs Death rate has improved significantly.

Economic activity is rebounding on the basis of Macro high frequency heat map

but sustainability of the same is key.

And 2nd quarter looks to be back on track on the basis of same numbers

and the trend looks better with trade activity rebounding well.

India’s early and extended lockdown helped stem the spread.

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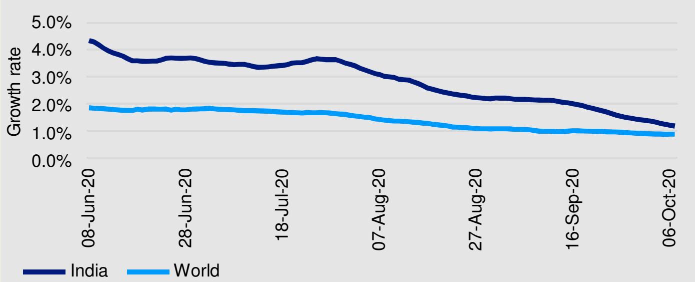
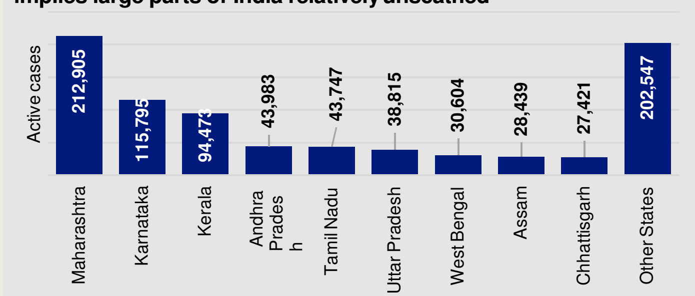
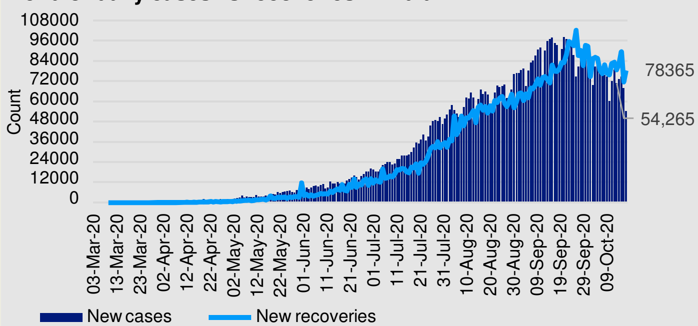
The spread of COVID infections has slowed down in the last one month



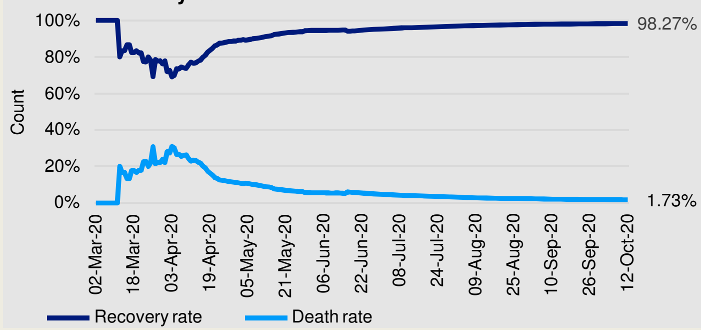
More than half of the cases detected in just 3 of the 35 states/UTs; implies large parts of India relatively unscathed



Trend of daily cases vs recoveries in India



Trend of recovery vs death rate in India



Source: Worldometers. UT: Union Territories. Data as at 12 October2020

Macro News and Indicators….

CPI – Consumer price index stood at 7.34% in Sep 20 and Core CPI stood at 5.67% in the same period.

Fiscal deficit as a % of GDP for 12 months trailing stands at 6.17% in August 20. The same level was touched in 2011.

CAD – Current account Deficit has turned positive for the first time in last 7 years. CAD stood at +3.94% in Sep 20 as a % of GDP.

Foreign exchange reserve stands at 545 $ bn in Sep 20.

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FY22 Budget will be made in a manner never seen in a 100 years in India: Nirmala Sitharaman

By Gaurav Noronha, ET Bureau • Last Updated: Dec 18, 2020, 10:36 PM IST

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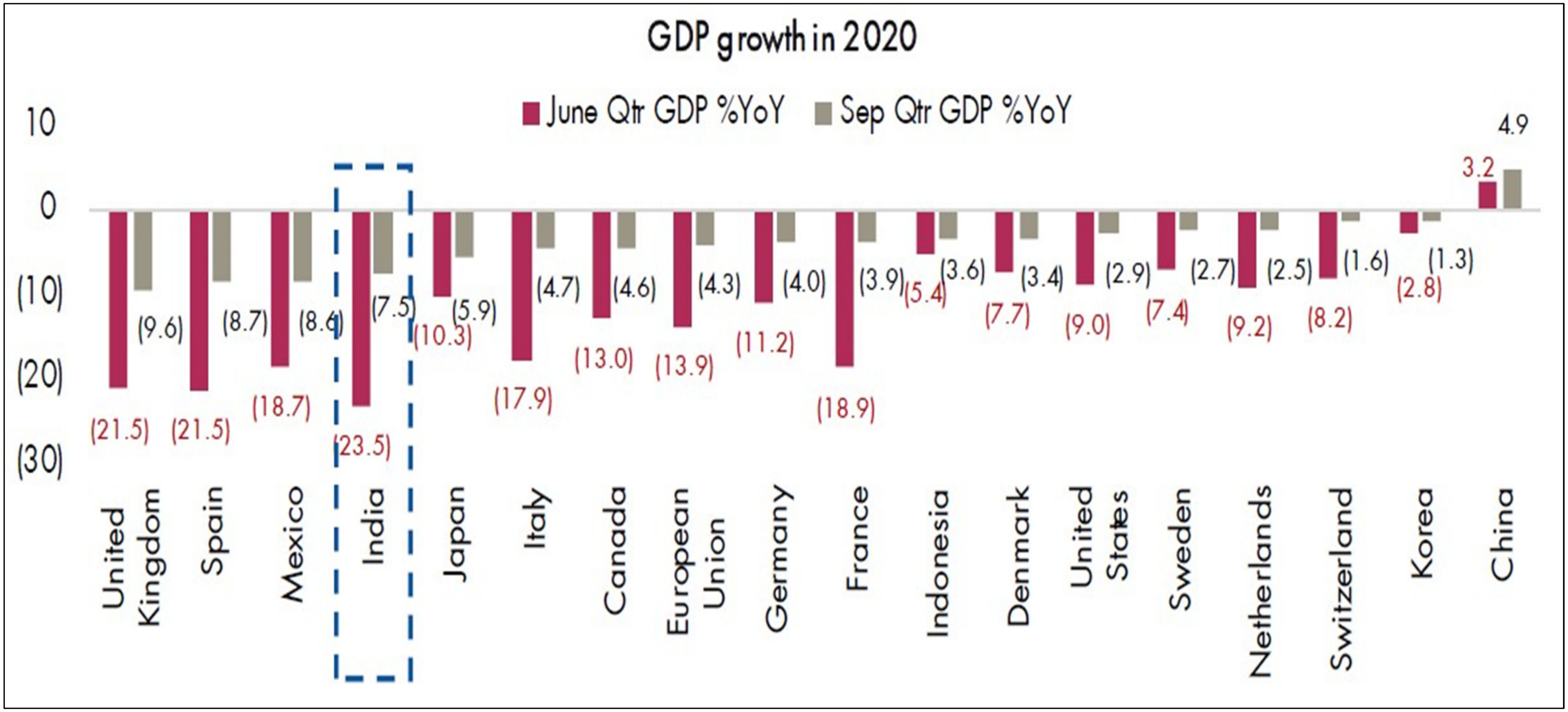
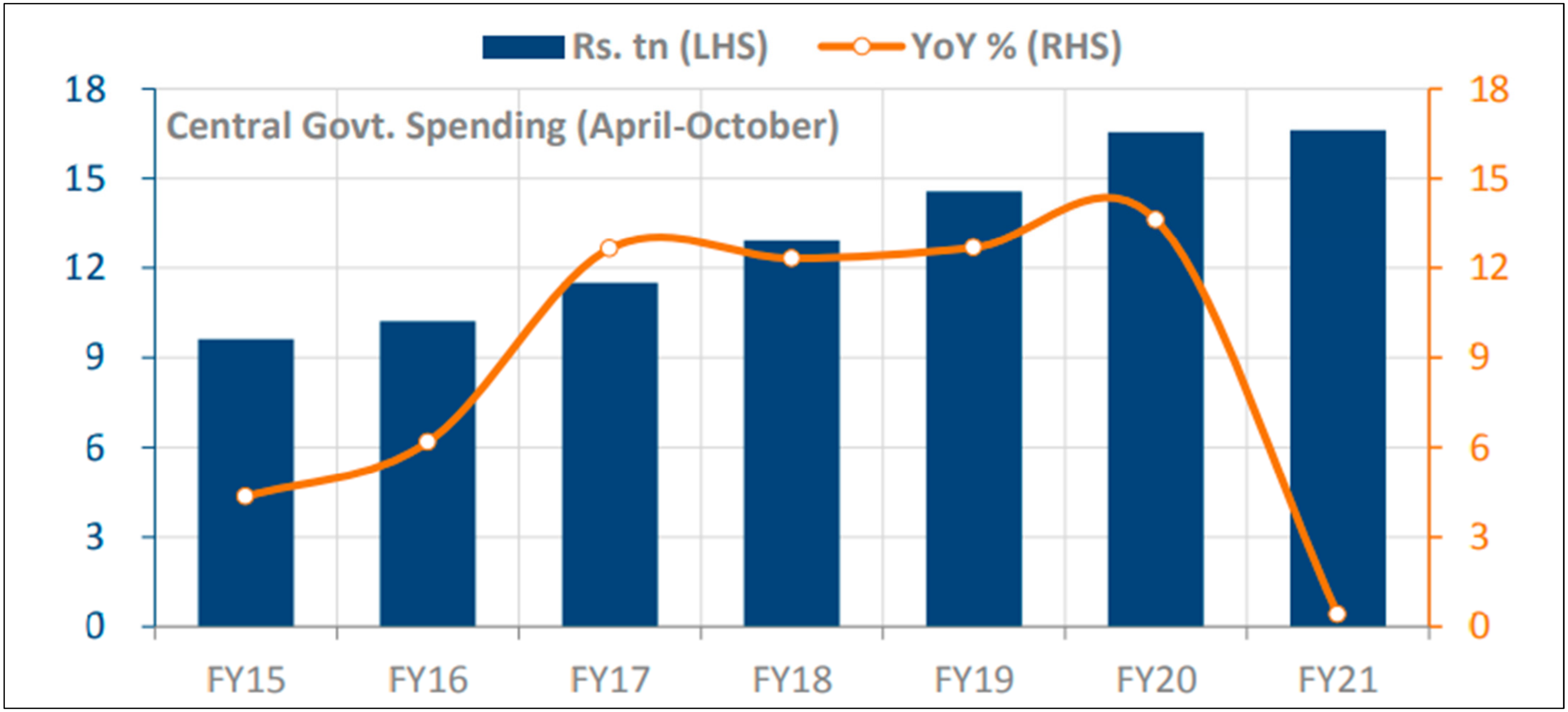
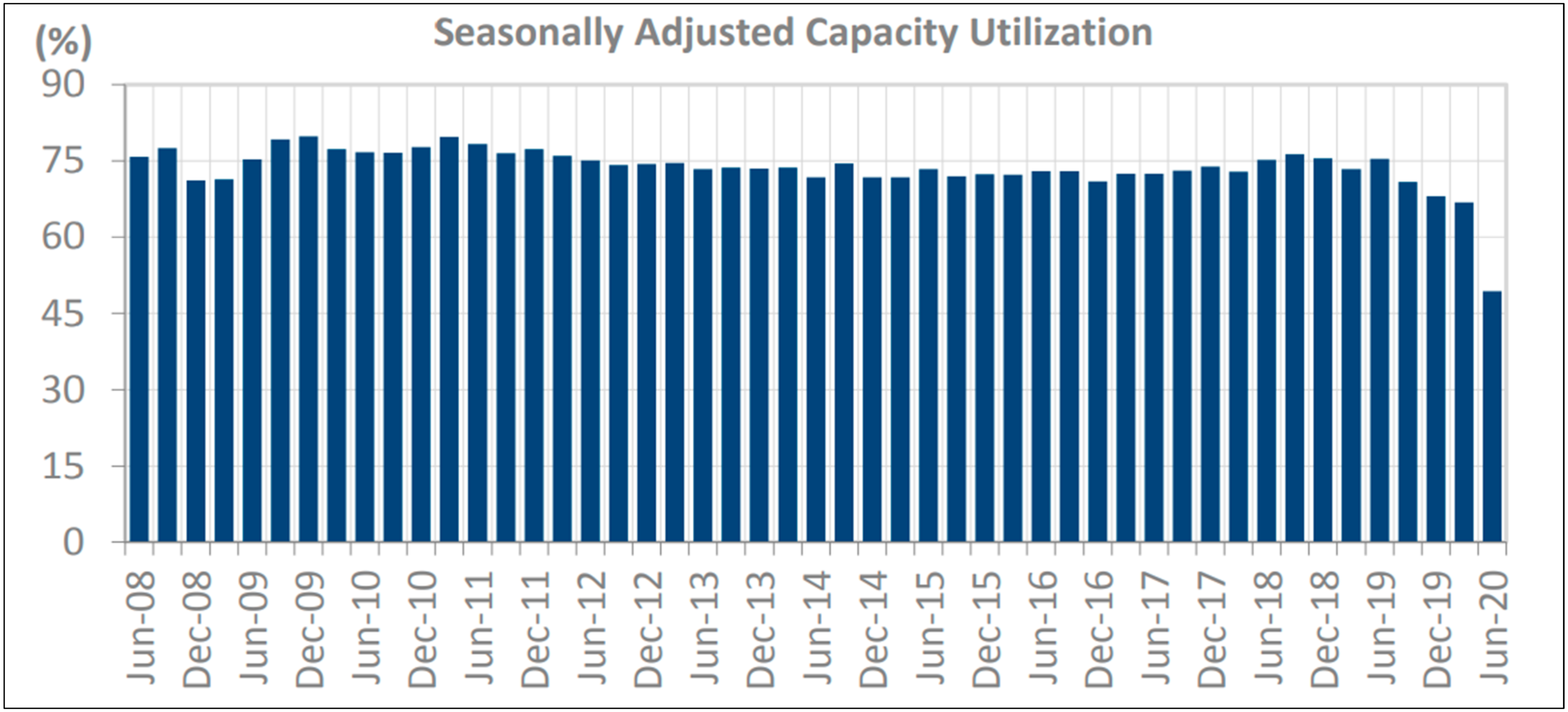
India's GDP saw fastest sequential growth among large economies in September quarter



Central government spending has been a drag on GDP growth in FY21

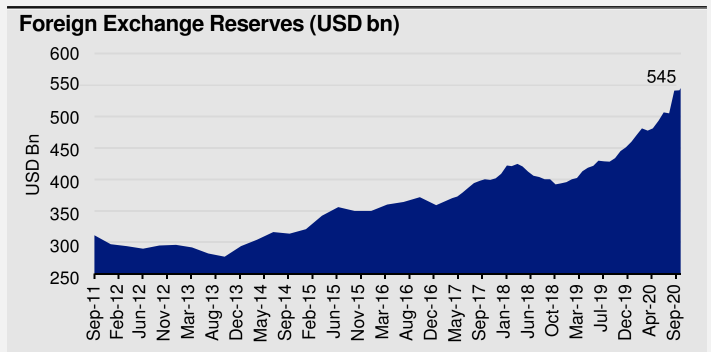


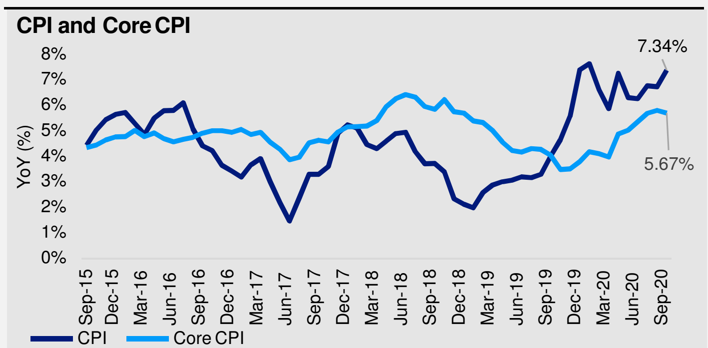
Capacity utilization level has dropped to lowest levels in more than a decade

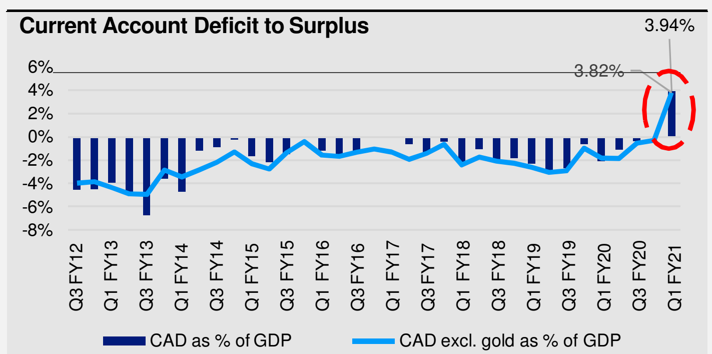


Source: IIFL Research

Macro Indicators healthy and elevated.







Source: Bloomberg, Elara Capital, CEIC. CAD: Current Account Deficit, CPI: Consumer Price Index. RBI: Reserve Bank Of India

- Thus overall macro indicators are still healthy with current account in surplus + forex reserve at all time high + core inflation being stable but fiscal remains elevated.
- Tax collection however continue to pressure fiscal which implies low scope for large scale stimuli.

Economic activity is rebounding on the basis of high frequency heat map but sustainability of the same is key.

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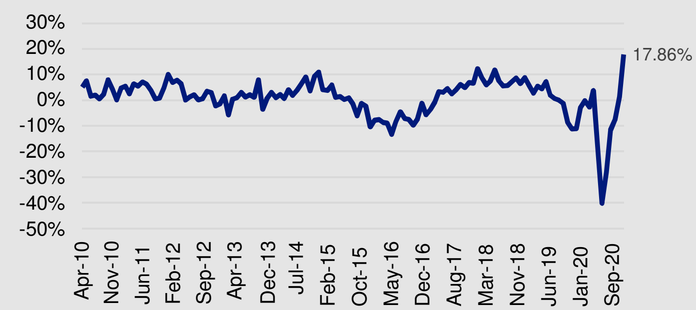
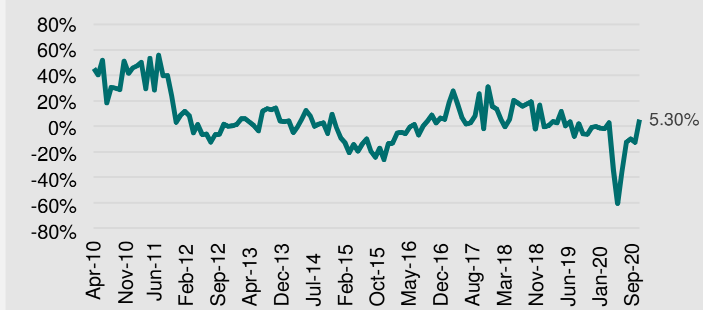
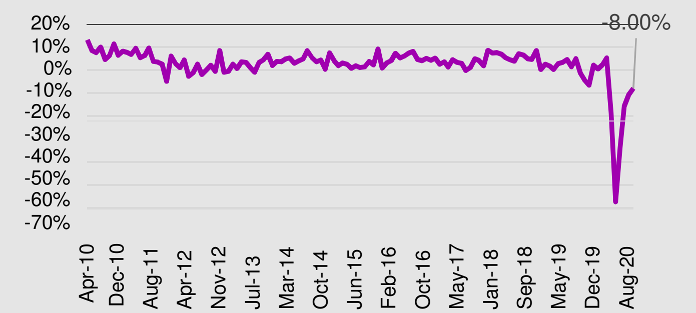
Railway Freight Growth (%)



Export Growth (%)



Index of Industrial Production



India Manufacturing Purchase Manager Index

Source: Kotak, Jefferies, Bloomberg

And 2nd quarter looks to be back on track on the basis of same numbers and the trend looks better with trade activity rebounding well.

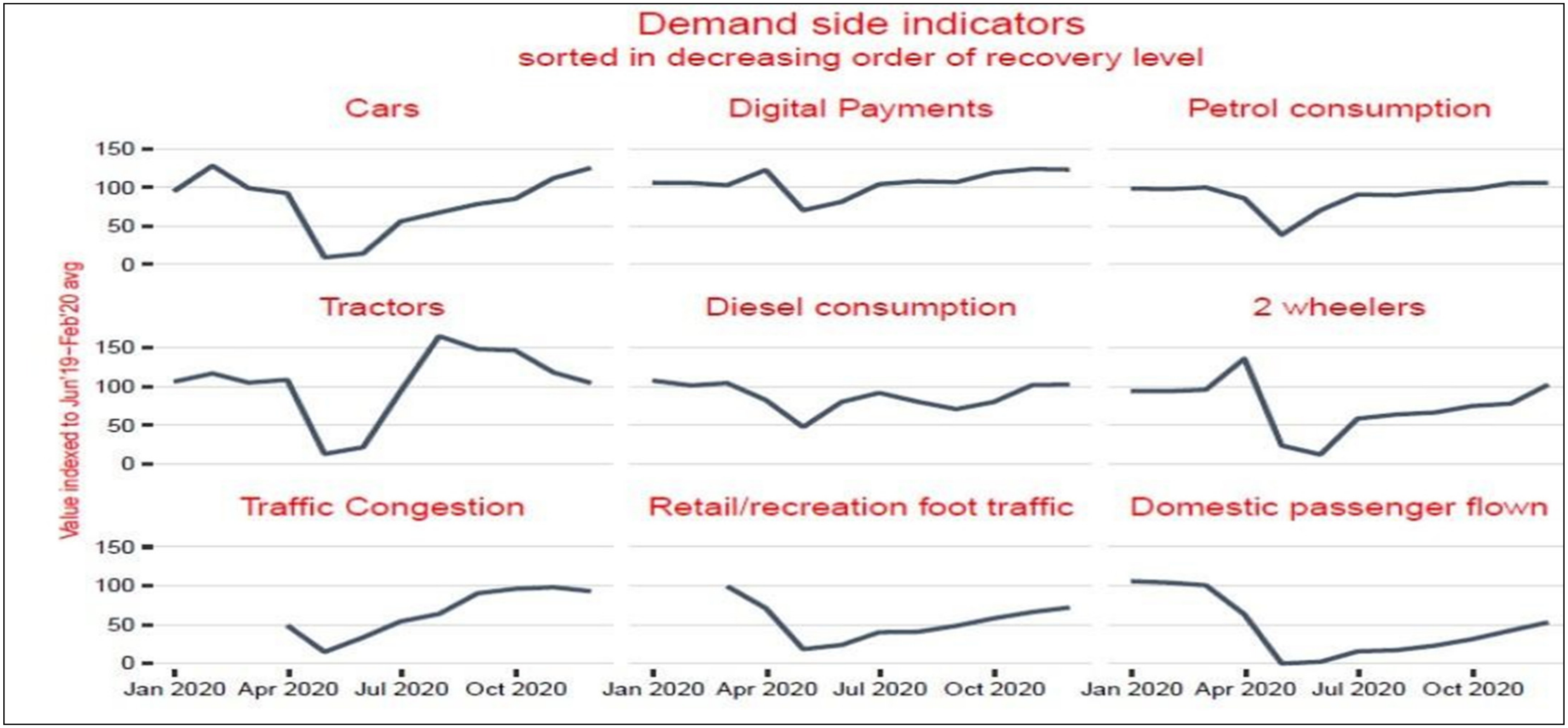
- ***India's Manufacturing PMI -*** showed an uptick in Sep 20 and pick up in E-way bill generation has continued as compared to last quarter which indicated likelihood of economic activity getting back on track to pre pandemic levels.
- ***Strong Exports –*** for the first time in last 7 months our exports grew by 5.30% in Sep 20. And top 5 export oriented sector's growth rate (YoY) is Iron ore (110%), Agri products (77%), Carpet (43%), Ceramic products (36%), Pharmaceuticals (24%).
- ***But demand side pick up*** is slow even as supply side is easing fast. Demand is returning for discretionary spending slowly.
- ***Total vehicle registrations*** in Sep 20 stood 6.5 times more compared to May 20 and 10% drop from year ago period.

Economy back in Green....

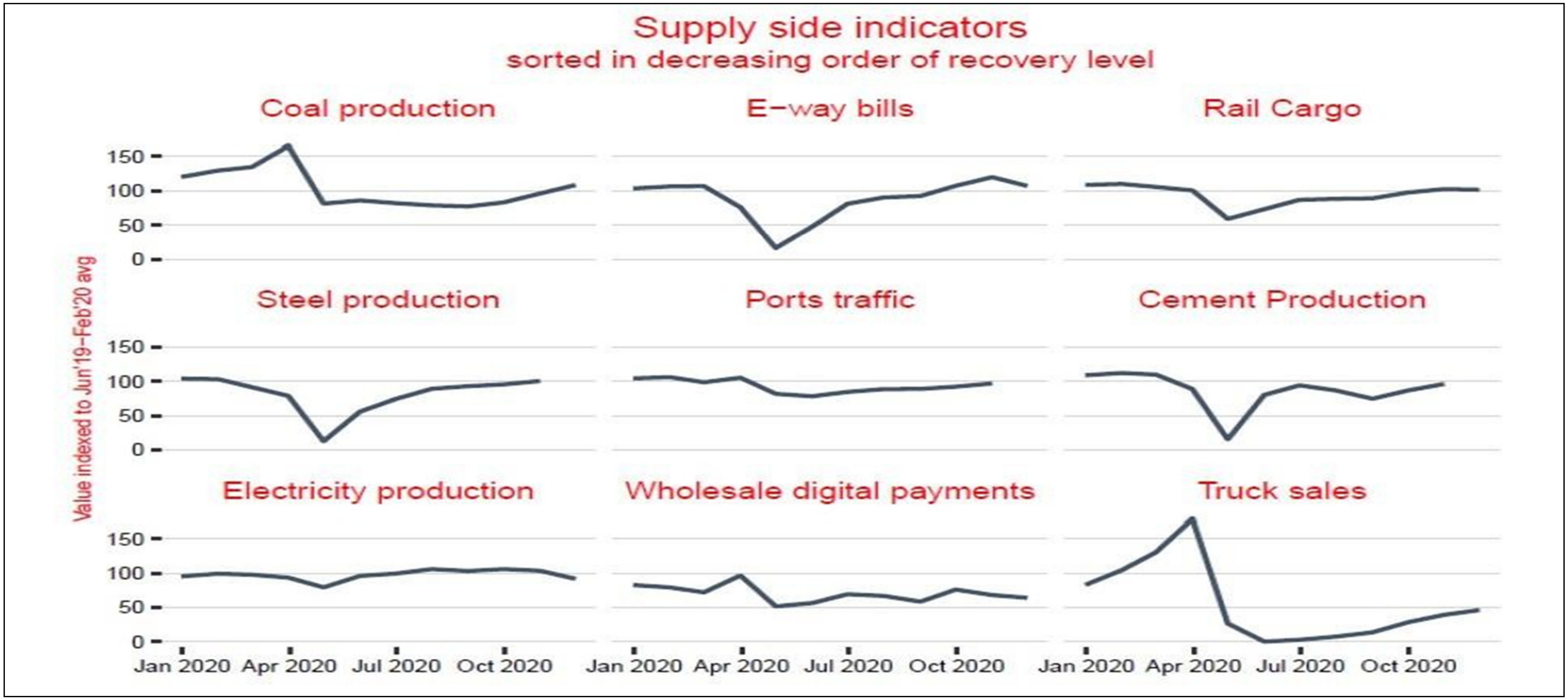
	30-Nov	15-Nov	30-Oct	15-Oct	30-Sep	15-Sep	30-Aug	15-Aug	30-Jul	15-Jul	30-Jun	15-Jun	30-May	15-May	30-Apr	15-Apr	30-Mar	15-Mar	29-Feb	15-Feb
TomTom New delhi traffic index - congestion	26%	29%	30%	28%	29%	32%	34%	28%	27%	24%	19%	19%	16%	12%	7%	5%	5%	26%	37%	43%
Google mobility - supermarket and pharmacy	4	40	9	4	-28	1	-1	-4	-6	-9	0	3	-12	-22	-43	-51	-63	-1	-1	2
Google mobility - retail and recreation	-31	-15	-29	-35	-61	-26	-37	-47	-56	-59	-55	-56	-69	-76	-84	-78	-76	-11	-2	1
Google mobility - public transport	-14	-8	-18	-24	-45	-36	-37	-35	-39	-41	-38	-37	-44	-52	-64	-66	-74	-7	0	3
Google mobility - work places	-6	-29	-29	-27	-21	-36	-35	-29	-33	-34	-35	-33	-29	-48	-61	-64	-68	2	8	5
CMIE unemployment urban rate -30 day ma (%)	7.1	6.88	7.12	7.88	8.46	9.04	9.85	9.62	9.76	10.85	12.07	17.94	26.05	26	25.14	20.09	8.82	8.36	8.63	9.52
CMIE unemployment rural rate - 30 day ma (%)	6.37	6.07	6.7	6.37	5.86	6.67	7.46	7.24	6.60	7.32	10.17	16.31	22.53	23.36	23.08	18.06	7.83	6.57	7.58	6.63
Bank credit growth (%YoY)	5.7	5.1	5.7	5.1	5.3	5.5	5.5	5.5	5.8	6.1	6.2	6.2	6.3	6.5	6.7	7.2	6.1	6.1	6.1	6.4
Electricity generation (mega units)	46327	49335	54359	53066	54118	55526	52792	51276	56982	51651	51977	44509	n.a.	n.a.	n.a.	n.a.	n.a.	49184	49246	48411
E-way bills generated (mn)	26.45	28.94	29.54	20.53	26.92	23.37	35.11	12.31	31.12	17.25	24.67	18.75	14.66	10.83	4.40	2.35	-	-	-	-
Active covid cases as on date	446952	479216	582649	812390	940441	990061	781975	668220	545318	319840	215125	153106	89995	51401	24162	10197	1117	95	-	-
Incremental covid deaths	7504	7994	10375	13769	16721	16307	15433	13289	11438	7416	7373	4549	2322	1574	683	360	30	2	-	-
FPI - equity (US$bn)	5.17	4.34	1.50	1.19	-1.28	0.5	2.51	3.59	1.54	-0.38	-0.11	2.58	0.12	1.60	-0.37	-0.17	-4.07	-3.82	-1.50	1.92
FPI - debt (US$bn)	-0.5	0.1	0.3	0.1	0.1	0.3	-0.52	-0.05	-0.36	0.11	0.08	-0.30	-0.65	-2.06	-0.81	-1.14	-5.34	-2.48	-1.97	1.97
DII flow (US$bn)	-3.78	-3.24	-1.41	-0.94	0.6	-0.58	-0.60	-0.87	-0.84	-0.49	0.44	-0.12	1.36	0.14	0.45	-0.08	3.24	3.76	2.15	0.21
India VIX (average)	20.33	21.57	21.83	20.26	20.68	21.48	20.02	22.53	24.53	25.89	30.33	30.15	33.84	39.81	39.98	54.34	70.19	30.87	16.64	14.31

Source: Nirmal Bang Institutional Equities Research, Google-mobility report, CMIE, Reserve Bank of India, Government of India.
Red- Negative, Amber-Watch, Blue-Neutral, Green-Positive

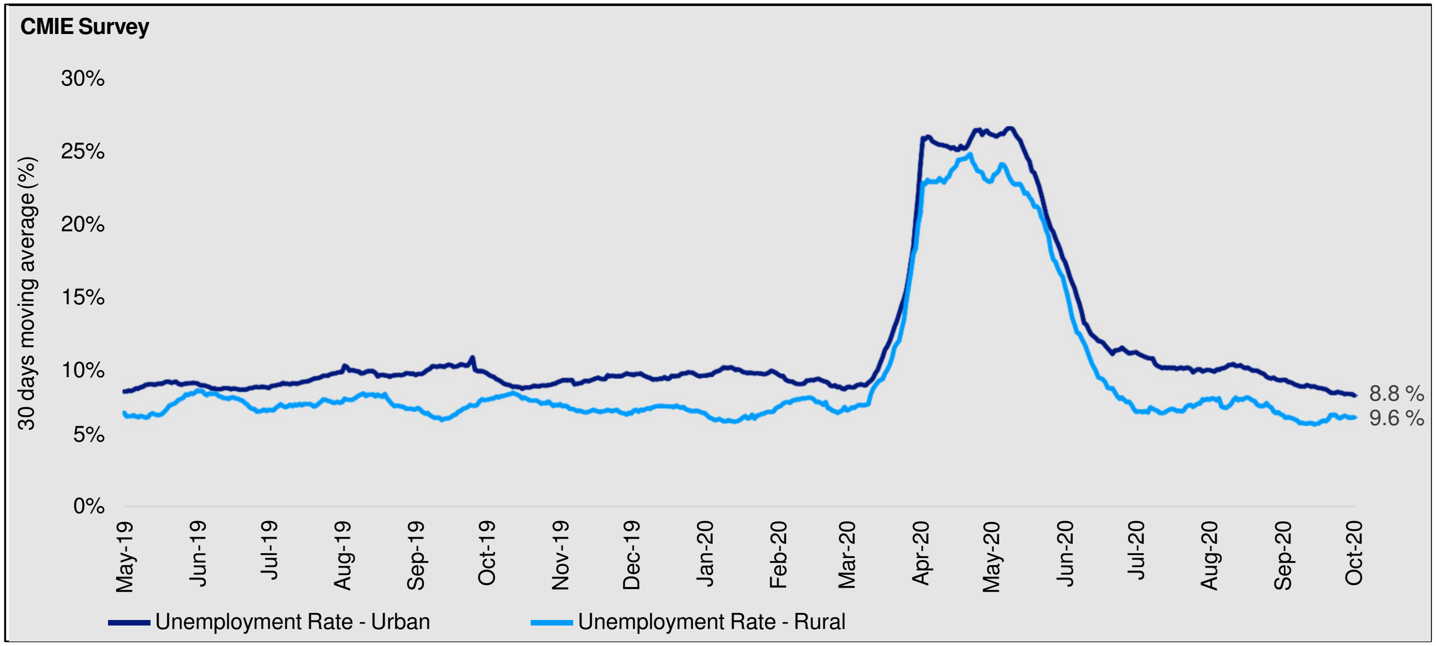
Economic Activity Tracker: Demand Side activity

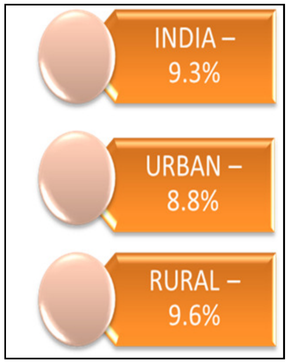


Economic Activity Tracker: Supply Side activity



India's unemployment rate declined to pre-lockdown levels reflecting sharp resumption in economic activity

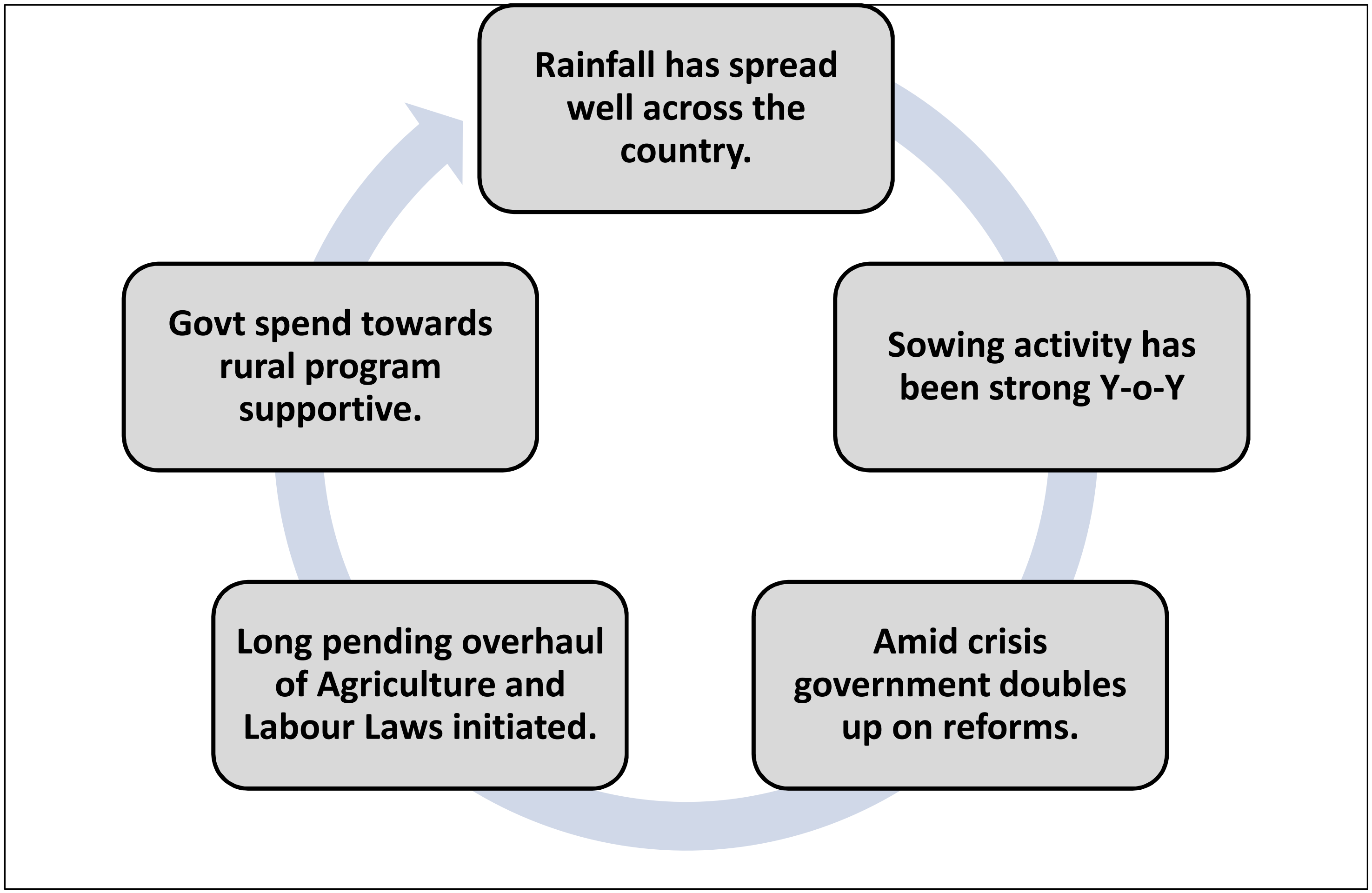




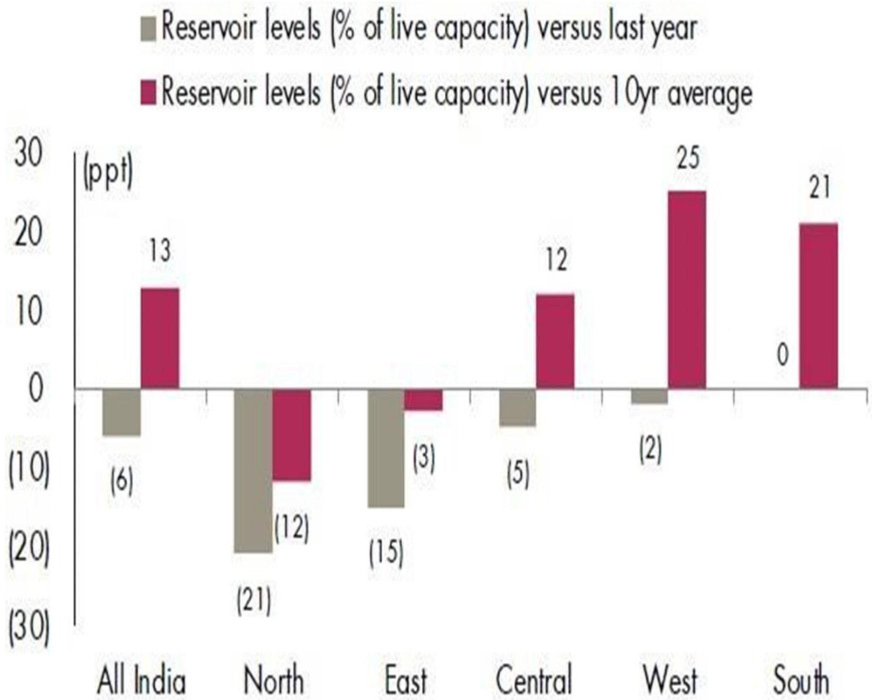
Source: CMIE

Note: The unemployment rate in India is estimated from data collected regarding the employment / unemployment status of all members of 15 years and more of a sample of randomly selected households.

Agri – Rural and Rainfall

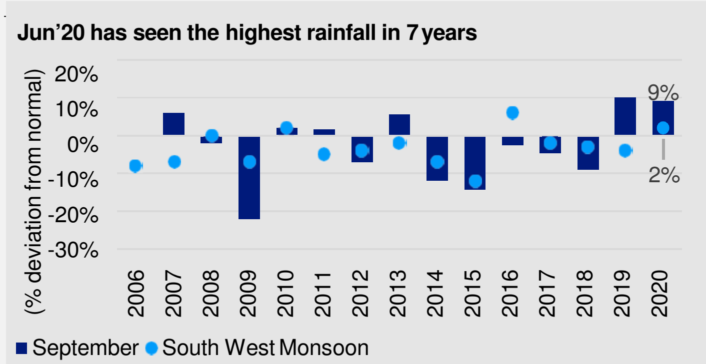


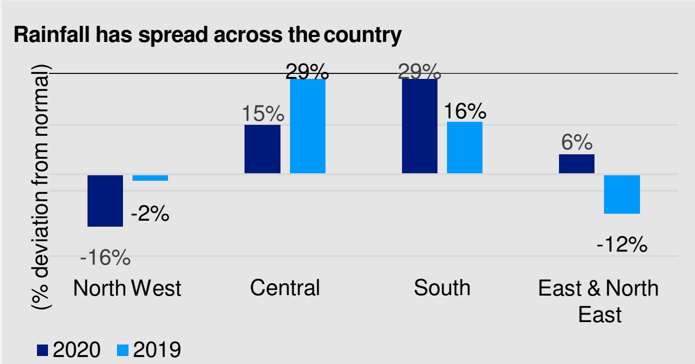
Rabi Season showing strong growth

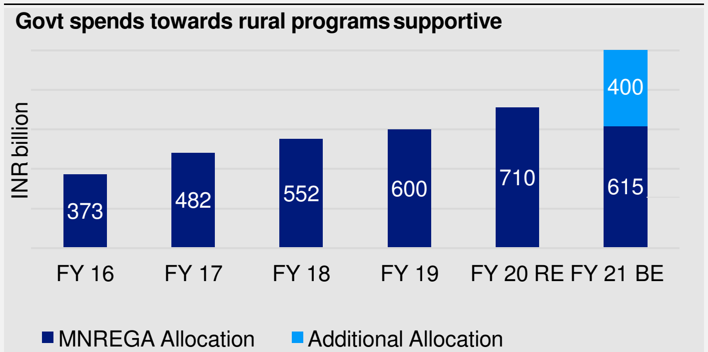


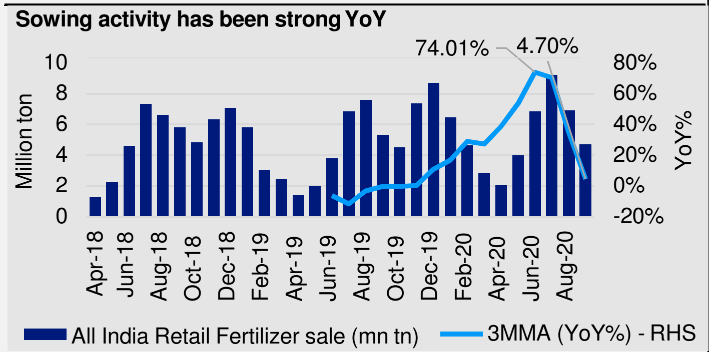
Crop	Normal Rabi Area (DES)	Area Sown (lakh hectare) 2019-20	Area Sown (lakh hectare) 2020-21	Growth (%)
Wheat	303.3	278.7	294.0	5.5
Rice	41.8	12.5	11.4	-8.6
Pulses	114.9	132.1	140.9	6.7
Coarse Cereals	57.1	43.5	41.3	-5.1
Oilseeds	73.2	72.5	77.0	6.2
Total	620.3	539.2	564.6	4.7

INDIA enjoys strong tailwinds to lead the recovery and outperform.





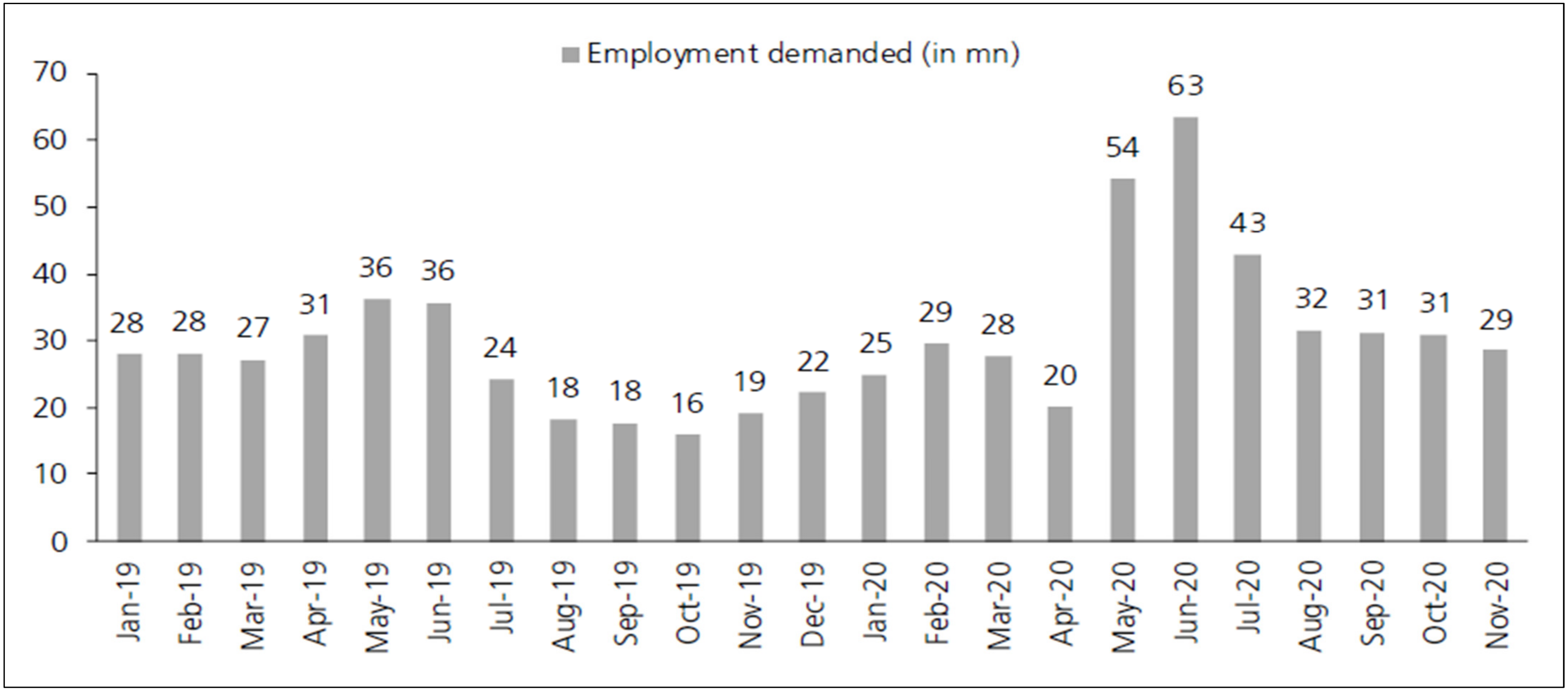




Source: GSTN, Bloomberg, Motilal Oswal Financial Services Ltd. MNREGA: Mahatma Gandhi National Rural Employment Guarantee Act. RE: Revised estimates. BE: Budget estimates.

- **The monsoon has been satisfactory this year**
- **Government has enhanced fiscal allocation to rural and agricultural sector**
- **Rs.430 billion has been already released for MNREGA**

Jobs demanded under MNREGA remain high

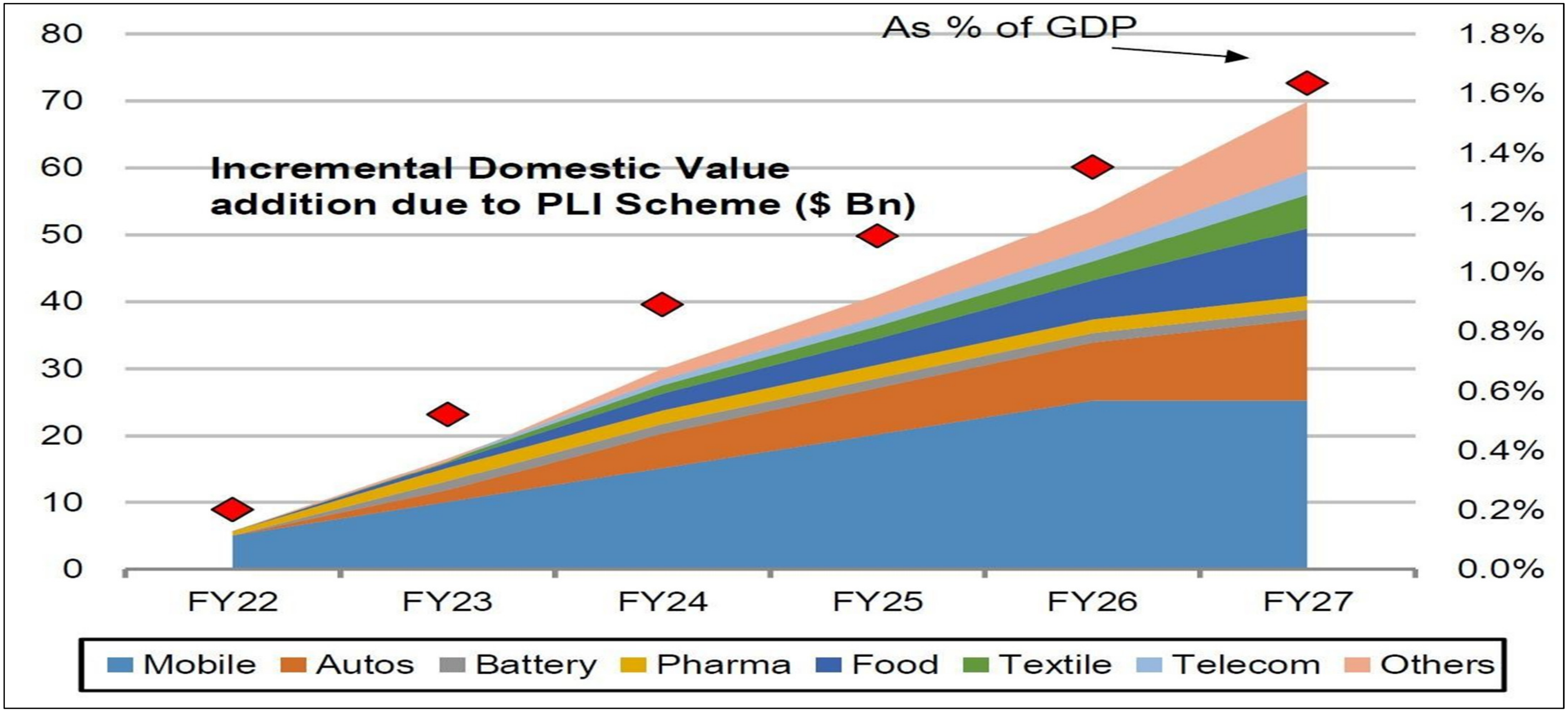


Make in India gaining momentum

- Domestic manufacturing has gained momentum in India, grown 25% CAGR over FY 15-19, faster than the industry highlighting import substitution over these years.
- This has been largely driven by sharp increase in domestic manufacturing for Mobile Phones, increasing > 8x over FY 15-19 to Rs. 1.7 trn.
- Our domestic electronic manufacturing crossed imports in 2HFY 16-17. This way our net production has surpassed our imports by a greater margin in electronic space.
- Custom duty changes have been made (increased) to boost domestic manufacturing.

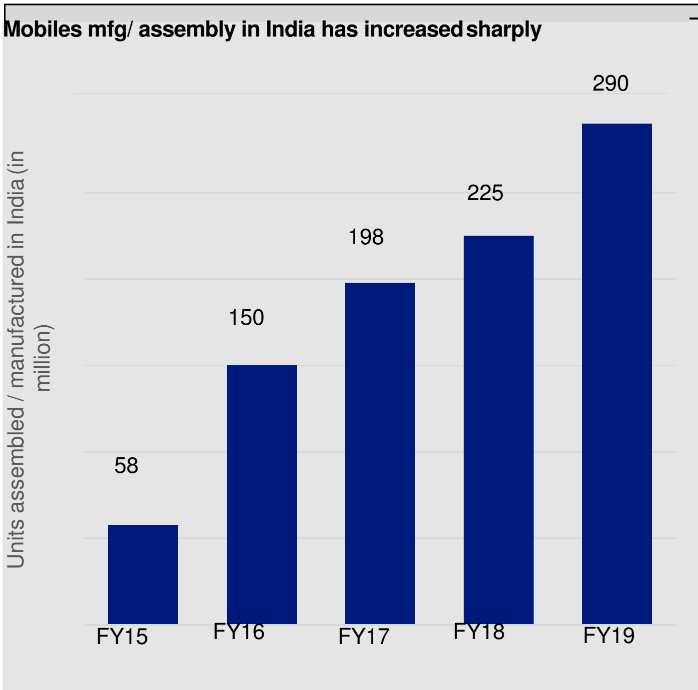
Electronic Components and Semiconductors. EMC 2.0: Modified Electronics Manufacturing Clusters Scheme

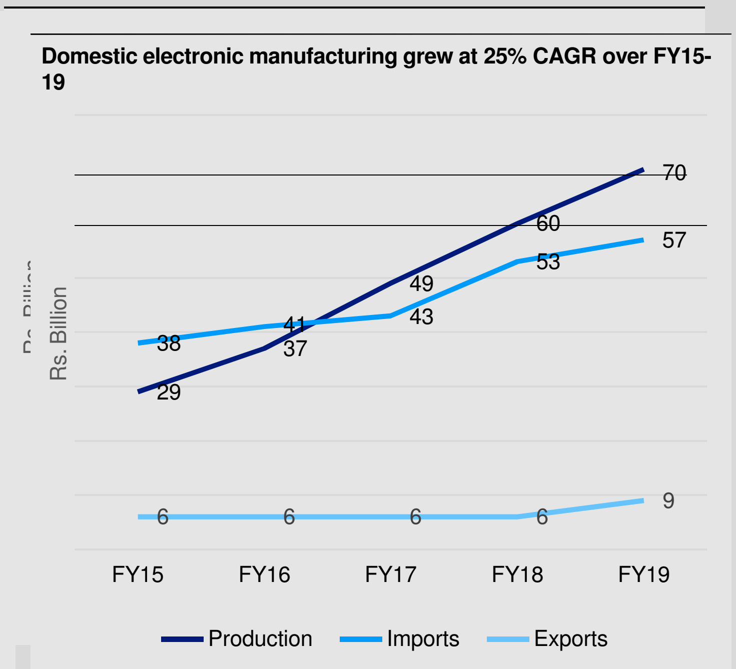
Production Linked Incentive (PLI) Schemes can add 1.6% to FY27 GDP



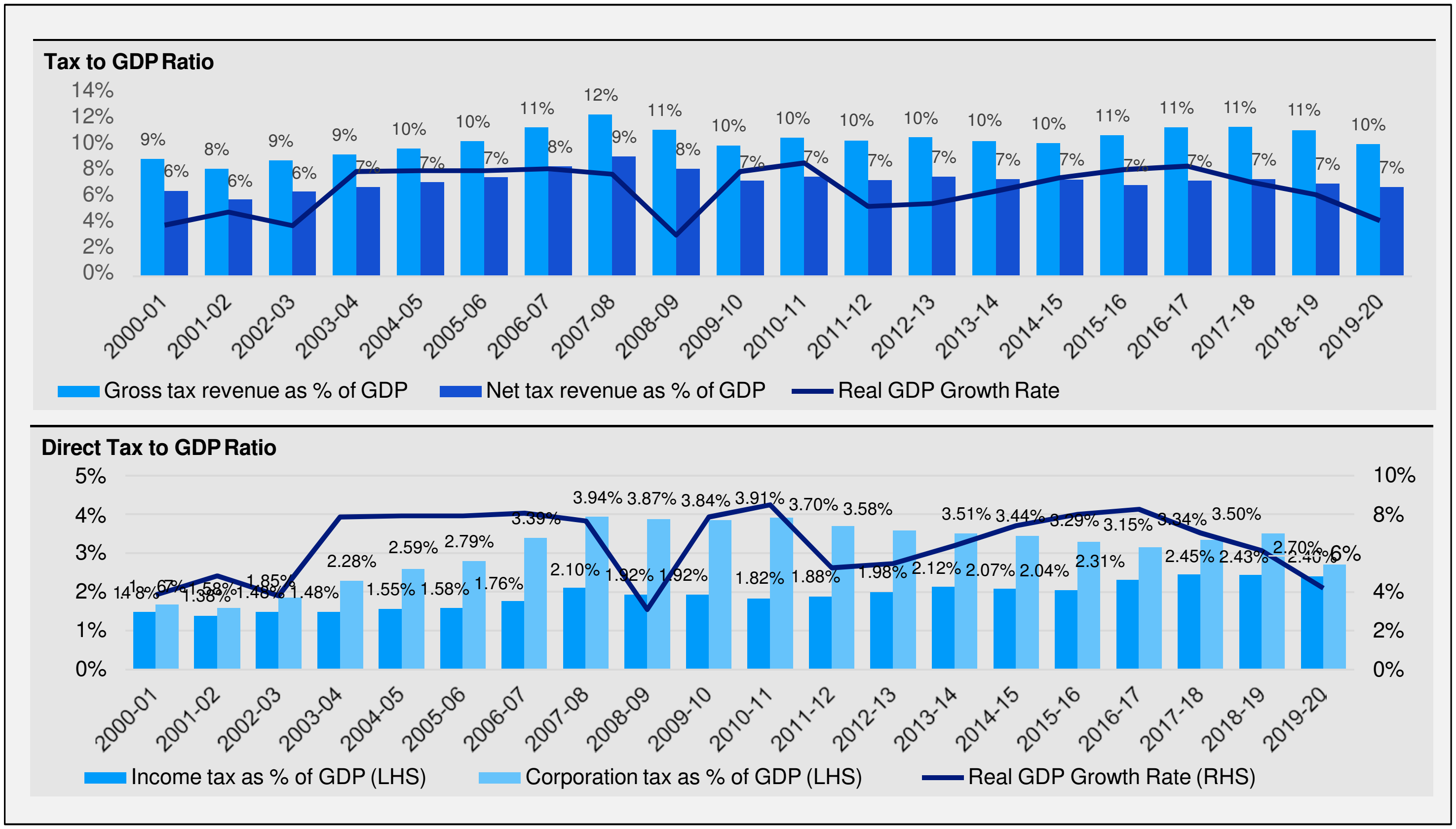
Source: RAVE, Credit Suisse estimates

Domestic electronic manufacturing gaining momentum





Tax Collection however continue to pressure the fiscal….



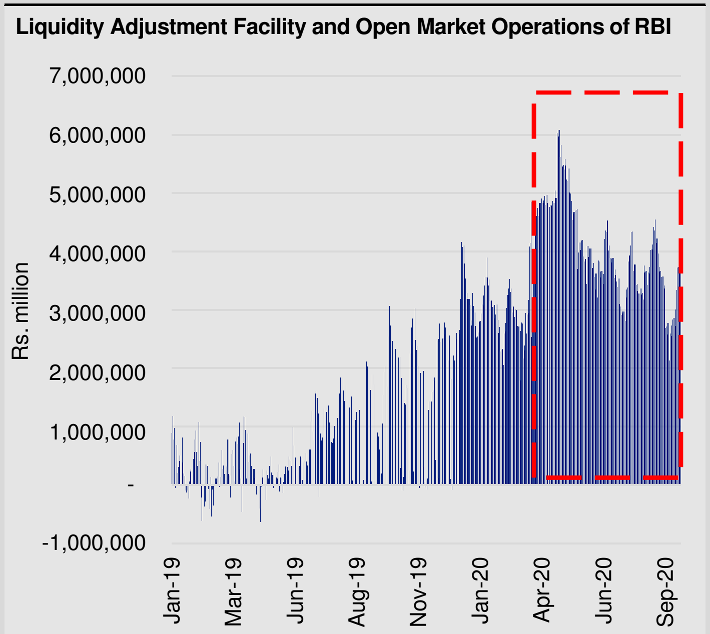
Lower tax collection implies low fiscal maneuverability

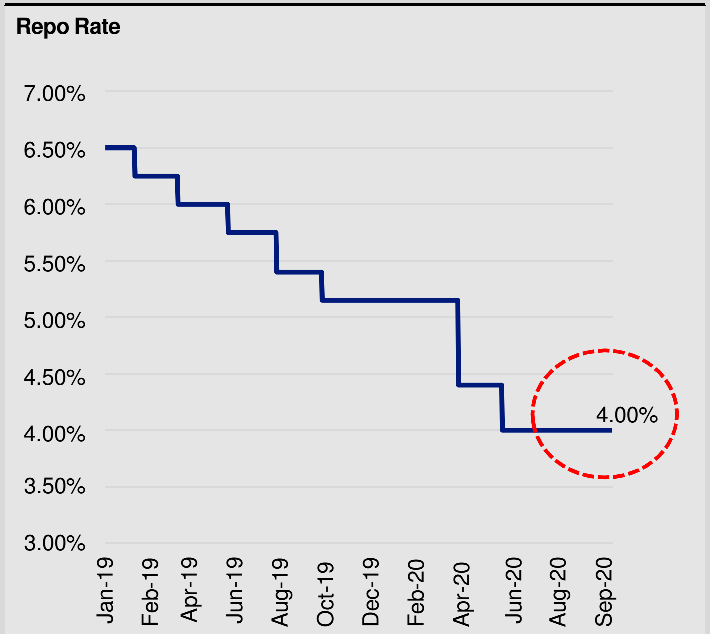
or

Low scope for large scale stimuli

Source: B&K Securities

Central banks acted quickly and decisively providing the policy balm for COVID – 19.

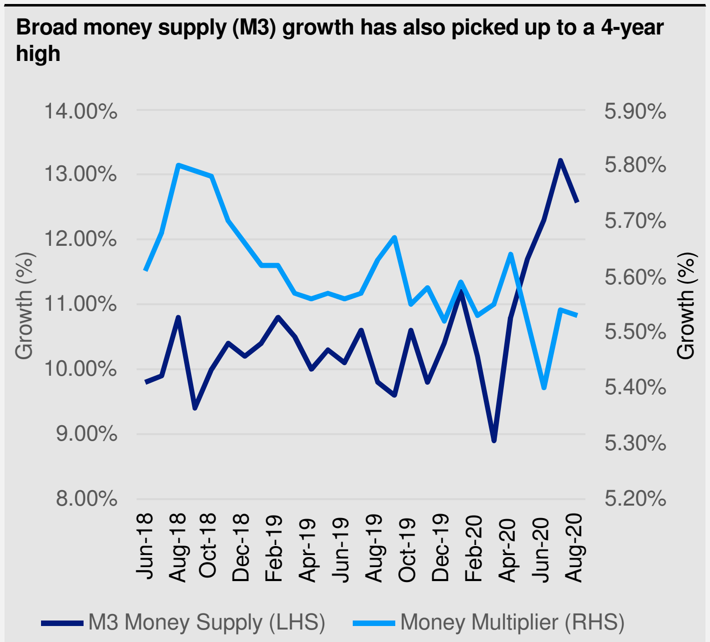


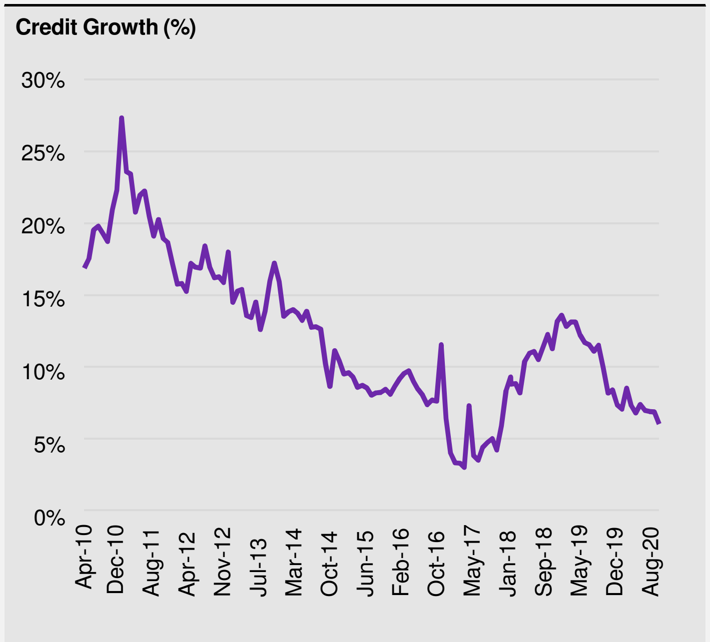


- Repo rate has been reduced from 5% in February 2020 to 4% in September 2020.
- LAF and OMO = Liquidity Adjustment Facility and Open Market Operations from RBI provided almost 3.5 lakh crore in Jan20 – around 5 lakh crore during April and May 2020 – and 4 lakhs crore from July to August and 3 lakh crore in September 20.

Source: Bloomberg. Data as at 30 September 2020

Monetary base beginning to expand but credit growth still anemic

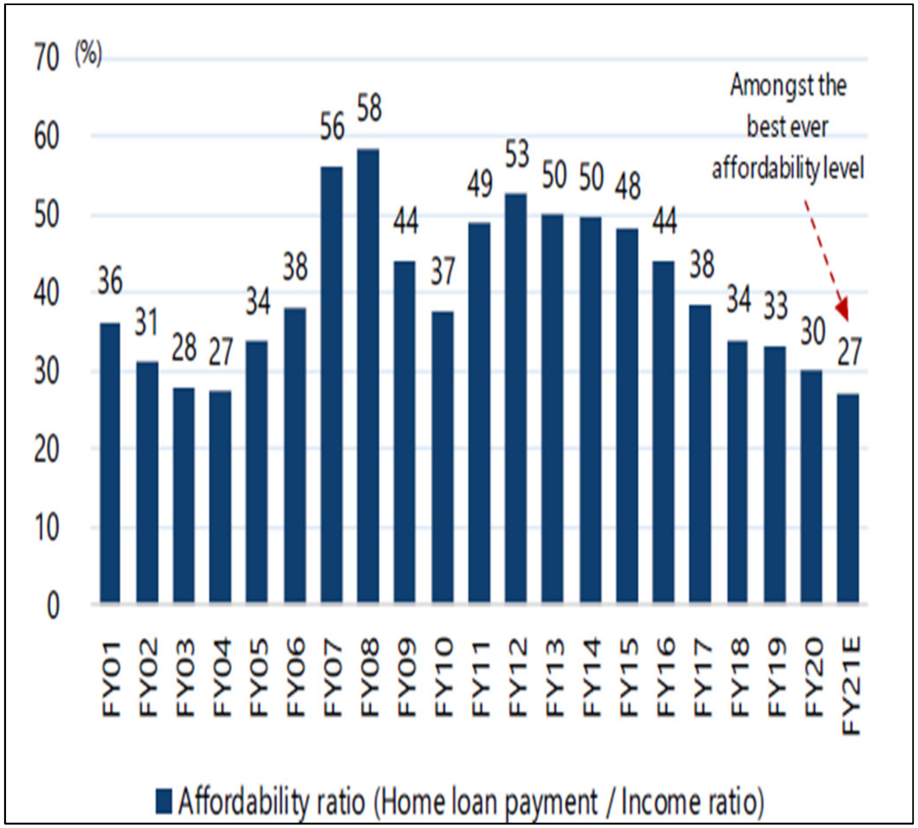


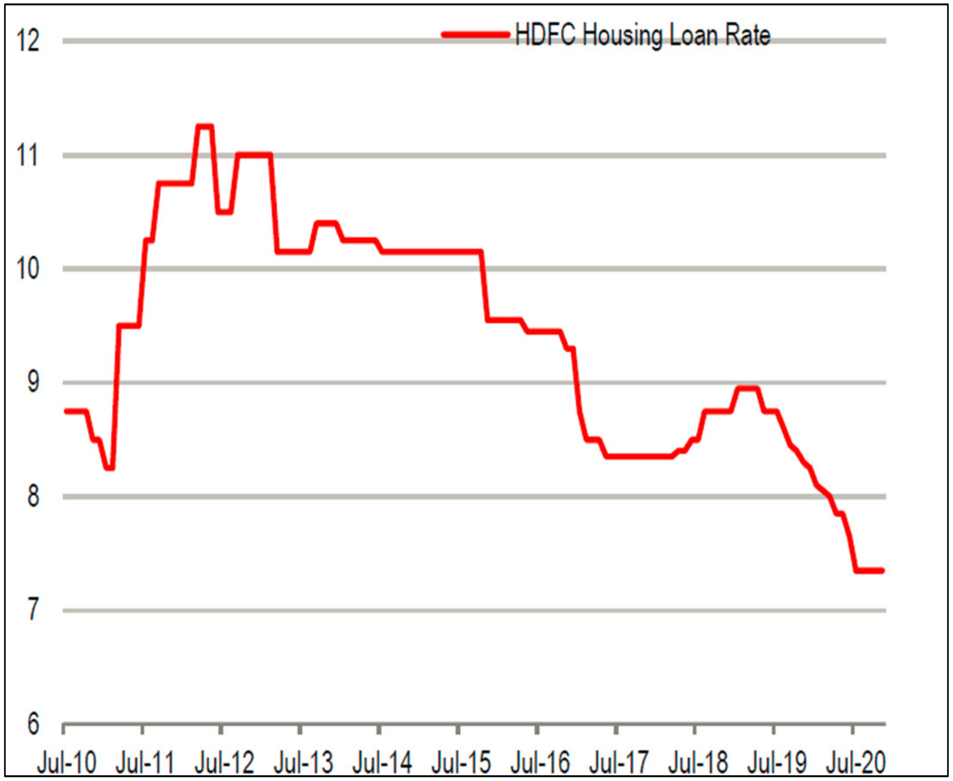


1. **As fresh loans are getting utilized to repay old loans.**
2. **Continuing elevated risk aversion in the system impeding credit growth.**
3. **But falling interest rates holds out hope for an eventual revival in credit growth.**
4. **Retail credit also soft due to weak housing+vehicle loans. But could turnaround quickly.**

Source: Kotak Securities, Spark Capital

Real Estate should support Economic Recovery going forward





Source: SBI, HDFC, Jefferies

INDIA – Most attractive for FPIs

we plan, you gain

Foreign Flows to Emerging Markets (USD Bn)

	INDIA	INDONESIA	KOREA	TAIWAN	THAILAND	MALAYSIA
CY2013	19.8	-1.8	4.9	9.2	-6.2	1.1
CY2014	16.2	3.8	5.7	13.2	-1.1	-2.0
CY2015	3.3	-1.6	3.4	3.4	-4.4	5.1
CY2016	2.9	1.3	11.0	11.0	2.2	-0.6
CY2017	8.0	-3.0	5.8	5.8	-0.8	2.5
CY2018	-4.6	-3.7	-12.2	-12.2	-8.9	-2.9
CY2019	14.2	3.5	9.4	9.4	-1.5	-2.7
CY2020	21.5	-3.2	-17.6	-17.6	-8.3	-5.8

Source: Edelweiss Research. Data as of Dec 21, 2020; FPI-Foreign Portfolio Investors.

Step: 3

Debt Market Outlook

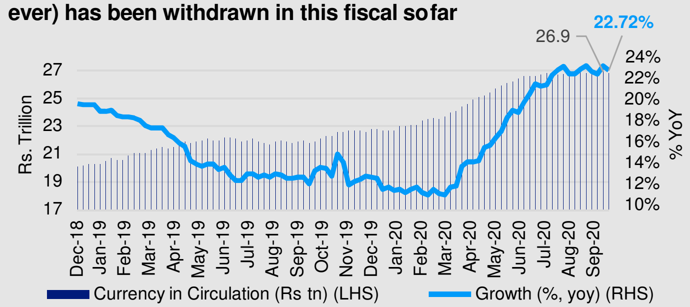
Indian Economy Snapshot: 2013 to 2020

Fiscal Year Ends	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Latest*
Inflation (CPI%)	10.2	9.5	5.9	4.9	3.8	3.6	3.4	5.8	7.7
Current Account (% of GDP)	-4.8	-1.7	-1.3	-1.1	-0.6	-1.9	-2.4	0.1	3.9
Fiscal Deficit (% of GDP)	4.9	4.5	4.1	3.9	3.5	3.5	3.4	4.6	4.6
Crude Oil (USD/barrel)	109	107	53	39	60	58	65	23	47.6
GDP Growth (%)	5.6	6.6	7.2	7.9	7.9	7.3	6.1	4.2	-7.5
Forex Reserves (USD bn)	292	304	342	356	370	424	413	490	575
Currency (USD/INR)	54	60	63	66	65	65	70	75	74.04

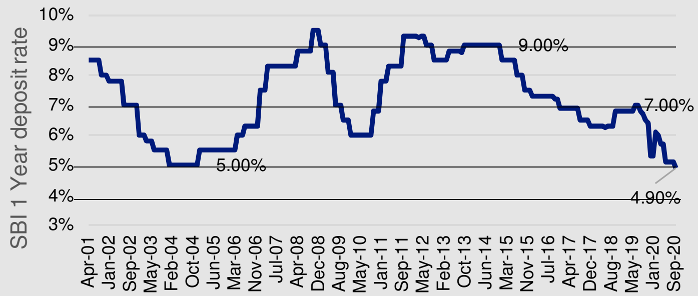
Source: CRISIL Research, RBI, CCIL India, CMIE, Data as on 30-Nov-2020 unless stated otherwise; FY refers to fiscal year ends Apr - Mar; *Inflation (CPI) is for the month of Oct-20, Currency, Forex Reserves as on Nov 20, 2020, Current Account Deficit data is as of Q1FY21 (June 2020), Fiscal Deficit data is as of FY20, GDP data is as of Q2FY21.

India’s interest rate cycle….

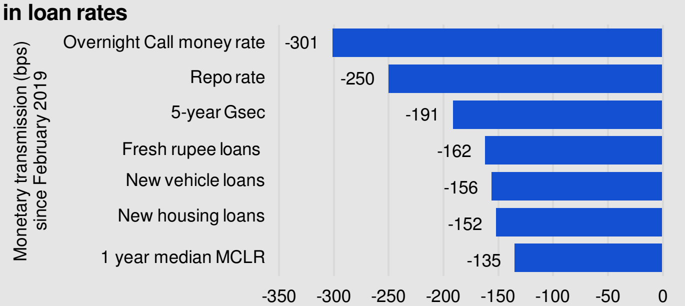
Cash level in the system has jumped as Rs.2.2 trillion cash (highest ever) has been withdrawn in this fiscal so far



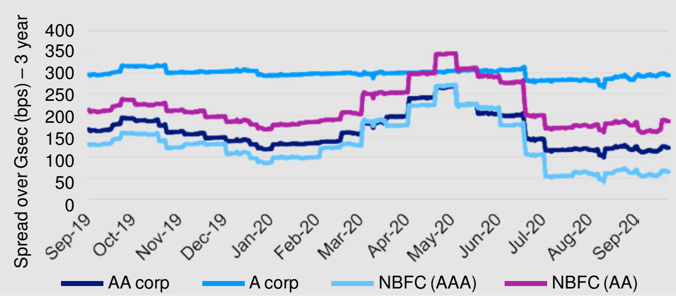
Cost of fund has fallen to the lowest level in over two decades



Monetary transmission has also picked up pace now, leading to fall in loan rates



Corporate bonds yields have also softened and spread over Gsec has narrowed by ~100bps including those of NBFCs



India’s interest rate curve is descending rapidly

and

this should enable a new growth cycle

once

pandemic subsides inevitably.

Source: Spark capital.

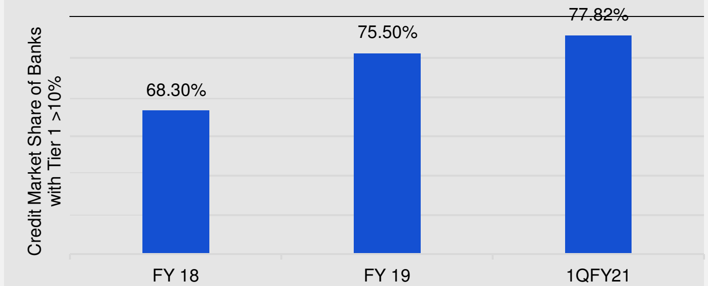
Disclaimer: The purpose of above charts is to explain how various monetary parameters may have a positive impact on the overall economy. The information provided herein is not sufficient and shouldn’t be used for the development or implementation of an investment strategy.

Banking sector is well capitalised to take Covid related pains

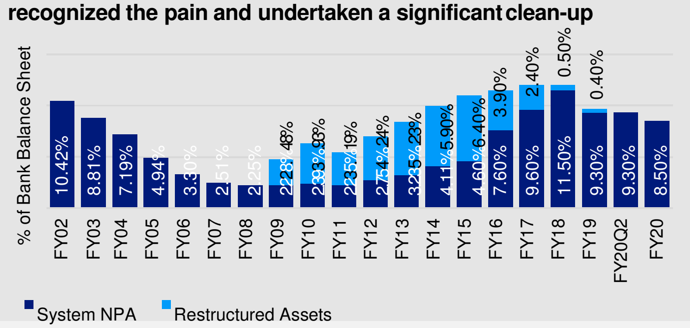
Over 68% of the banking system has seen an improvement in tier 1 capital adequacy ratio

PSU Banks Tier 1 %	Q3FY18	Q3FY20	Delta	Share %
Union Bank Of India	8.5	12.7	4.2	3.0%
United Bank of India	8.0	12.2	4.2	0.7%
Oriental Bank Of Commerce	7.8	11.1	3.3	1.6%
Punjab National Bank	8.9	11.9	3.0	4.7%
Corporation Bank	7.9	11.4	3.5	1.2%
HDFC Bank	13.3	17.1	3.8	8.3%
Axis Bank	12.4	15.5	3.2	5.0%
Karur Vysya Bank	11.4	14.1	2.7	0.5%
Bank Of India	8.9	11.2	2.3	3.5%
Andhra Bank	8.5	10.3	1.8	1.8%
Syndicate Bank	9.2	11.6	2.4	2.2%
Canara Bank	9.5	11.1	1.6	4.4%
Bank Of Baroda	9.6	11.5	1.8	6.6%
Indian Bank	11.7	13.1	1.5	1.8%
State Bank Of India	11.0	11.6	0.6	22.3%

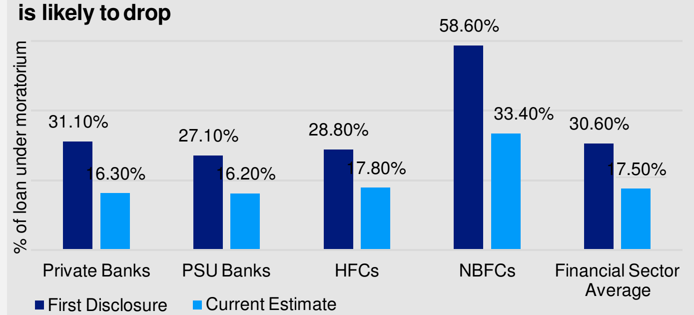
77.8% of the banking system now has >10% tier-1 capital adequacy vs. 68% in FY18



Banking system has done a clean-up: Bank balance sheets have recognized the pain and undertaken a significant clean-up



Percentage of loans under moratorium for different lending groups is likely to drop



High cash level
Low interest rates
High CAR of Banks

For 1- 2 year horizon invest in Short Duration – Floating Rate funds

For 3 year+ horizon look for Dynamic Bond Funds/Medium Duration Funds.

Source: RBI, Spark Capital. Invesco Asset Management (India). India Infoline Securities. LR: Lending rate..
HFCs: Housing Financial Companies. NBFC: Non Banking Financial Companies

Top 5 banks seems to be in good shape post recent capital raising

we plan, you gain

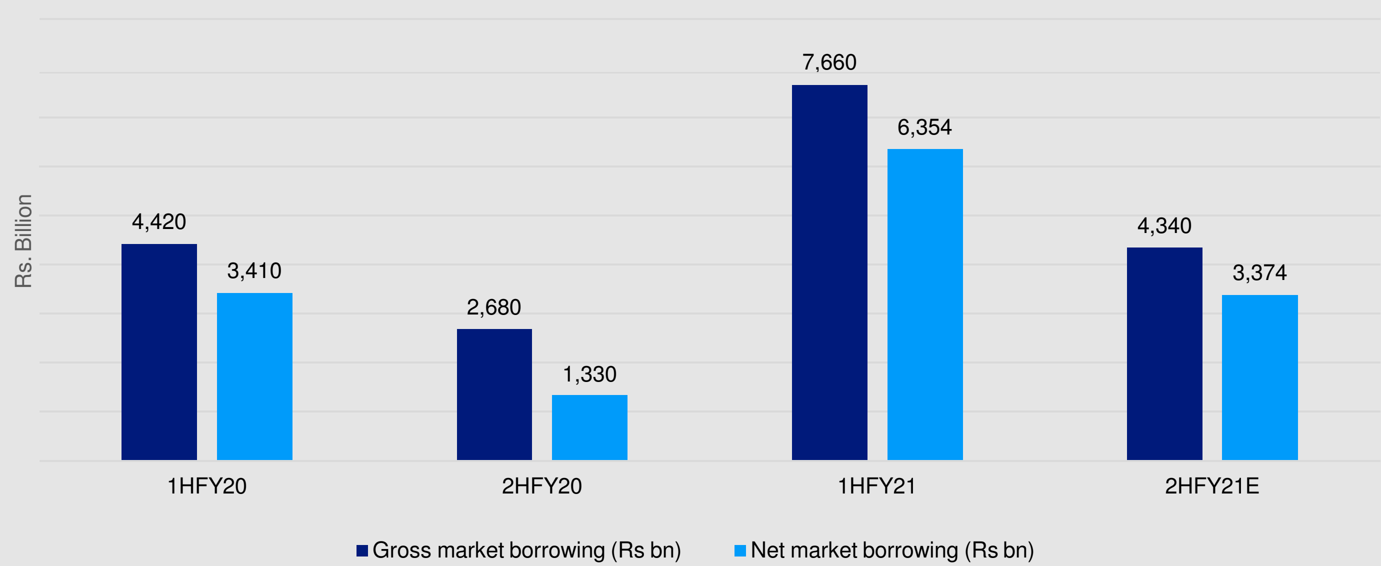
	CET1		Tier-1		Further capital Raised in 1st HFY21
	Mar-19	Mar-20	Mar-19	Mar-20	
Axis Bank	11.3%	13.3%	12.5%	14.5%	The Bank has raised Rs .10,000 crs at Rs. 442 per share
HDFC Bank	14.9%	16.4%	15.8%	17.2%	The bank took an enabling resolution for Rs.50,000 crs of debt raise including AT1/T2 instruments. Market rumours about a Rs.10,000-13,000 crs equity capital raise.
ICICI Bank	13.6%	13.4%	15.1%	14.7%	The bank has raised Rs.15,000 crs at Rs.358 per share.
IndusInd Bank	12.1%	13.2%	13.7%	14.6%	The bank has raised Rs.3,288 crs at Rs.524 per share.
Kotak Mahindra	16.9%	17.1%	16.9%	17.3%	Rs. 7,443 crs of capital raise concluded at Rs.1,145 per share.
State Bank	9.6%	9.8%	10.7%	11.0%	No quantum announced.
RBL Bank	12.1%	15.3%	12.1%	15.3%	The bank has raised Rs.1,566 crs at Rs.177 per share.

Source: Spark Capital. CET1: Common equity Tier 1 ratio compares a bank capital against its risk-weighted assets to determine its ability to with stand financial distress. Tier-1: Tier 1 capital is the core measures of a bank's financial strength from a regulator's point of view.

1. AXIS BANK
2. HDFC BANK
3. ICICI BANK
4. INDUSIND BANK
5. KOTAK BANK

Govt has stuck to its borrowing plan for dated securities

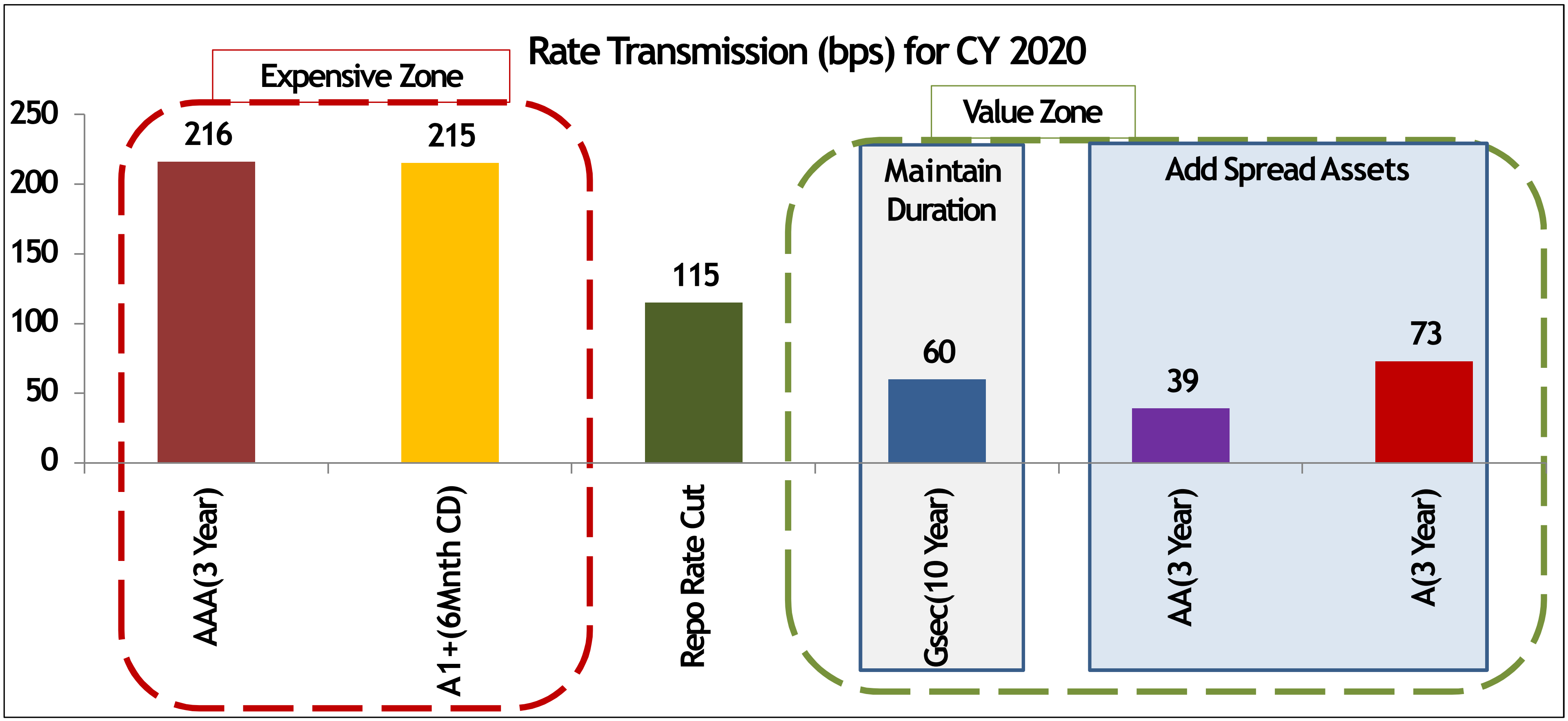
Net issuance of dated securities in 2HFY21 much lower than in 1HFY21



1. This should help calm bond markets for now though further borrowings cannot be fully ruled out
2. Strong central bank support and messaging has helped take away tail risk out of credit markets
3. However RBI's policy positioning does not budget for any downside risk arising from higher than expected inflation

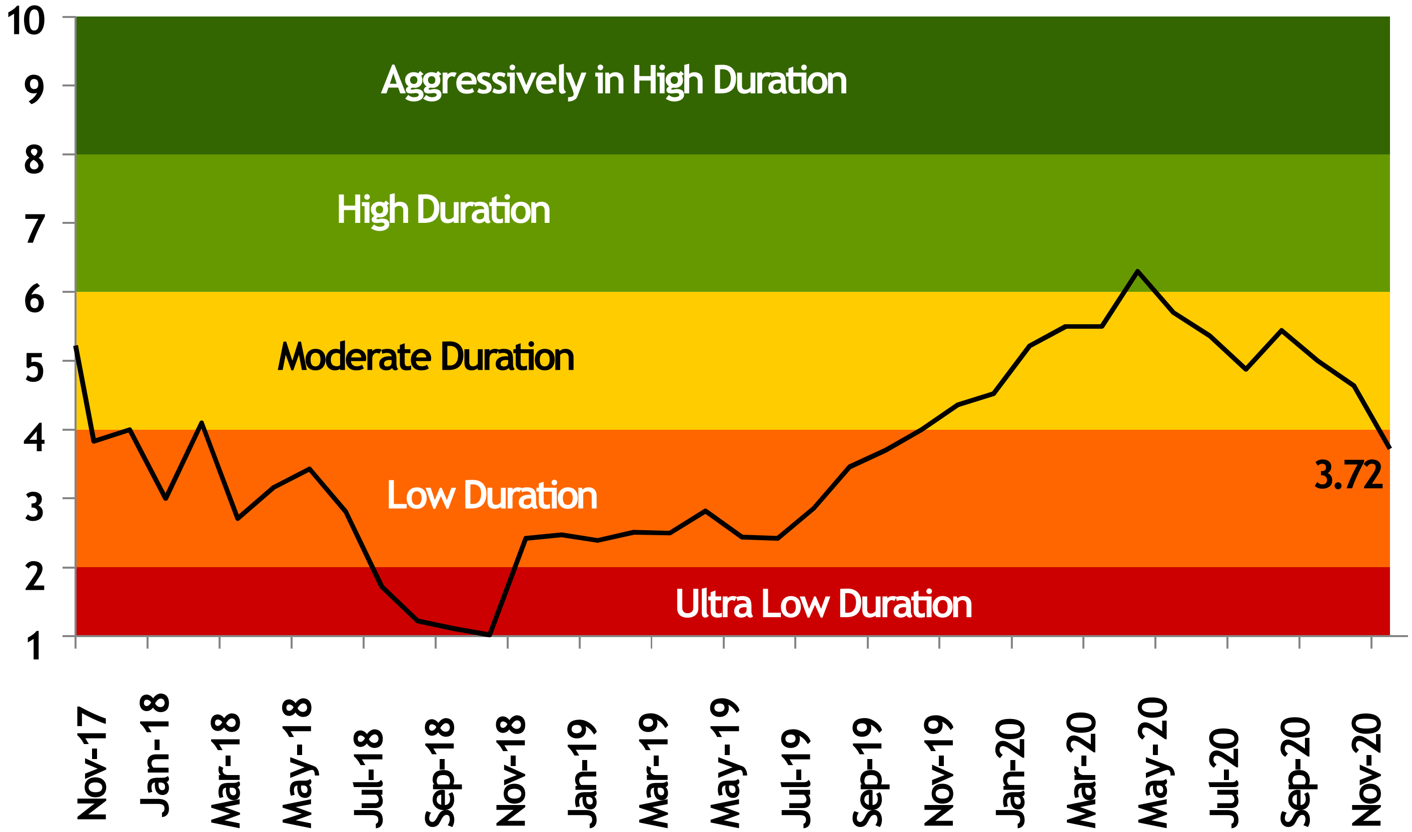
Source: RBI, Kotak Economic Research

Debt Investment: Expensive – Value Zone



Source: CRISIL Research, Data as on Nov 30, 2020, CD - Certificate of Deposit, bps - basis points, Past performance may or may not sustain in future

Debt Valuation Index: As Designed by ICICI Prudential MF



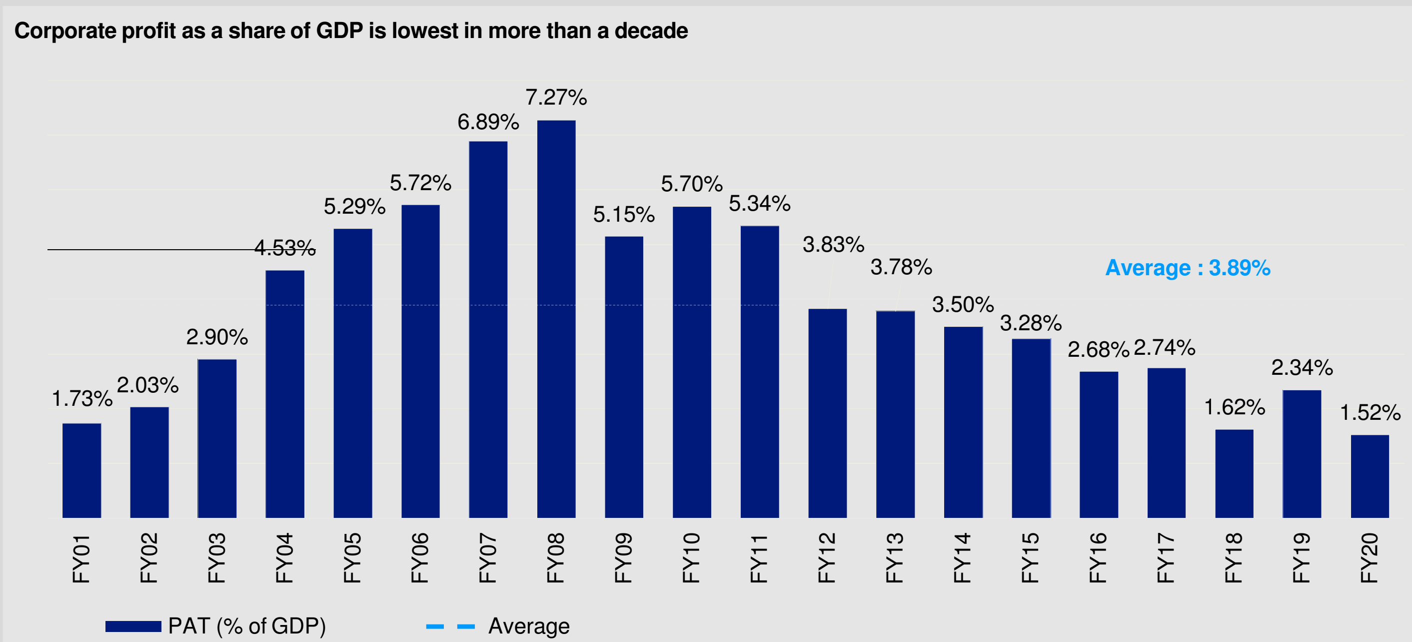
Investment in 2-5 Years segment is expected to provide good risk-adjusted returns. Hence, we are positive on short to medium duration funds

Data as on Nov 30, 2020. Debt Valuation Index considers WPI, CPI, Sensex returns, Gold returns and Real estate returns over G-Sec yield, Current Account Balance and Crude Oil Movement for calculation.

Step: 3

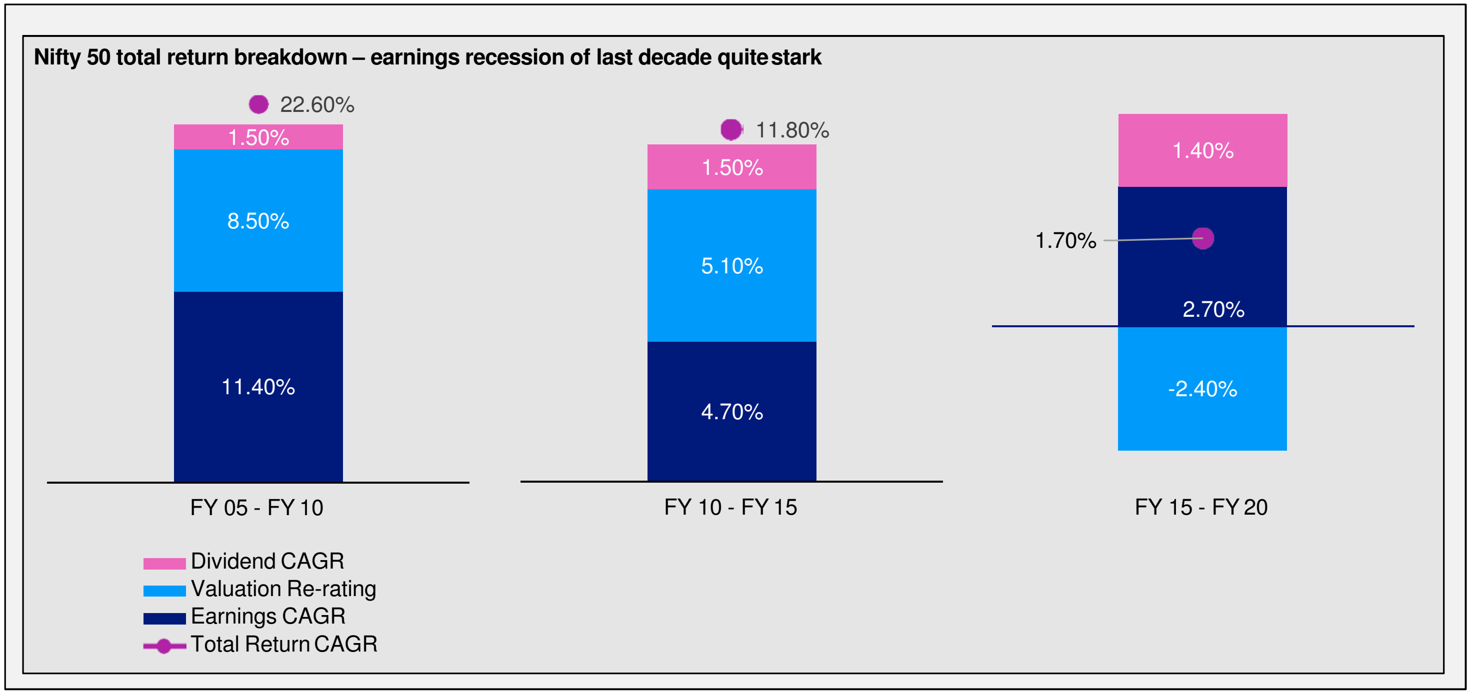
Equity Market Outlook

Corporate profit as a percentage to GDP is still significantly below its long term average



Source: CMIE, IIFL Research. Based on a standalone financials data of more than 3500 companies for FY 20, whereas from FY 01 – FY 20 it ranged from 9,000 to 27,000 companies.
PAT: Profit After Tax.

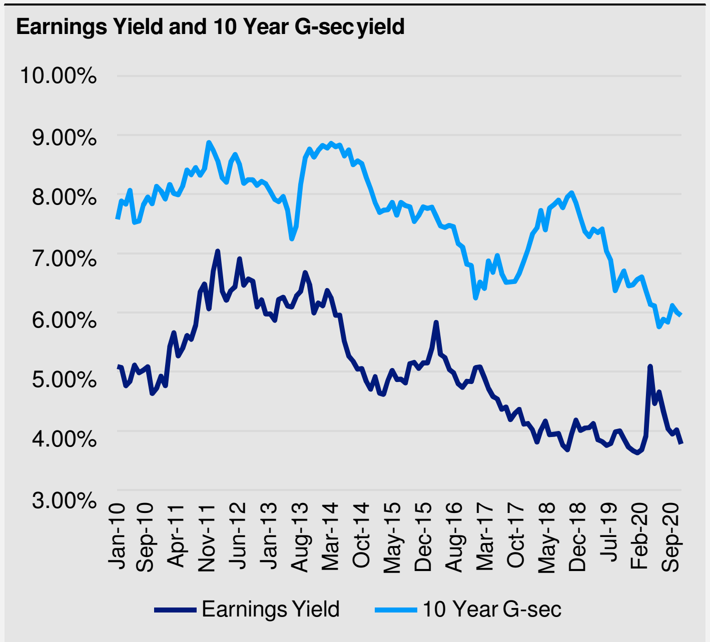
Earning recession of FY 2010-2020 has extended its toll on recent market performance.

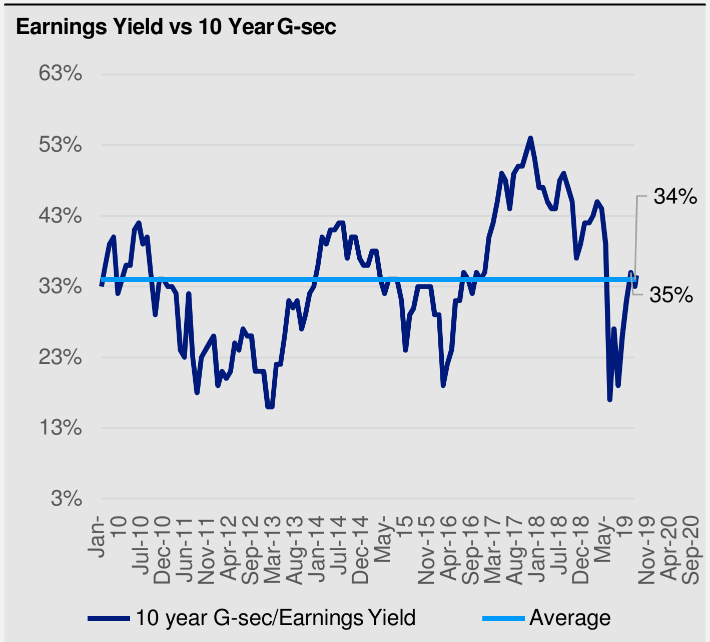


Source: Motilal Oswal Financial Securities Ltd

Disclaimer: The above chart is for illustration purpose only and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party or construed as a promise on minimum returns and safeguard of capital. Invesco Asset Management (India) Pvt. Ltd./Invesco Mutual Fund is not guaranteeing or promising or forecasting any returns.

Low interest rates – Earnings yield…..Looks attractive case for long term growth in equity market.

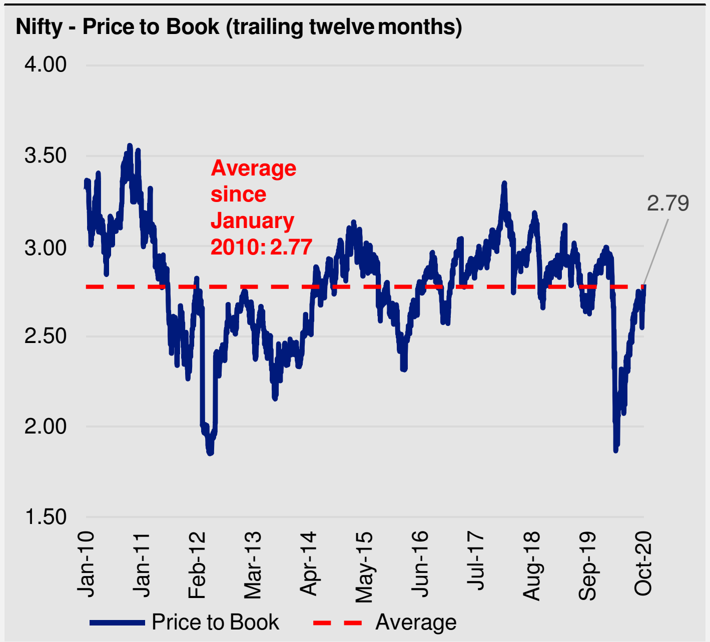


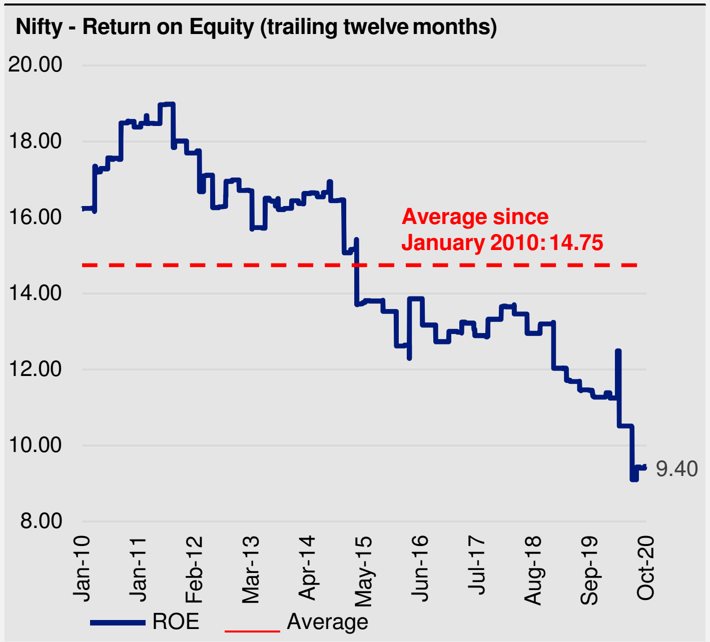


Nifty on trailing P/E multiple is quoting at 26x as on December 2020. And that one factor suggest **ASSET ALLOCATION.**

Past performance may or may not be sustained in future.
Source: MOSL / Bloomberg, Invesco Asset Management (India) Research, Bloomberg. PE: Price to Earning. Data as on 30 September 2020.
Note: The purpose of above chart is only to explain the valuation which are currently trading at premium, but when compared to interest rate looks reasonable. The information alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party.

2010-20: Price to Book (P/B) and ROE





Nifty looks compelling only on the basis of low interest rate cycle + trailing P/B and bottom cycle of ROE.

Nifty looks over valued when compared on the basis of P/E (Price to Earning). Current trailing P/E multiple is 26x as on December 2020.

Past performance may or may not be sustained in future.
Source: Bloomberg. ROE: Return on Equity.
Note: The above chart is for illustration purpose only and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party or construed as a promise on minimum returns and safeguard of capital. Invesco Asset Management (India) Pvt. Ltd./Invesco Mutual Fund is not guaranteeing or promising or forecasting any returns.

Valuations: Nifty trailing PE highest in past 15 years. P/B near to long term average

12-month trailing Nifty P/E (x)

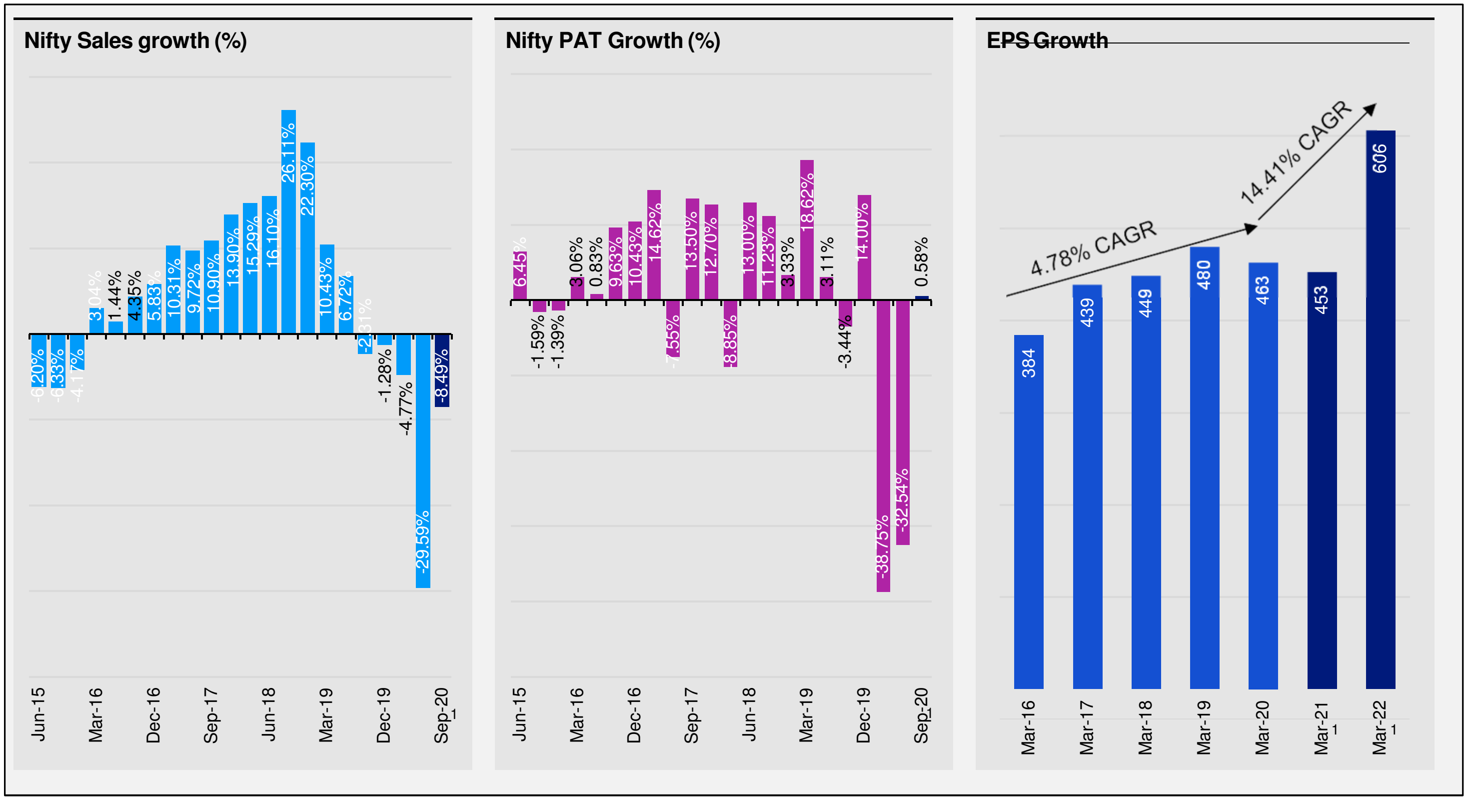
12-month trailing Nifty P/B (x)

- High P/E
- Average P/B
- Low ROE
- Low interest rates
- Low Capacity Utilization

Time for
ASSET ALLOCATION

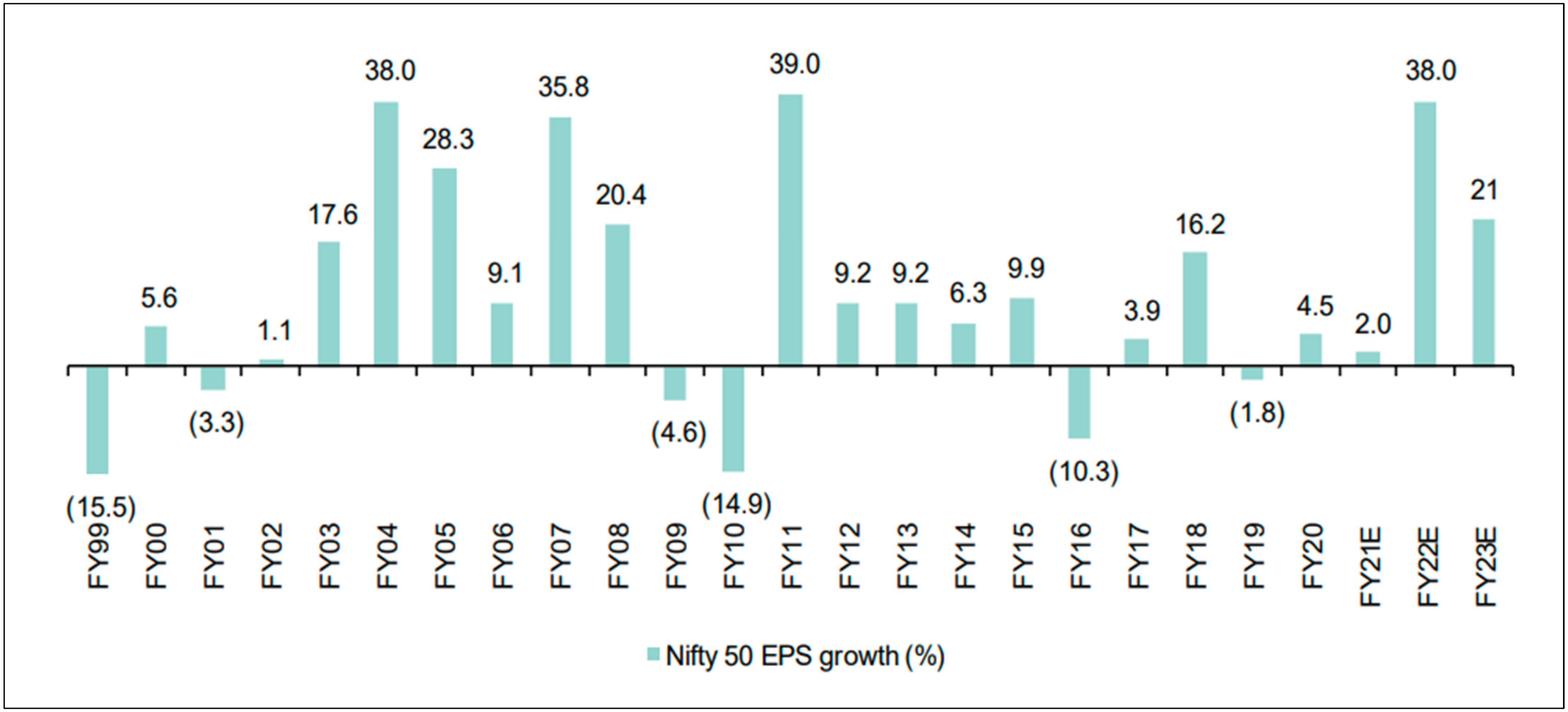
Source: Motilal Oswal

20-21 EPS to end in a decline....focus on recovery starting from 2021-22



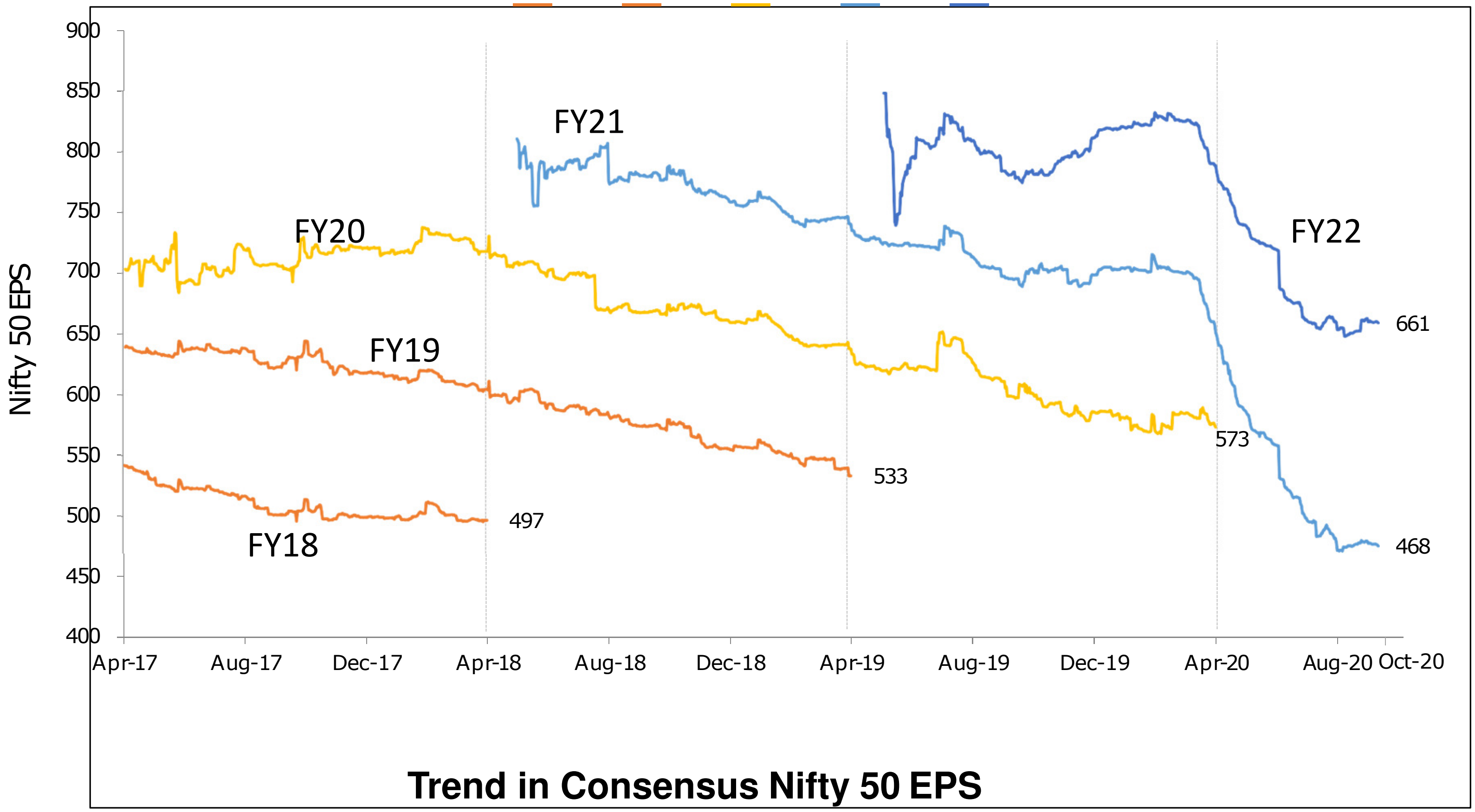
Past performance may or may not be sustained in future. Source: Kotak, Nifty companies Profit Growth. PAT: Profit After Tax. [1]E: Estimates. CAGR: Compounded Annualised Growth Rate. EPS: Earning Per Share. **Disclaimer:** The information provided herein may include statements/data of future expectations that are based on current views and assumptions and involves known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied.

EPS Rebound: FY22 EPS growth rebound and a strong growth expected in FY23 as well



Source: Bloomberg estimates, Bernstein estimates

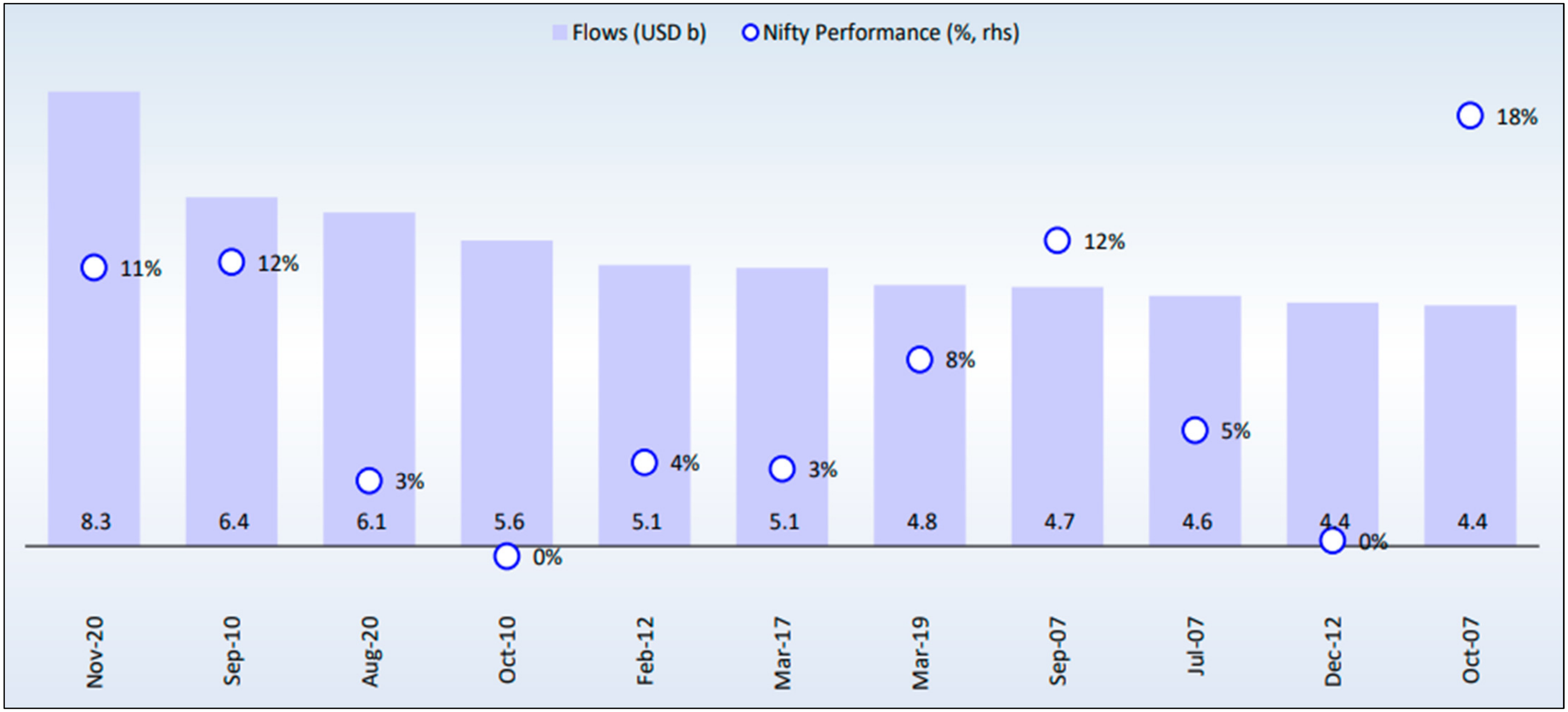
Nifty 50 – Consensus Estimate, lockdown impact



Source: Bloomberg. Data as of October 21, 2020

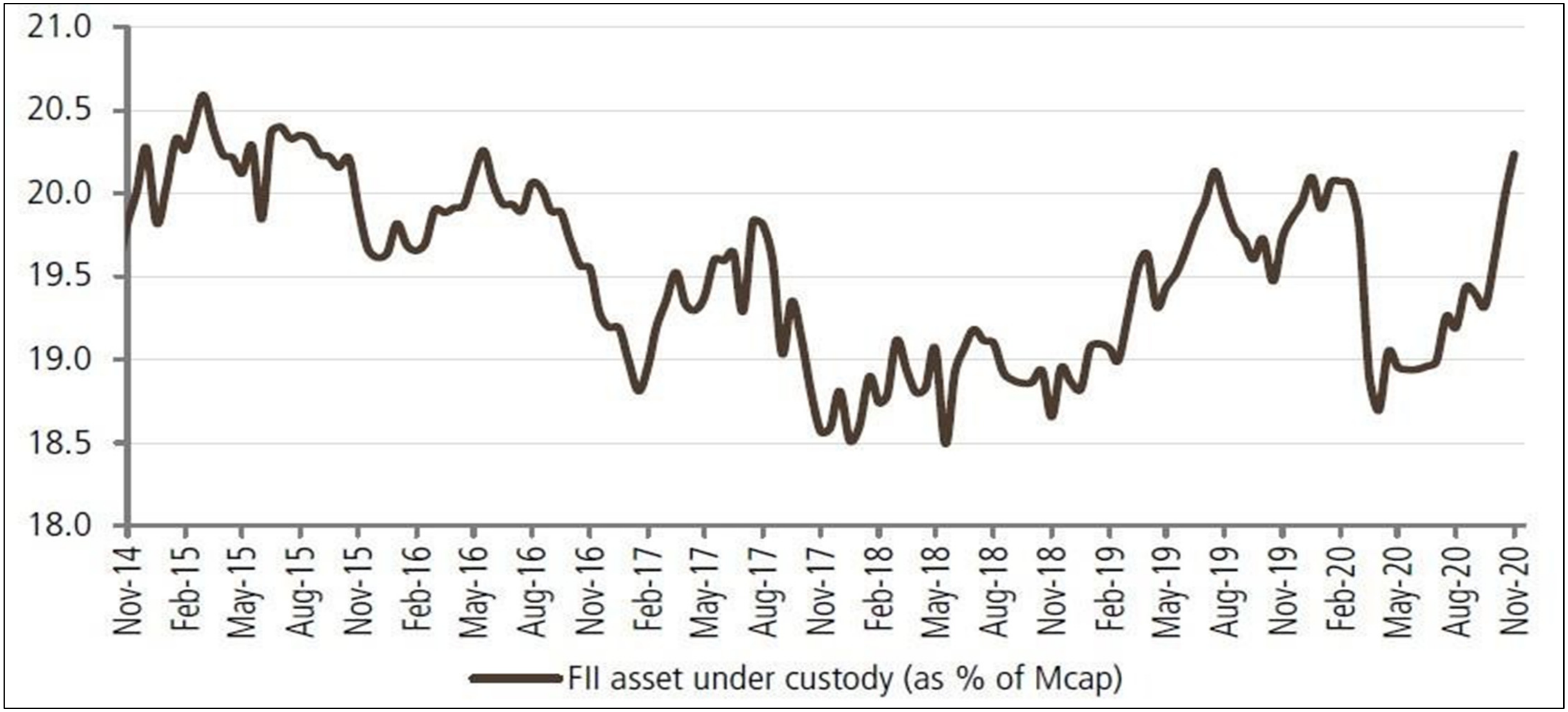
FY18 – 497
FY19 – 533
FY20 – 573
FY21 E – 468
FY22 E - 661

Highest FII monthly flows in November 2020



Source: Motilal Oswal

FIIs: Rising ownership in Indian Equities



$ 1 Trillion could flow into the stock market in 2021

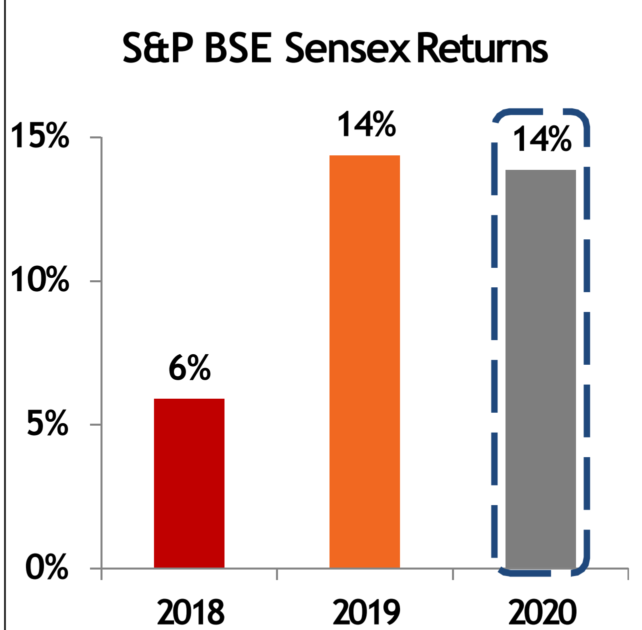
Change in flows per year in $bn.

Year	2019 vs 2018	Q1'20 vs 2019	Remainder 2020 vs Q1'20	2021 vs 2020
Demand				
Retail investors	-390	-44	18	550
CTAs	671	-1111	1631	-40
Equity L/S	614	140	-399	-23
Risk Parity Funds	132	-210	159	118
Balanced MF	780	-960	889	35
Pension & Insurance Funds	55	393	-174	-144
SWF/Central banks	-91	-199	267	117
Total Demand	**1771**	**-1991**	**2390**	**613**
Supply	**511**	**-461**	**521**	**-511**
Demand -Supply	**1260**	**-1529**	**1869**	**1124**

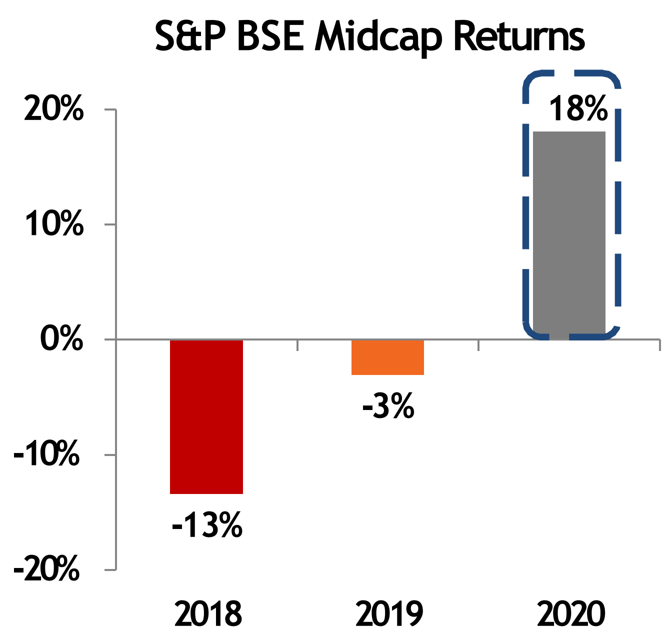
Source: J.P. Morgan

Midcap and Smallcap bounce back sharply in 2020

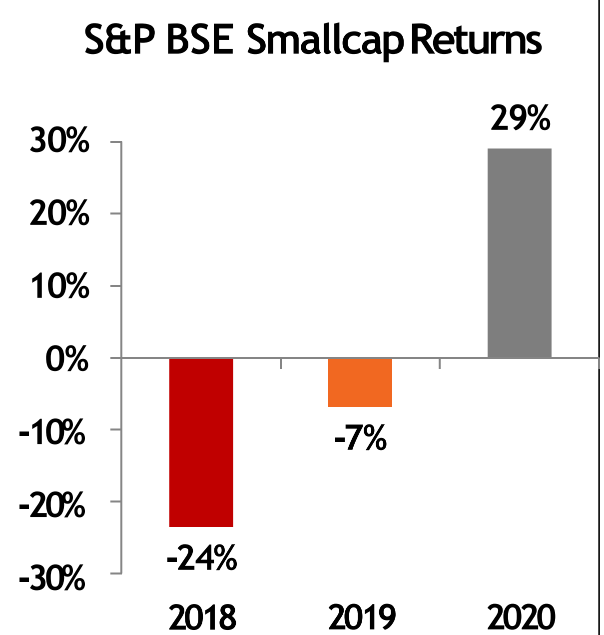
S&P BSE SENSEX



S&P BSE MIDCAP



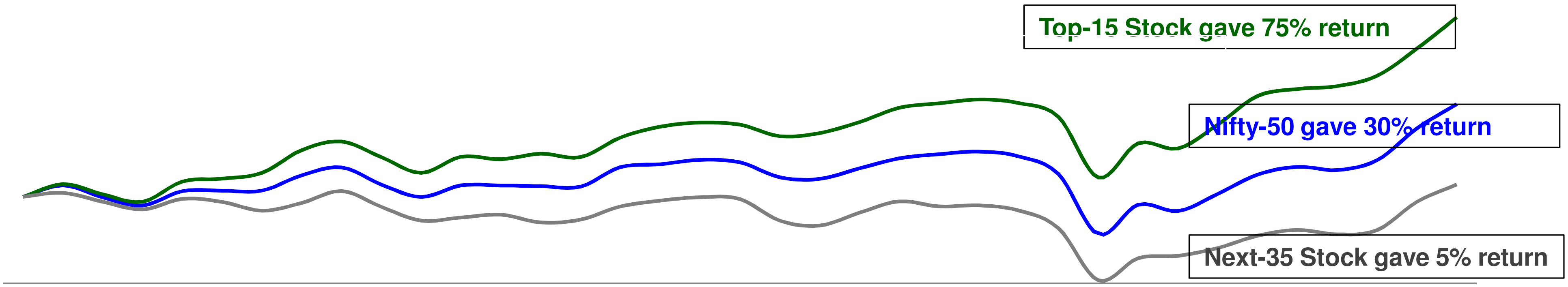
S&P BSE SMALLCAP



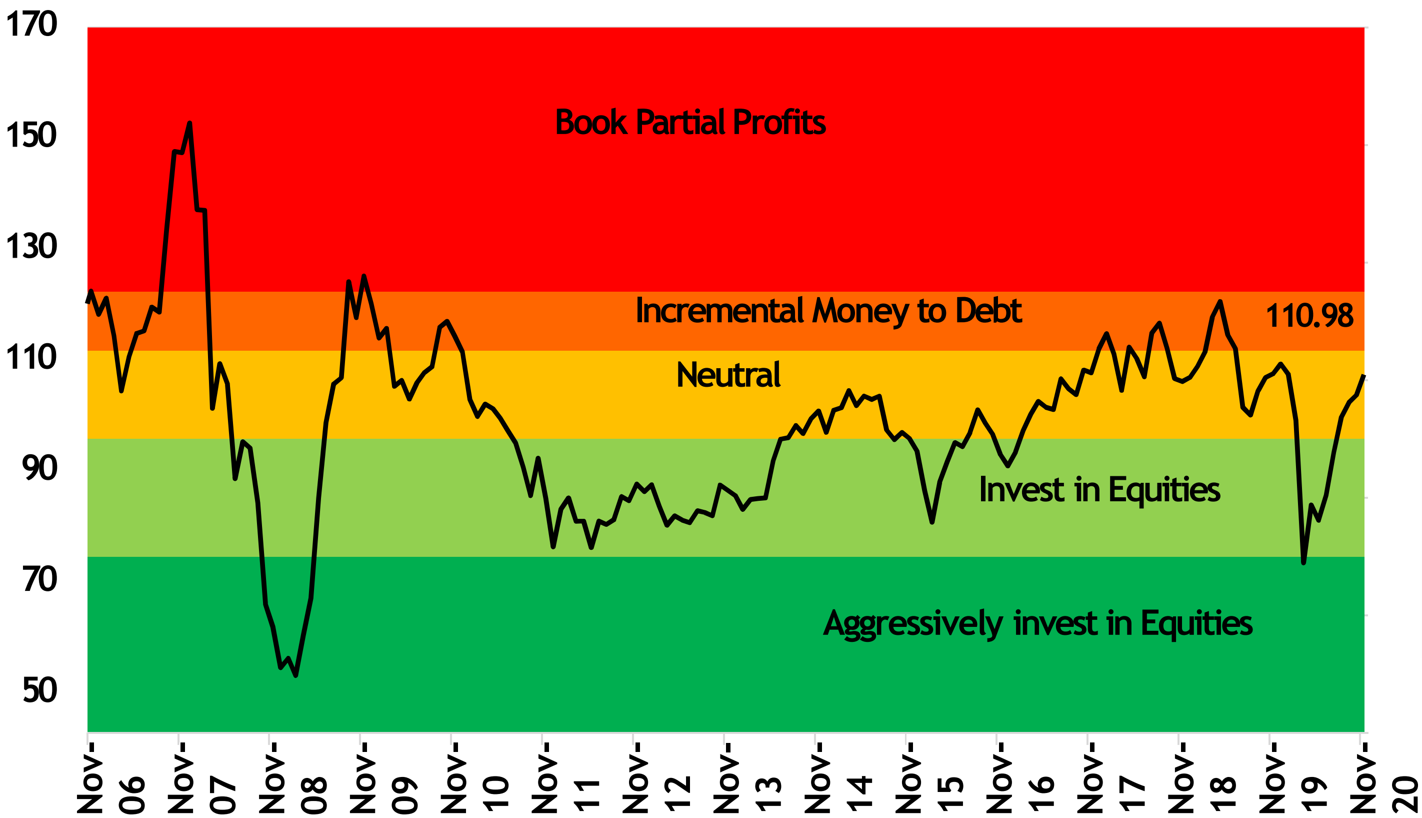
Source: BSE India; Data as of Dec 24, 2020 Past performance may or may not be sustained in future

2018-2020: Nifty at all time high but Small Cap is still below its 2018 peak

Indices	Price as on		Absolute Returns
	15/01/2018	31/12/2020	
Nifty 50	10742	13982	30.2%
Nifty Midcap 100	21697	20843	-3.9%
Nifty Smallcap 100	9580	7088	-26.0%



Equity Valuation Index: Designed by ICICI MF



Equity Valuation Index is currently recommending equity investing with a staggered approach with a minimum horizon of 3-5 Yrs coupled with 'Dynamic Asset Allocation Schemes' that aim to manage equity exposure basis market valuations

Equity Valuation index is calculated by assigning equal weights to Price-to-Earnings (PE), Price-to-Book (PB), G-Sec*PE and Market Cap to GDP ratio. G-Sec - Government Securities. GDP - Gross Domestic Product, Data as of Nov 30, 2020

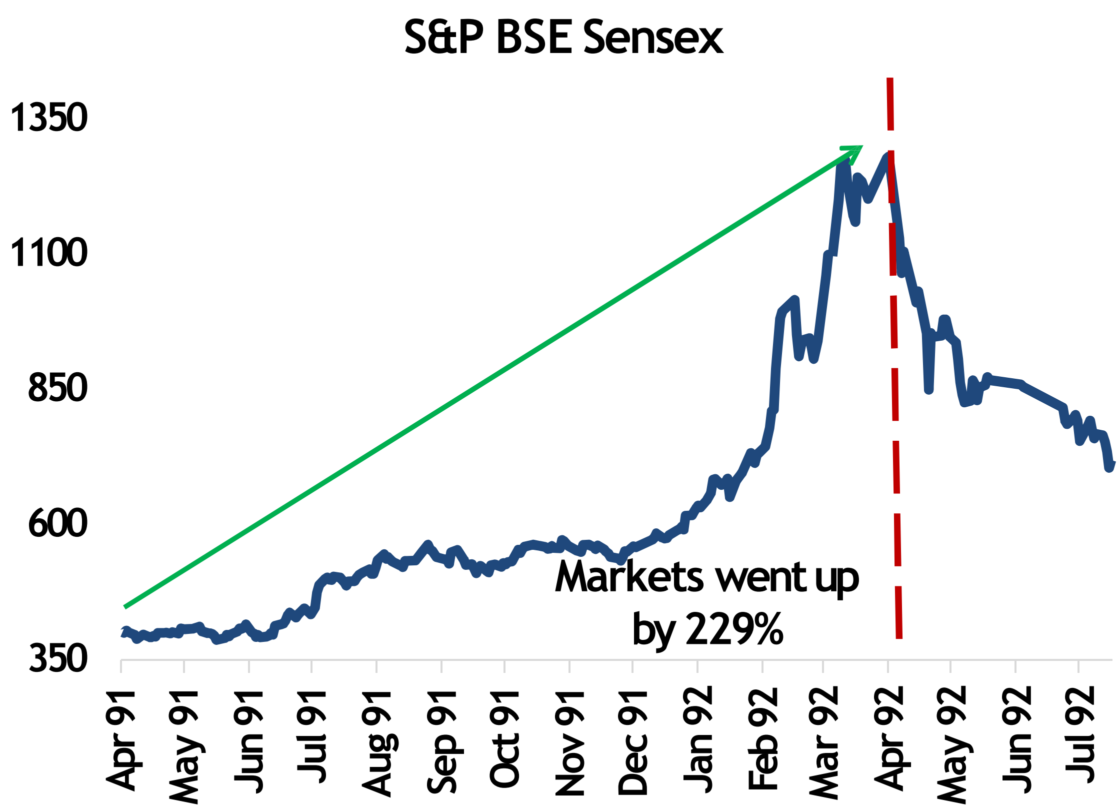
Equity Market: Overview

- Global equity markets will continue to remain volatile in the short term due to the resurgence in COVID.
- However, gridlock after US Election results should benefit equities. Continuing fiscal and monetary policy support should also provide a supportive backdrop for stocks.
- Abundant liquidity, global as well as domestically provided by RBI, will support the Indian economy and can drive a bull market in Indian Equity markets in medium-to-long term.
- **Short-term (3 months):** Volatility is expected to continue due to global developments. With the recent sharp rally, market may have topped out in the short term.
- **Medium-term (1 year):** Nifty Trailing P/B, which is a better indicator than P/E in the current environment, is close to its LTA. Mid-and-smallcaps are at relatively attractive valuations. Outlook on most sectors is turning positive. Domestic cyclicals and financials can play out well.
- **Long-term (3 years):** In the current environment, it would be best to take a 3-year view as the economy and earnings would have normalized by then. Over a 3-year timeframe, we can expect a return CAGR of 10-12% for the Nifty.
- **Recommendation:** Investors should BUY Dynamic Asset Allocator Funds, continue their SIPs. Lump-sum investments should be spread over the next couple of months.

Step: 4

Most Undervalued sector/theme/category

Year 1992



Reasons for Rally

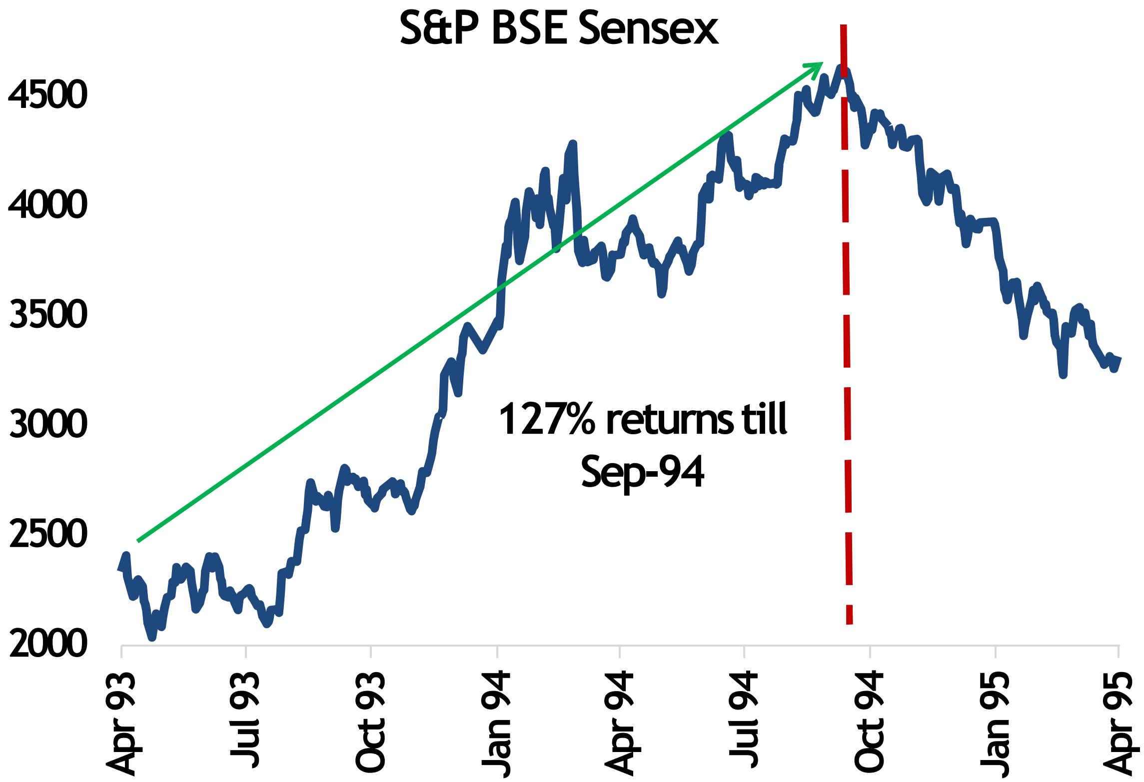
- ✓ Narrow rally in select stocks
- ✓ Historic budget of 1991 underpinned this skyrocketing uptrend
- ✓ Sectors such as Cement, Public Sector Banks and Metals led the charge

Appropriate Strategy

- ✓ Steering away from such select stocks and investing in stocks with inexpensive valuations

Source: ICICI Prudential Mutual Fund

1993-94: First Liquidity Boom



Source: ICICI Prudential Mutual Fund

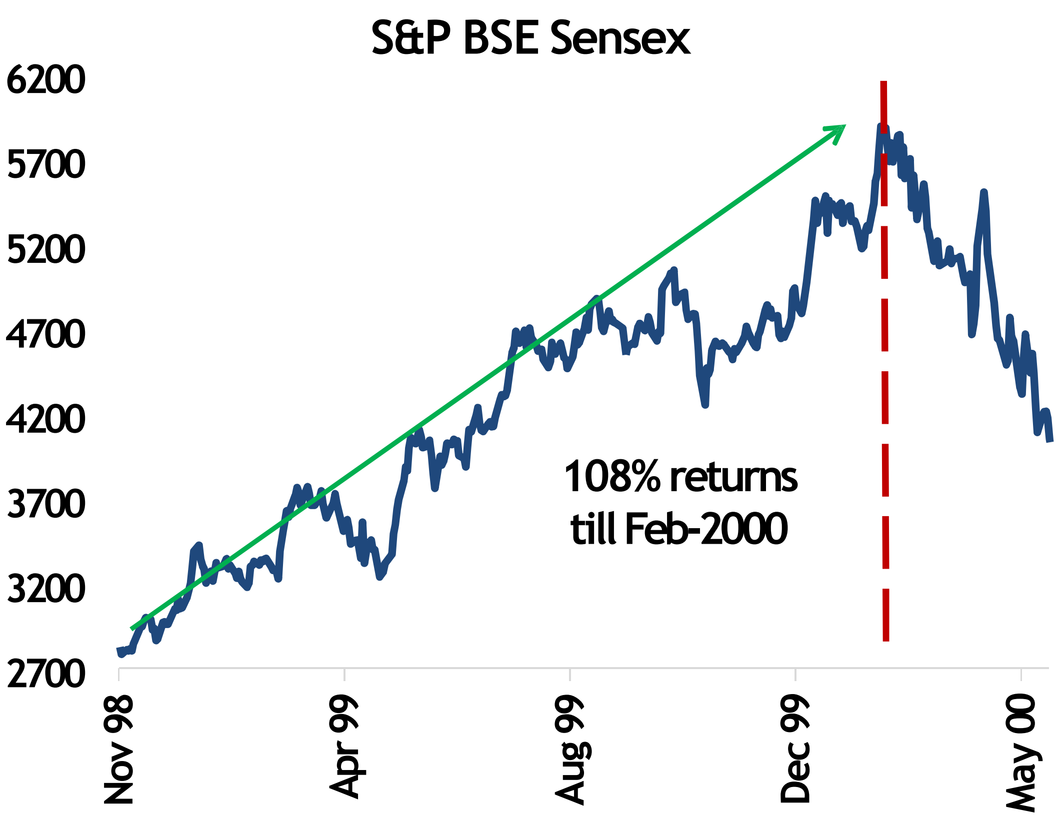
Reasons for Rally

- ✓ FIIs allowed to invest in Indian equities
- ✓ Between FY'93 and 96 3,502 IPOs launched, raising INR 32,472 Crs.
- ✓ Private sector players were allowed to participate in the Mutual Fund Industry

Appropriate Strategy

- ✓ Gold as an asset class was available at inexpensive valuations

1998-2000: Tech Boom



Source: ICICI Prudential Mutual Fund

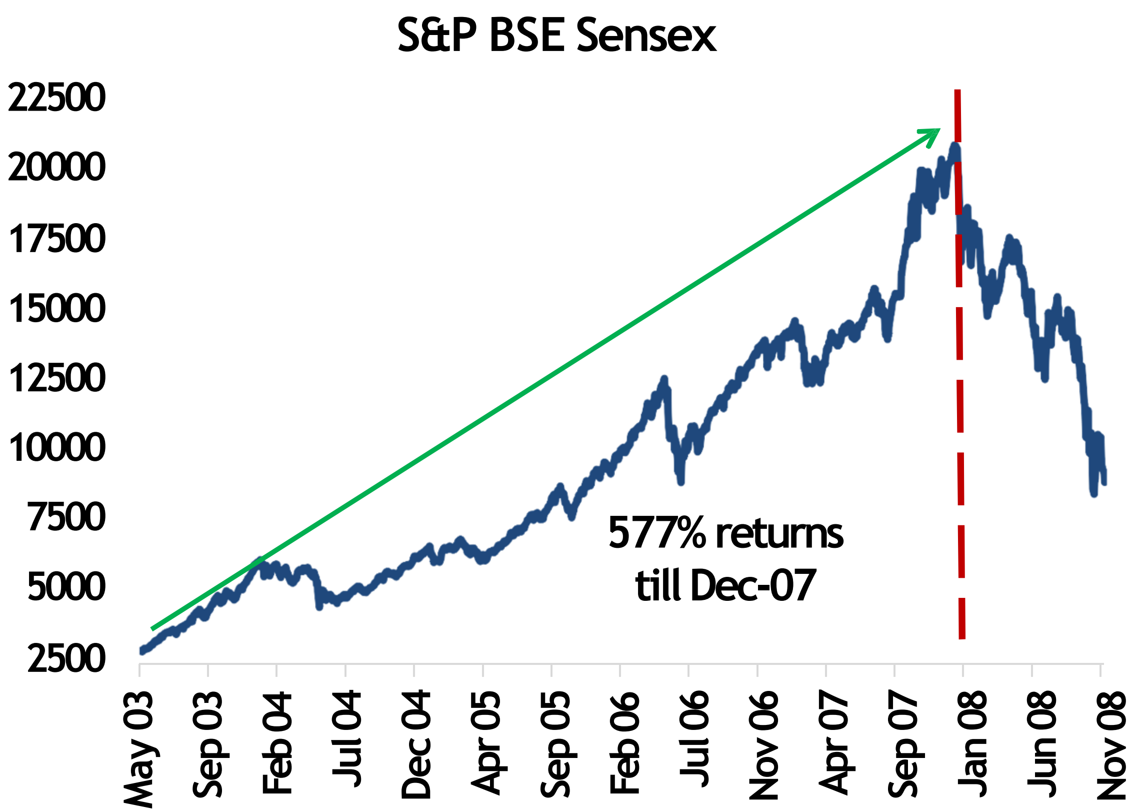
Reasons for Rally

- ✓ Internet set the foundation for the next uptrend
- ✓ Valuations of IT companies were based on site visitors
- ✓ The upward trend was led by Telecom-Media-Technology companies (TMT)

Appropriate Strategy

- ✓ Old economy sectors like industrials, consumer durables, power, etc. were reasonably valued

2003 – 2008: Rise of BRIC Nations



Reasons for Rally

- ✓ BRIC was considered and projected as new building blocks of the global economy
- ✓ This was due to the demographic advantage and subsequently higher growth potential
- ✓ The rally was led by Infrastructure

Appropriate Strategy

- ✓ Growth stocks were reasonably valued

BRIC: Brazil – Russia – India – China. / Source: ICICI Prudential Mutual Fund

2014 – 2017: 2nd Liquidity Boom

Share in the Overall Market Cap (%)

Index	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Jul-20	Aug-20	Sep-20	Oct-20
Top-100	79	75	74	71	79	77	78	79	78	81	75	74	72	65	70	75.1	73.9	74.0	74.1
101-250	11	12	12	13	11	12	13	13	14	13	14	15	15	16	16	15.2	15.7	15.6	15.5
Above 250	11	13	14	16	10	11	9	8	8	6	10	11	14	18	14	9.7	10.4	10.4	10.5

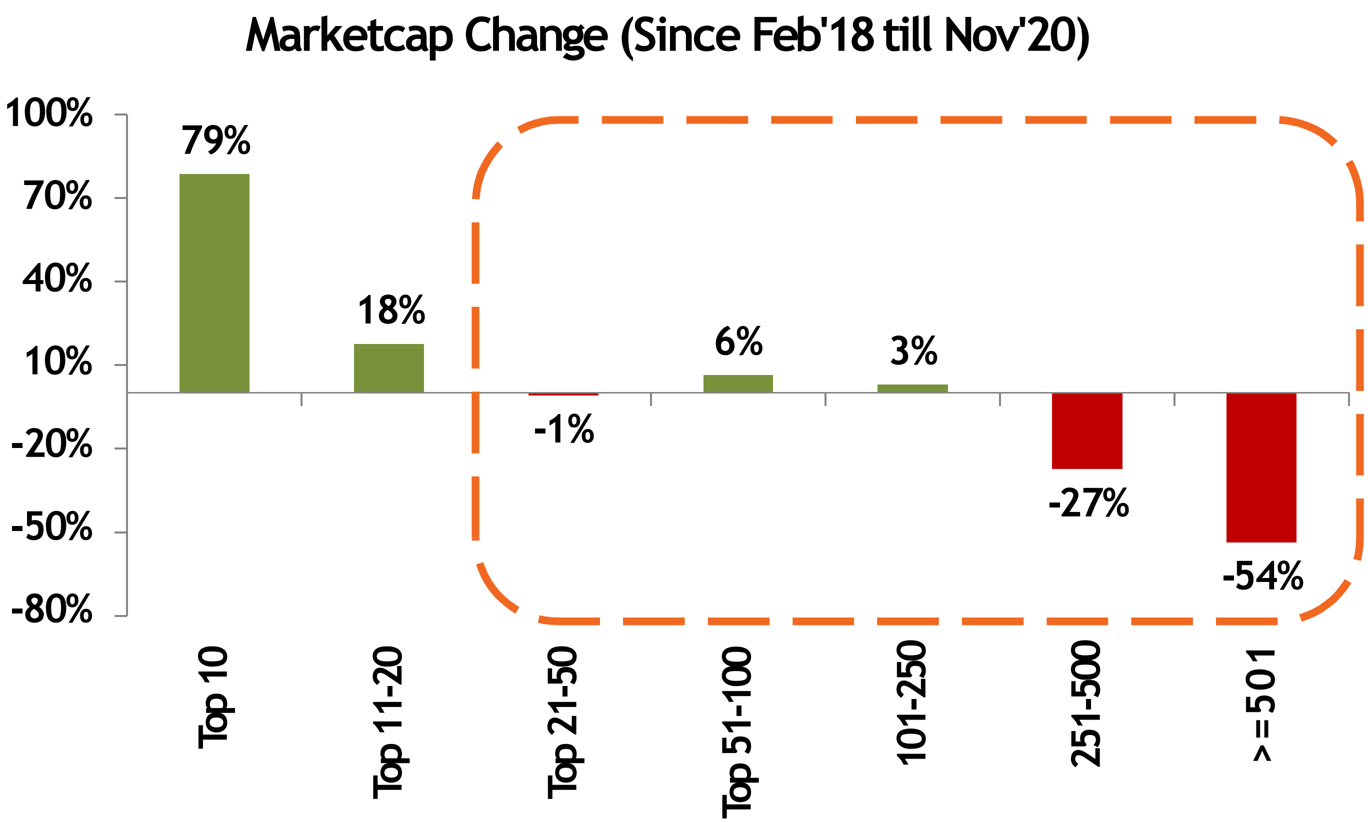
Reasons for Rally

- ✓ Strong election mandate+ Global Liquidity

Appropriate Strategy

- ✓ Largecaps were reasonably valued

2018 – 2020: Period of Polarization



Barring a handful of growth stocks, markets have broadly underperformed. This makes 'VALUE' as a theme relatively attractive to 'GROWTH'

Total Universe considered is 3733 listed stocks. Stocks are arranged in descending order as per Marketcap. Marketcap change is considered for period between 28-Feb-18 and 30-Nov-20. Source: Edelweiss Research. Past performance may or may not sustain in future

Sectoral Valuation: Utilities-PSUs-Infra-Cap Goods-Metal-Media…trading at deep discount.

Sector	Current Fwd P/B (x)	10 YR PB (x) Avg (x)	Prem / Dsc (%) P/B	Current Fwd P/E (x)	10 YR PE (x) Avg (x)	Prem / Dsc (%) P/E
Telecom	6.8	2.6	161.3	NA	37.1	NA
Retail	12.6	8.1	55.1	112.6	63.2	78.2
Technology	5.6	4.4	27.9	22.6	17.1	31.9
Oil & Gas	1.8	1.5	22.4	15.1	11.8	27.5
Healthcare	3.8	4.0	-6.2	26.5	25.0	6.3
Banks-Private	2.2	2.5	-10.5	17.5	20.0	-12.8
Automobiles	2.8	3.2	-11.5	32.0	24.2	32.3
Consumer	8.8	10.0	-12.2	41.6	36.5	14.0
Cement	2.2	2.6	-15.7	23.7	23.5	1.0
NBFC	2.5	3.0	-16.1	19.9	19.9	-0.4
Metals	0.9	1.2	-25.6	11.5	13.8	-16.6
Capital Goods	2.1	3.1	-31.9	25.1	29.9	-16.1
Banks-PSU	0.9	1.4	-36.4	11.0	17.9	-38.7
Utilities	0.9	1.9	-50.9	6.3	12.5	-49.3
Infrastructure	0.9	1.8	-53.4	11.6	13.7	-15.5
Media	2.7	5.8	-54.1	19.5	29.2	-33.1

Value Investment approach and lumsum investment advise for next 3-4 years is (1) Value Funds (2) Banking and Financial Services Fund. But do get your Financial Plan and Risk tolerance done before investing from your own advisor.

Invest in stocks/funds based on Value - Special Situations theme and potential future leaders.

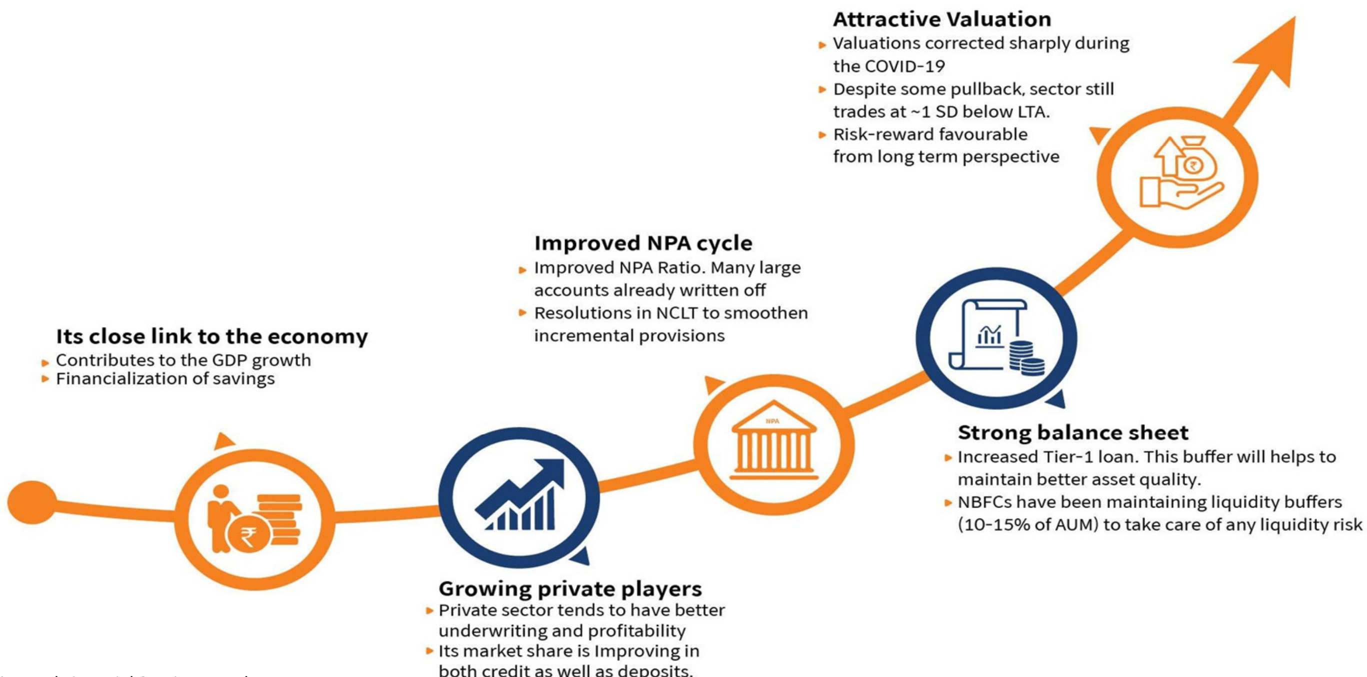
What looks attractive for next 3-5 years from now ?

- At this juncture we are bullish on the cyclical large cap stocks which are primarily from the sectors like engineering, capital goods, industrial products, real estate, utilities, and select banks & financial services companies.
- We expect this basket to outperform nifty index over the next 3-5 years. We see huge margin of safety here. These stocks are available at a fraction of their historical valuations at this point of time.
- Even in the last six to eight months, these stocks have not done well because of the corona impact/ worries. 2/3rd of Nifty stocks are at cyclically bottom valuation and 1/3 of the stocks are at cyclical top valuations.
- **We believe this opportunity to buy into Big cyclical companies is coming to us after a decade.**
- **This segment is a high conviction basket for lum sum investment with a 3 to 5 year horizon.**
- Hence it is important to have your lumsum investment for next 3-5 years into focused deep Value Funds comprising of the above mentioned segment.

Why Banking & Financial Services Fund Now ??

BFSI: What looks so attractive within the sector

Why Banking & Financial Services Now?

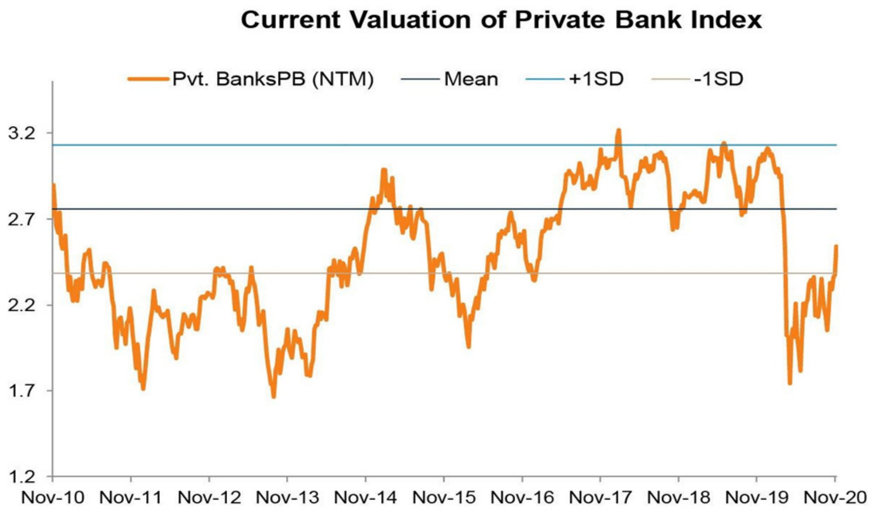


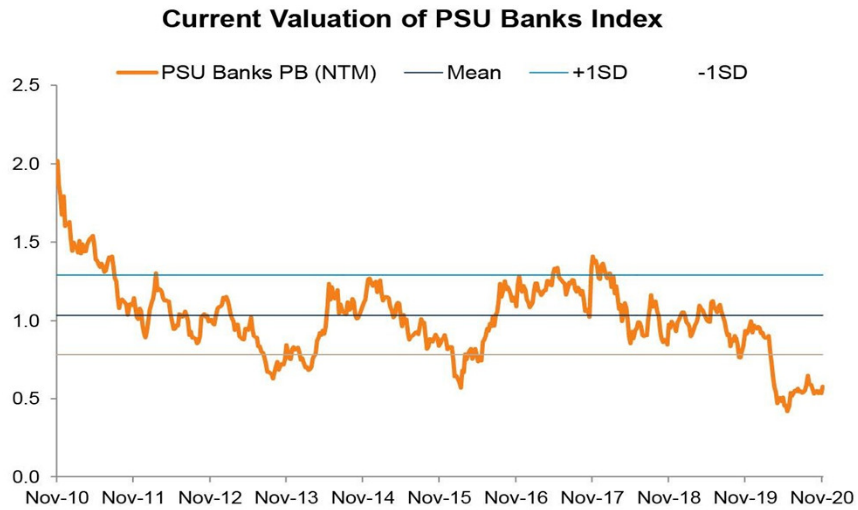
Source: Mirae Asset Banking and Financial Services Fund

Banking and Financial Services sector outlook post Covid

Valuation have corrected during COVID-19

- Currently, private banks are trading at valuations that are 1 SD (standard deviation) below long term average while PSU banks are trading much below 1 SD.



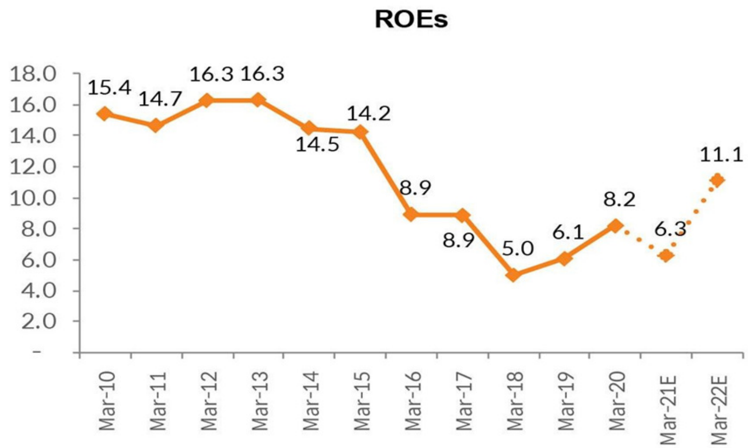


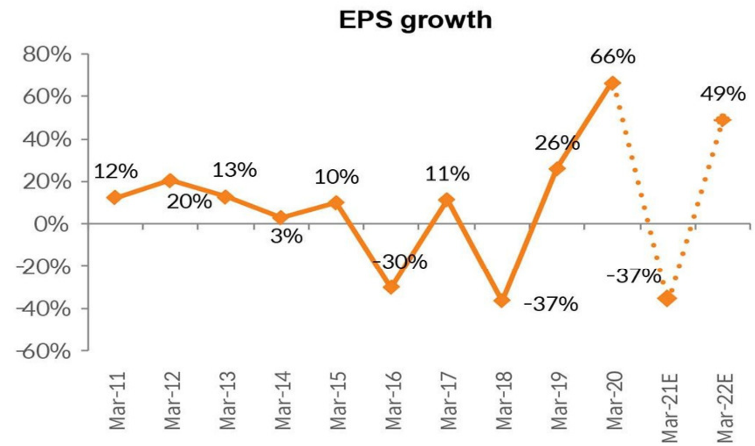
Source: Bloomberg, Data as of 10th Nov

BFSI: EPS growth & ROEs (Historical Comparison)

Valuation and Earning Growth – ROEs set to normalize

- BFSI earnings expected to be better in FY 21 and normalize FY22-23 onwards
- Many stocks in the BFSI are trading at a sharp discount to long term average valuations
- Better than expected asset quality will be one of the biggest driver of ROE recovery and valuations gap narrowing in the coming years.



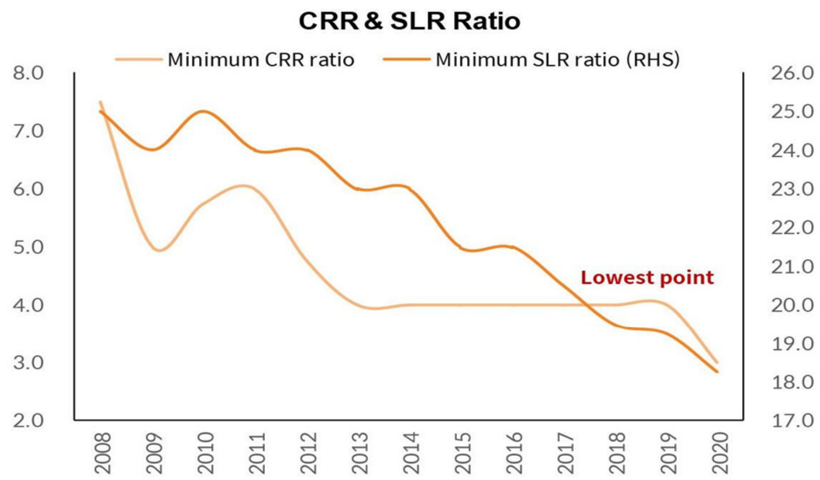


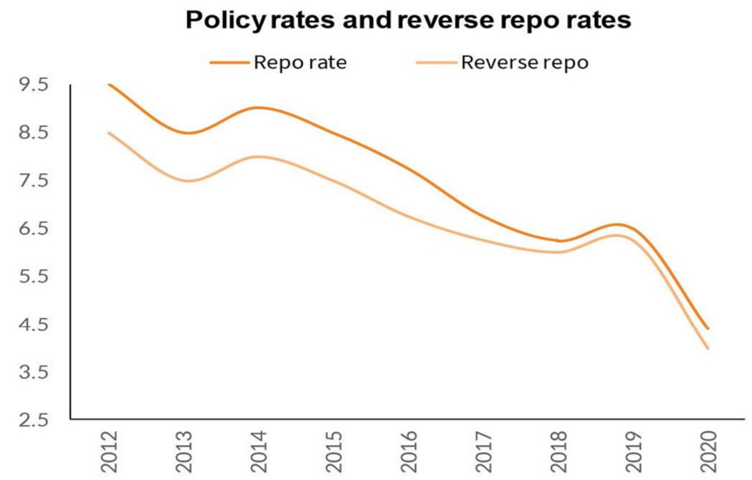
Source: Bloomberg Consensus Data as of 23 Oct 2020

BFSI: RBI Policy supportive

Healthy support on regulatory front

- Regulator ensuring enough liquidity, rate transmission to boost credit
- Currently, Repo rates are at historical low over the last decade or so





Source: RBI, Banks data as of Sep 2020

Views on Banking and Financial Sectors

Private Banks	• Well managed, Gaining market share in both credit and deposits. • Strong capital and provision buffers • Digitization trends driving further business efficiencies.
Insurance	• Market demand is improving, protection share rising. • Low market penetration provides further opportunity to grow and scale up
Capital Market	• Number of investors are increasing along with market size • AMC well underpenetrated
NBFCs	• Strong liquidity buffers and improving access to liabilities at competitive rates. • Select NBFCs with better parentage and better liability profile to gain market share
PSU Banks	• Improving asset quality, capital positioning need to strengthen. • Improving core profitability, but weak growth outlook.

Source: Mirae Asset Banking and Financial Services Fund

we plan, you gain

Asset quality post COVID-19 pandemic

- Pandemic disrupted the economy impacting the earnings of salaried as well as income of businesses.
- 6 month moratorium by RBI on all loans; government to bear interest on interest for small borrowers

Improving Collection Efficiency	▸ Moratorium moderated from 25-30% in April May to <5% in Aug-20 as the economy unlocked. ▸ Collection efficient too improved to > 95% in Sept-20/ Oct-20 ▸ Thus, fears of repayment post moratorium have stabilized largely, as collection efficiencies improve
Supportive Govt's Policy and Regulation	▸ Government announced INR3 trn MSME Credit Guarantee Scheme (2 yr moratorium + 20% credit).- ▸ Win-win form lenders-borrowers as it is government guaranteed and comes at a lower interest rate. ▸ Banks expect negligible restructuring in both Corporate and Retail
Improved Asset Quality	▸ Outlook on incremental stress is fairly benign with slippages to the tune of 2-3% only- ▸ Expect moderate incremental credit cost as PCR @70%+ and provision buffer @1-2.5% of loans

Source: Mirae Asset Banking and Financial Services Fund

Fintech theme is good for 3-4 years perspective

Financialisation of savings

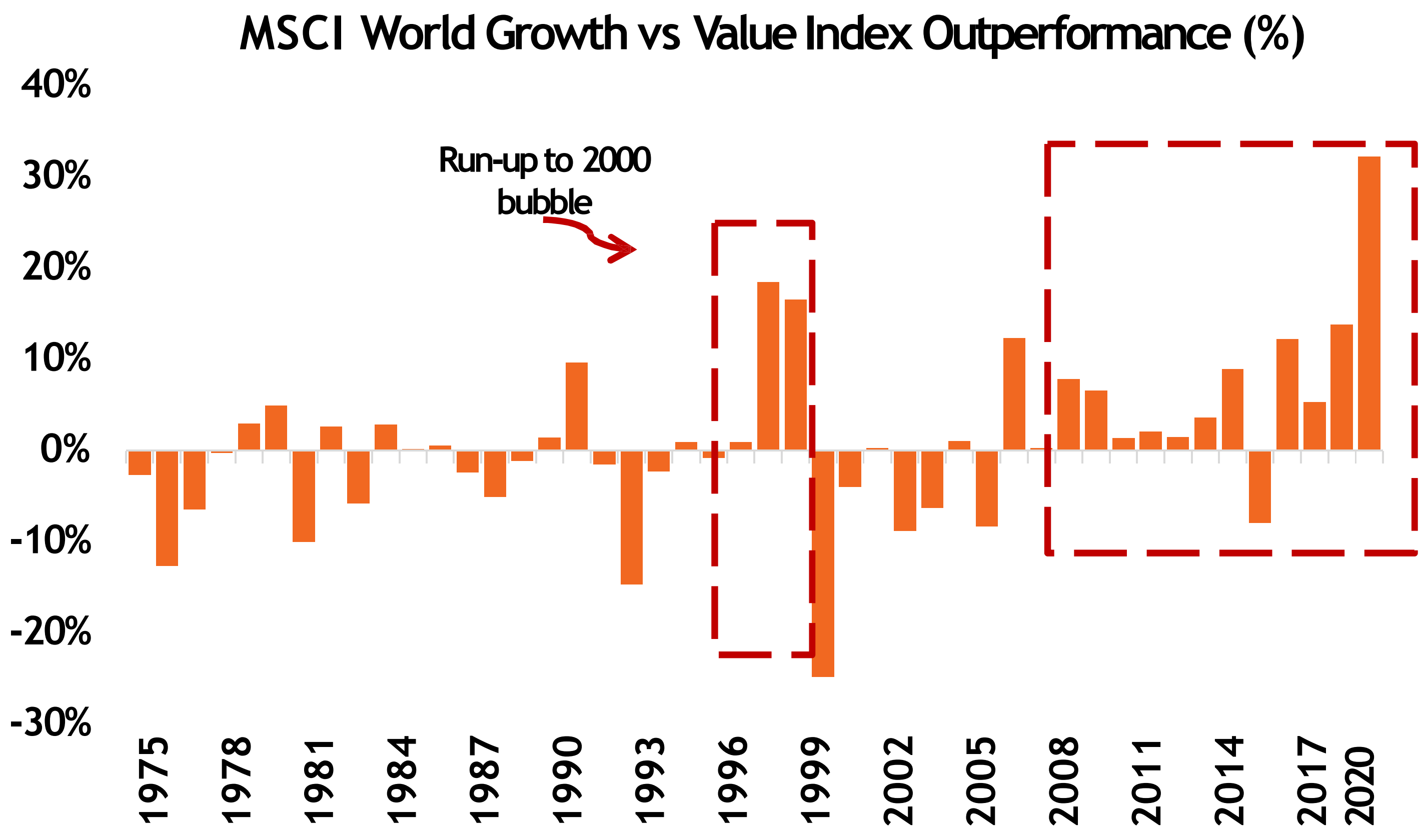
- Online Transactions
- Fintech Biz
- Banks / NBFCs
- Life / General Insurance
- Capital market plays
- Asset Mgmt companies

Digitization + IT Outsourcing

- IT Services Outsourcing
- Cloud Computing
- Internet of Things
- Artifical Intelligence
- Robotics
- Cyber Security

Why Invest in Value Funds Now ???

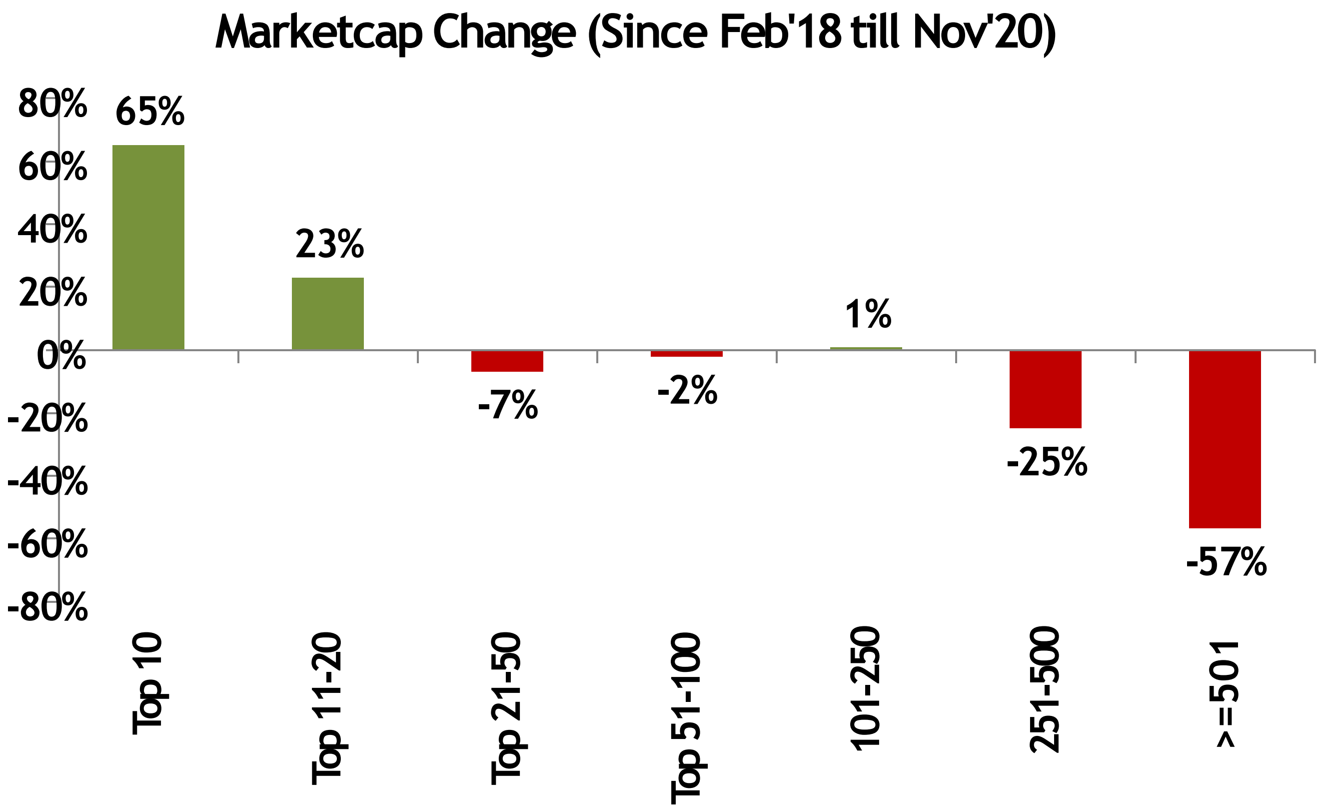
Growth vs Value: Spread in 2020 are at an all time High



Currently, Growth Vs. Value CYTD performance spread is the largest ever, far exceeding even the run-up to 2000 bubble. Value is expected to perform

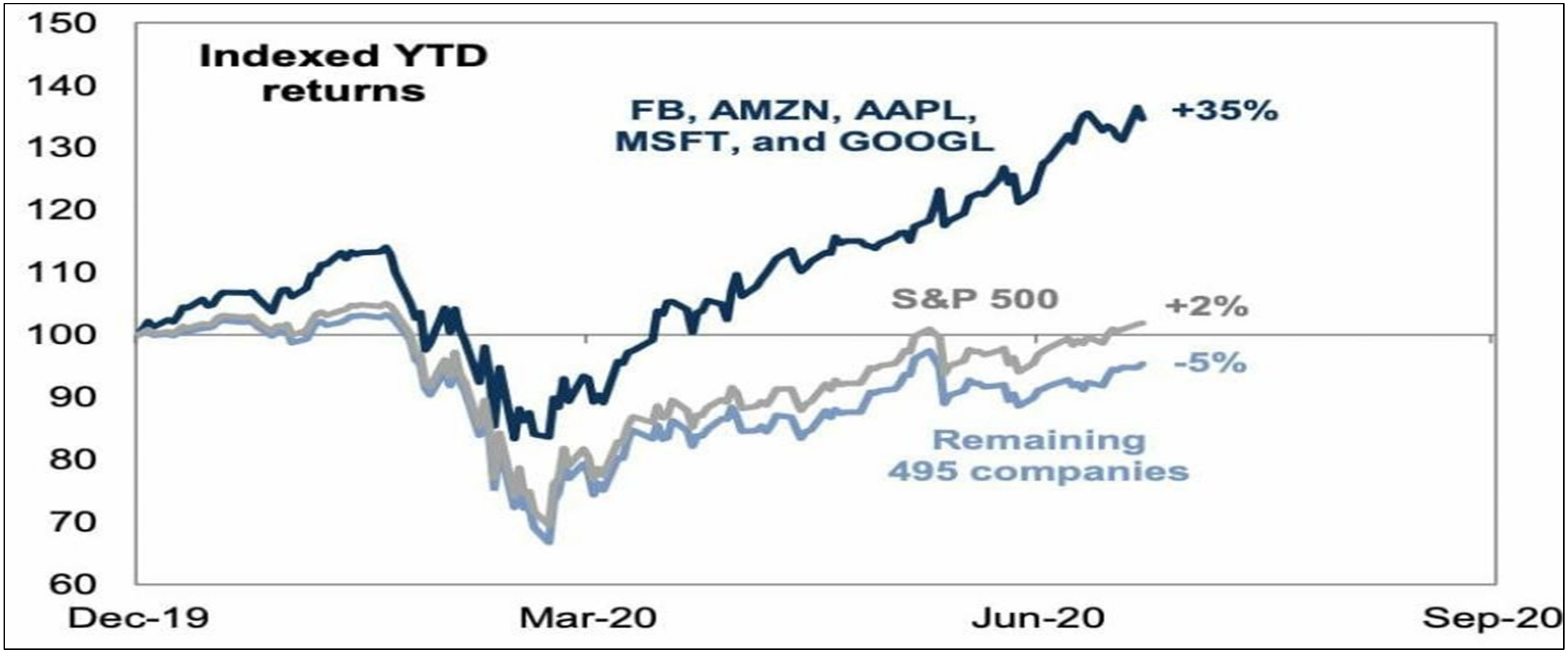
Source: JP Morgan. Data as of Oct 31, 2020. Past performance may or may not sustain in future. CYTD - Calendar Year Till Date

Growth vs Value: Time for Value Investing in Value category



Barring a handful of growth stocks, markets have broadly underperformed.
This makes 'VALUE' as a theme relatively attractive to 'GROWTH'

Polarization is visible across the world and not just in India



The 5 largest stock have delivered 35% YTD and the remaining 495 stocks have given negative 5% return.

Value vs Growth

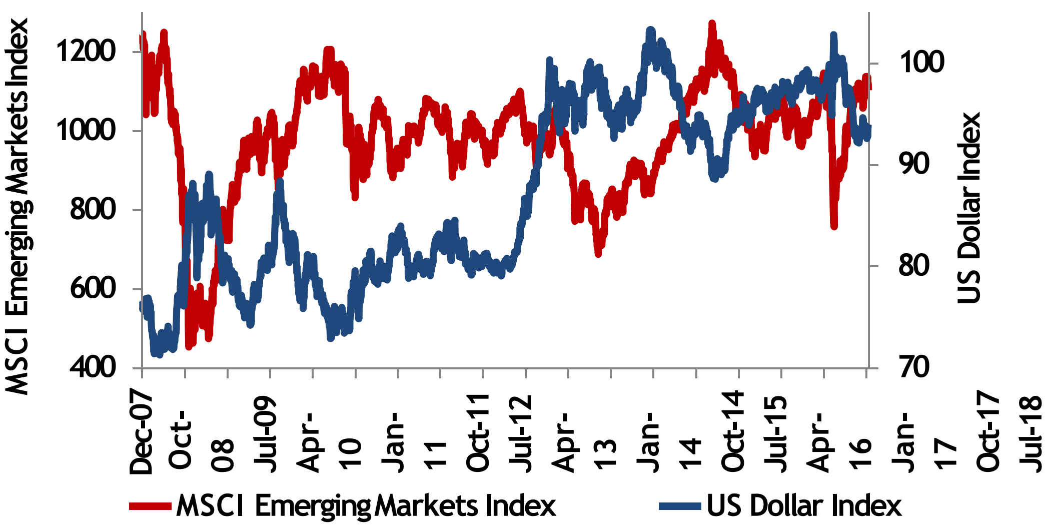
Year	Returns post Corrections	
	MSCI India Value Index	MSCI India Growth Index
2008 to 2009 (Lehman Crisis)	116%	110%
2013 to 2014 (Taper Tantrum)	41%	35%
Feb-16 to Nov-16* (China Crisis)	15%	11%
2018 to 2019 (NBFC Crisis)	10%	7%

Historically post market corrections "Value Theme" has outperformed the "Growth Theme". I expect Value segment to outperform in next 3-4 years.

Value Theme – Emerging Markets & US Dollar

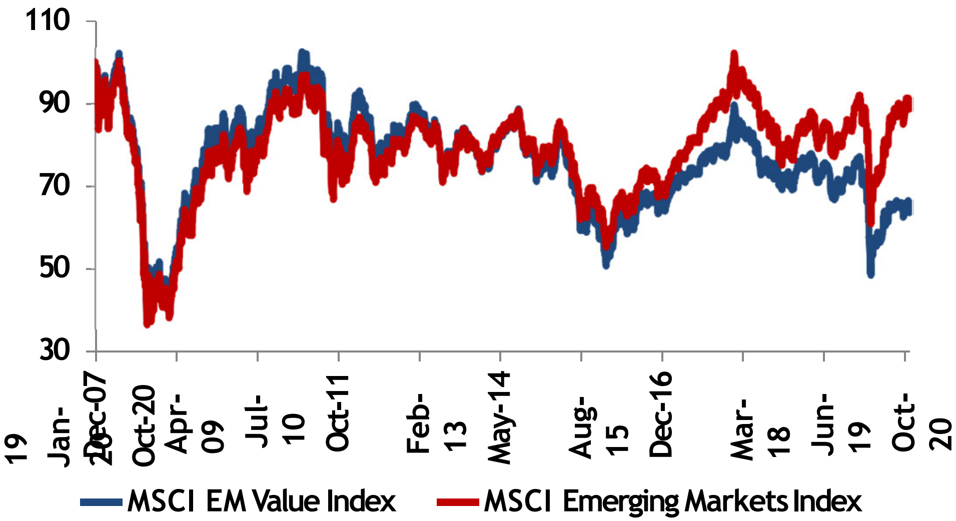
Historically, Emerging Markets have gained when the US Dollar depreciates

US Dollar Index Vs. MSCI Emerging Markets Index



Historically, Value theme has performed in tandem with Emerging Markets

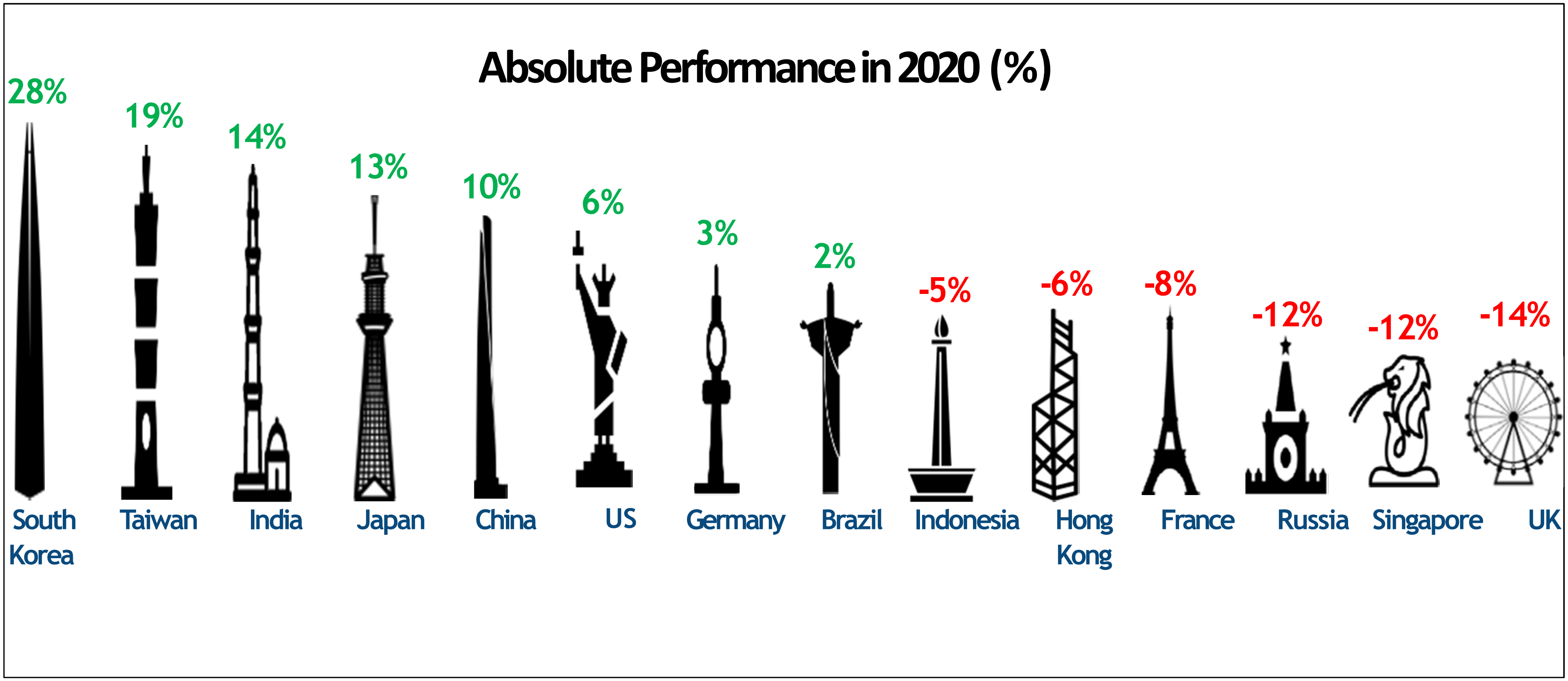
MSCI Value Vs. Emerging Markets



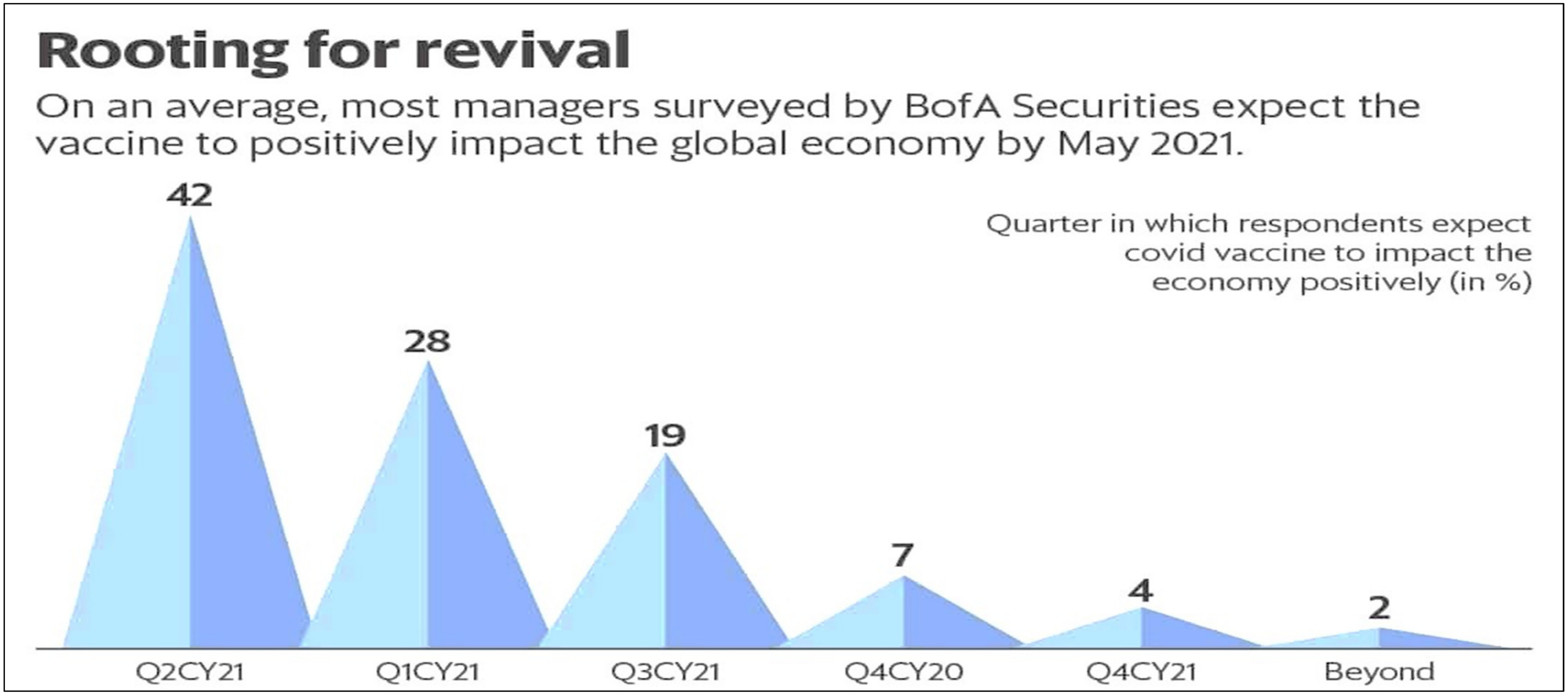
US Dollar may depreciate further due to ample liquidity. Going by the historic trends, Emerging Markets may do well with USD depreciation & Value theme may perform better than the growth theme

Source: Morgan Stanley. Data as of Oct 31, 2020. Past performance may or may not sustain in future. EM - Emerging Markets, GFC - Global Financial Crisis

Emerging markets outperformed Developed markets in 2020



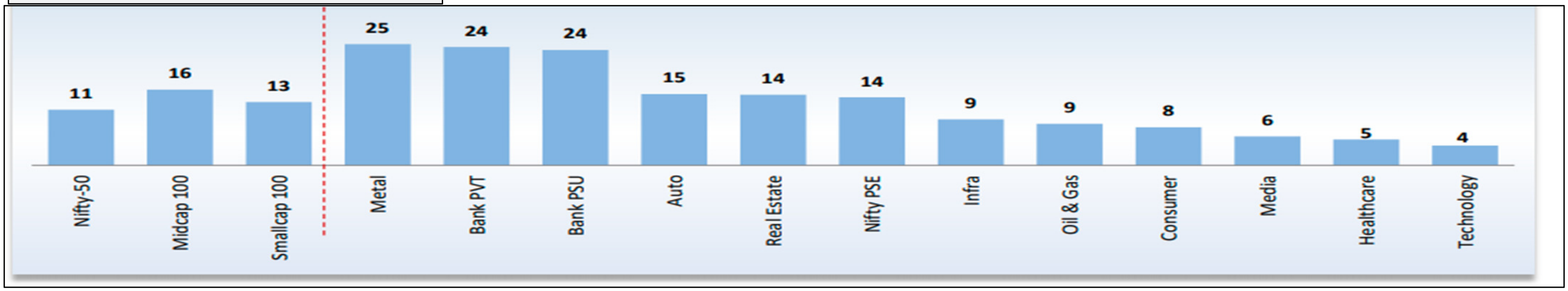
Emerging Markets – are the most preferred Asset Class



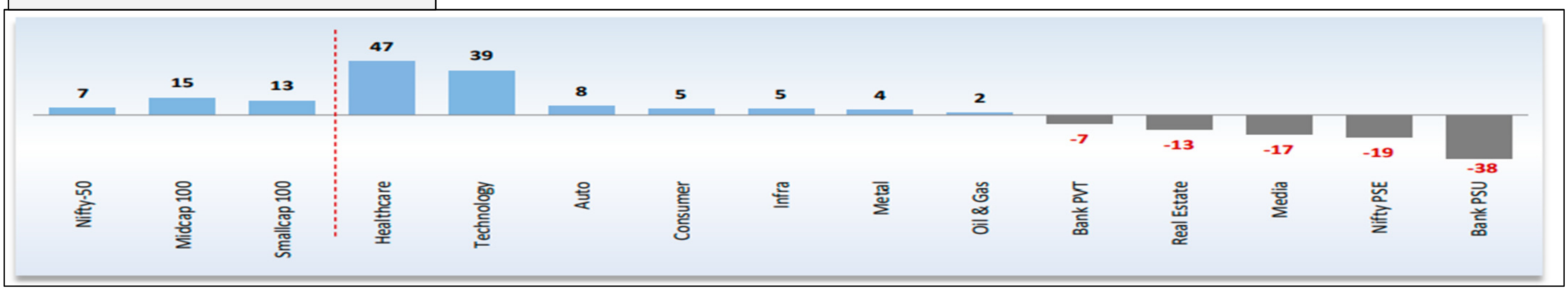
Source: BofA Securities fund managers survey

Investment in Value Category and Banking segment has already started from Mid October 2020.

Sectoral performance MoM %



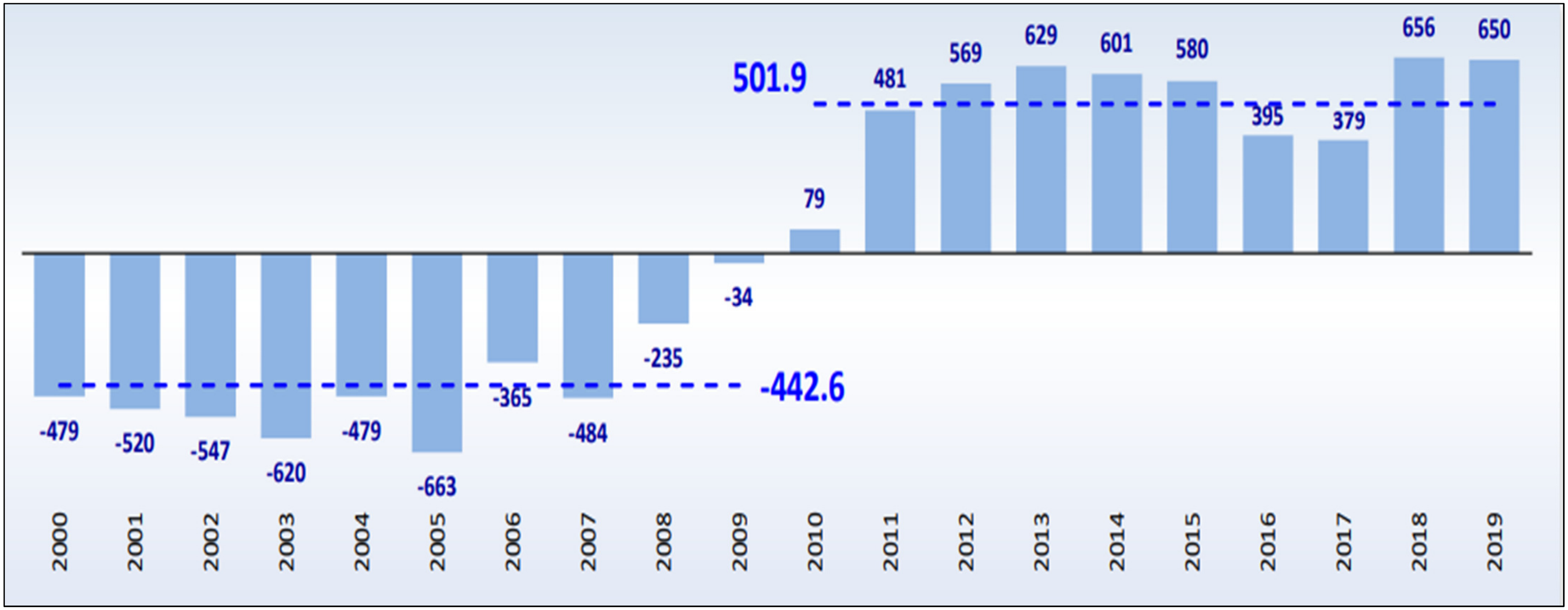
Sectoral performance CY 20 %



Source: Motilal Oswal

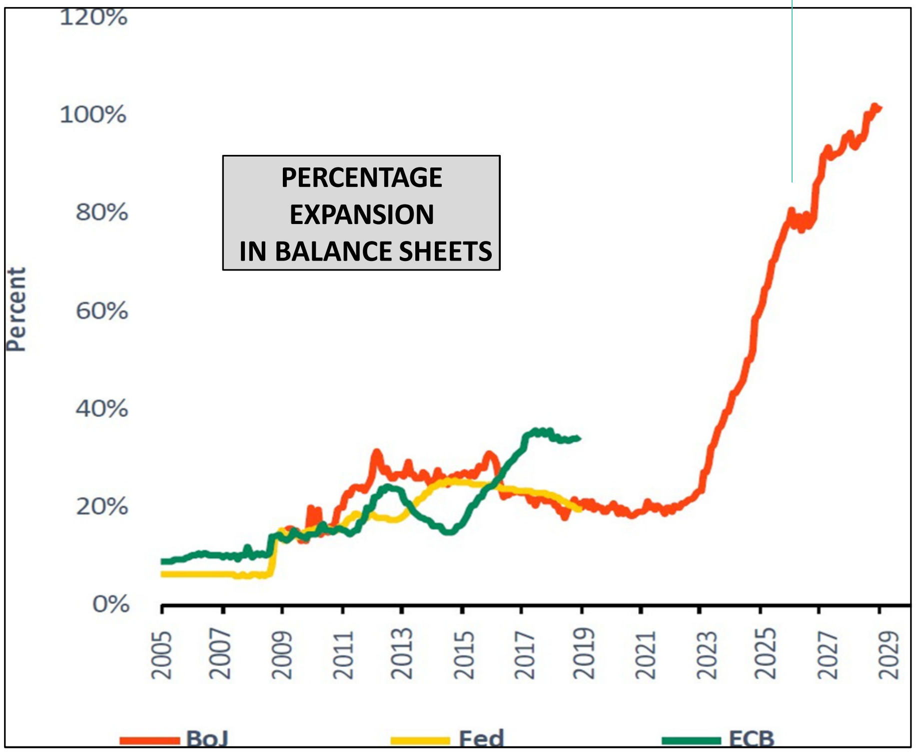
GOLD – God's own currency

Central Bankers were buyers of Gold post 2008 crisis



Source: World Gold Council, MOFSL

Central Bank Balance Sheet Expansion



FEDERAL RESERVE (FED)
V/S
EUROPEAN CENTRAL BANK (ECB)
V/S
BANK OF JAPAN (BOJ)
(Projected 10 years forward)

BoJ engaged in QE since late 1980s
 Template for potential FUTURE Balance sheet expansion by Fed & ECB to counter potential debt deflation

Size of current & future balance sheet expansions => fear of devaluation in fiat currency

Source: Federal Reserve St. Louis, Incrementum AG, July 2019.

Implications of Covid-19 on the alternative currency debate

NEAR TO MID TERM (1 – 3 years)

Covid-19 has caused an economic slowdown which may become a **severe recession or depression** depending on the length of the global lockdowns

Given existing high levels of debt, this creates a higher possibility of **Debt deflation** as most of the money used to service debt

HIGH DEMAND FOR US DOLLARS TO MEET CASH REQUIREMENTS & DEBT REPAYMENTS

⇒ USD LIKELY TO BE FAVORED OVER GOLD

LONG TERM (> 3 years)

Strengthening dollar may **create stress for other currencies** starting from weakest EM currencies and proceeding to strongest DM currencies over time

Sovereigns already buying corporate debt and transferring risk onto themselves and creating **potential for currency collapses**

STRONG US DOLLAR POTENTIALLY CREATES CONSENSUS FOR CHANGE OF RESERVE

=> GOLD LIKELY TO BE FAVORED OVER USD

USD may strengthen in the near term & reduce fear of reserve currency but devaluation creates conditions for future change of USD reserve system.

Implications of Covid-19 induced shutdowns on demand / supply

first planner

we plan, you gain

DEMAND SIDE

Buyers in the Futures may insist on physical delivery to ensure against potential defaults

Central bank demand maybe affected due to lower reserve surplus caused by

- fall in exports
- potential debt servicing requirements

POTENTIAL DISCONNECT BETWEEN FUTURES & PHYSICAL MARKET

SUPPLY SIDE

Lockdown may impact availability of workforce for various activities

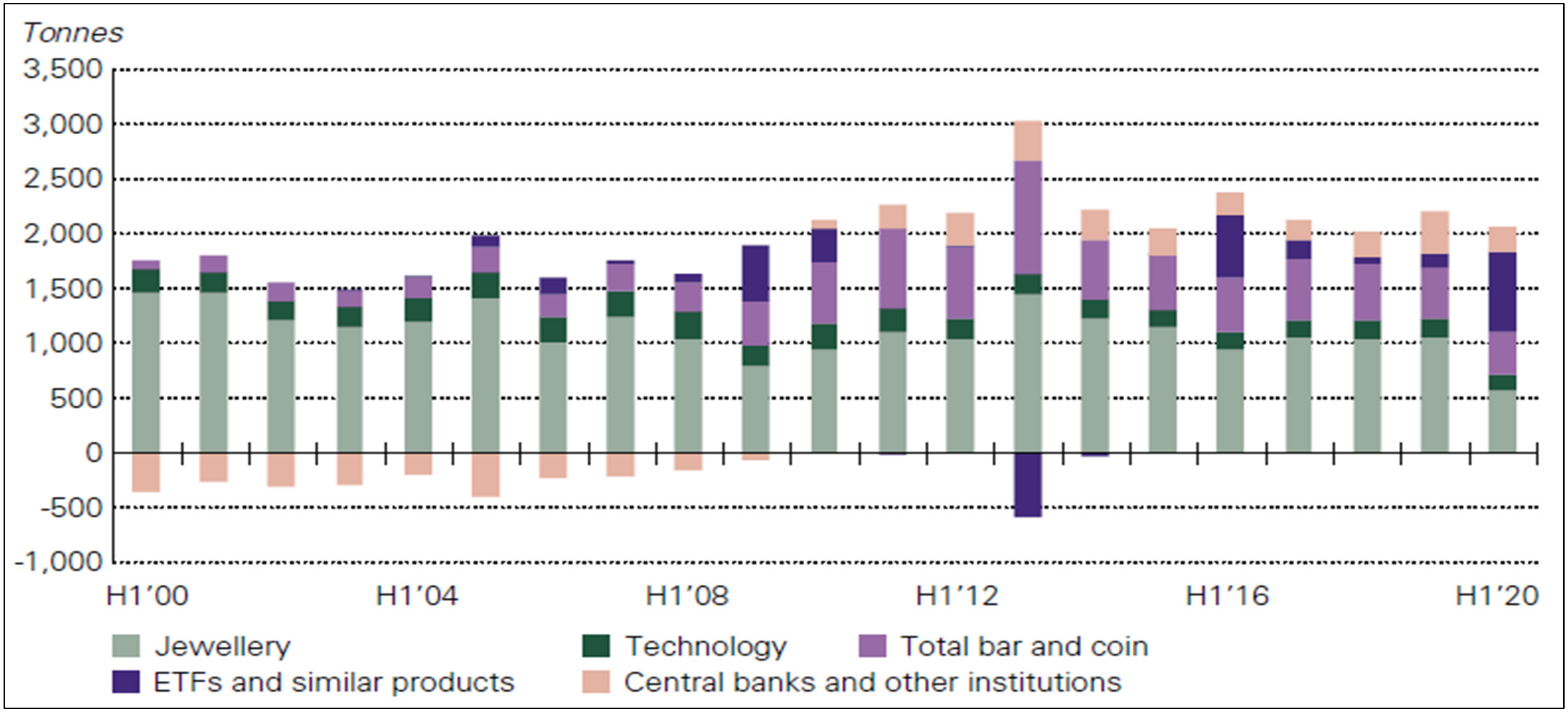
- Mining of the ore
- Refining and production
- Transportation of cargo
- Loading and unloading of cargo

POTENTIAL FOR SUPPLY SHORTAGES

Potential supply shortages

=> Potential dislocation between Futures & Physical markets

Record inflows YTD for Gold backed ETFs



Source: Metals Focus, World Gold Council

Explaining the relationship between: Real Rates vs Gold

GOLD IS A NON COUPON BEARING ASSET

REAL RATES = NOMINAL BOND YIELD – INFLATION

(The real returns made by a bond investor)

IF REAL RATES ARE POSITIVE

Investor makes a positive return on the Bond v/s Zero returns on Gold (ignoring price appreciation)

DEMAND FOR BONDS WILL BE HIGHER THAN GOLD

IF REAL RATES ARE NEGATIVE

Investor makes a negative return on the Bond v/s Zero returns on Gold (ignoring price appreciation)

DEMAND FOR GOLD WILL BE HIGHER THAN BONDS

WHEN DO WE GET NEGATIVE REAL RATES?

1. **DURING INFLATIONARY / HYPERINFLATIONARY SCENARIOS**

Inflation (accelerating) > Bond yields

=> Real rates are negative

2. **DURING A NEGATIVE INTEREST RATE ENVIRONMENT**

Inflation (small positive) > Bond yields (Zero to negative)

=> Real rates are negative

Gold Outperforms when Real rates are Negative

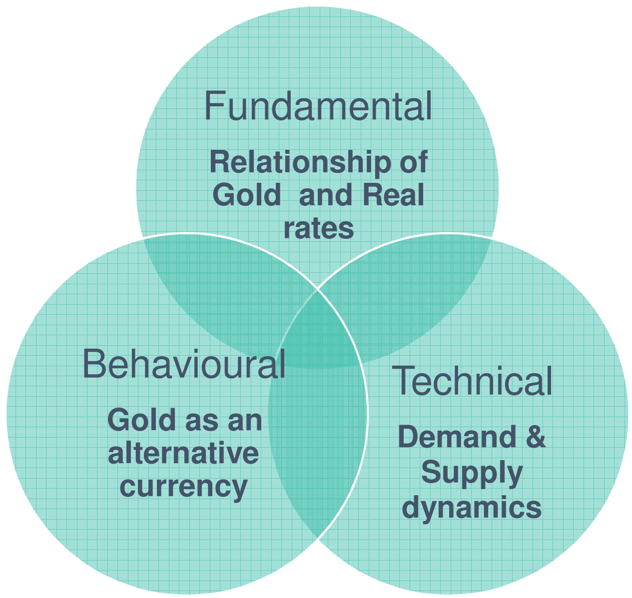
Graphical representation: Real rates v/s Gold

Gold gives a positive carry in a negative real rate environment

HISTORICALLY ~90% NEGATIVE CORRELATION BETWEEN US 10 YEAR REAL RATES AND GOLD PRICES

Source: DSP world Gold Fund

Summarizing Gold Investment Framework



COLLAPSING INFLATION = RISING REAL RATES => NEGATIVE FOR GOLD PRICES

SEVERE ECONOMIC SLOWDOWN IS LIKELY TO USD STRENGTH V/S GOLD

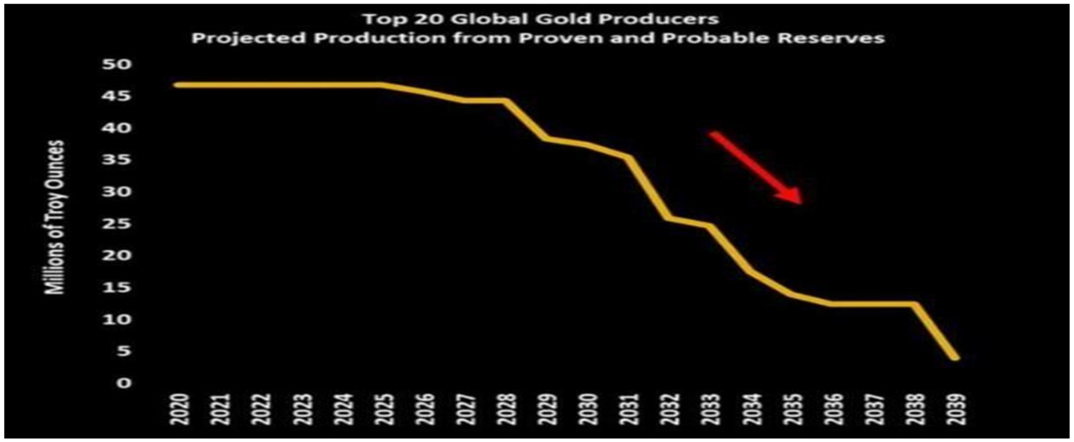
STRONG USD IN LONG TERM
⇒ CONSENSUS FOR RESERVE CURRENCY CHANGE
⇒ DEMAND FOR GOLD V/S USD

LOCKDOWN => SUPPLY SHORTAGES

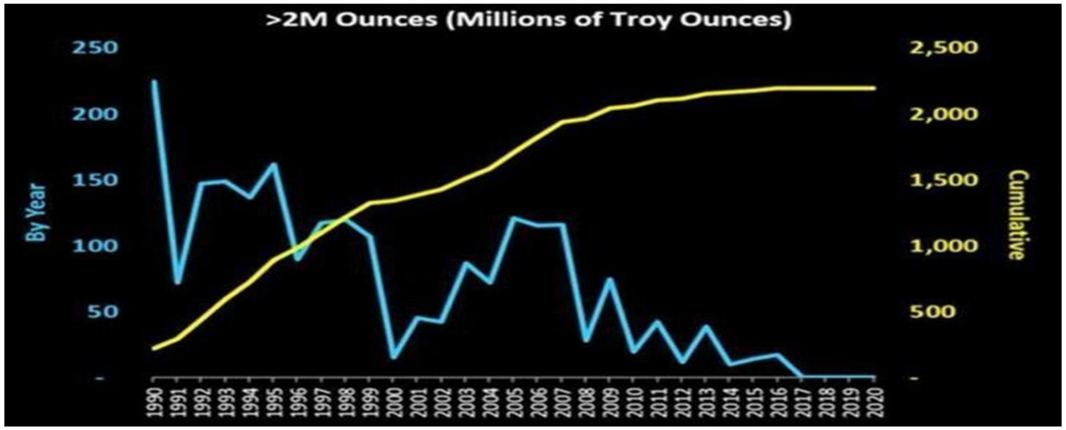
=> POTENTIAL DISLOCATION BETWEEN FUTURES & PHYSICAL MKTS OF GOLD AS FUTURES BUYERS INSIST ON DELIVERY

Fundamental imbalances in USD system => long term bull case for Gold Covid-19 effects => may cause near to mid term corrections

Fundamentals of GOLD - 1

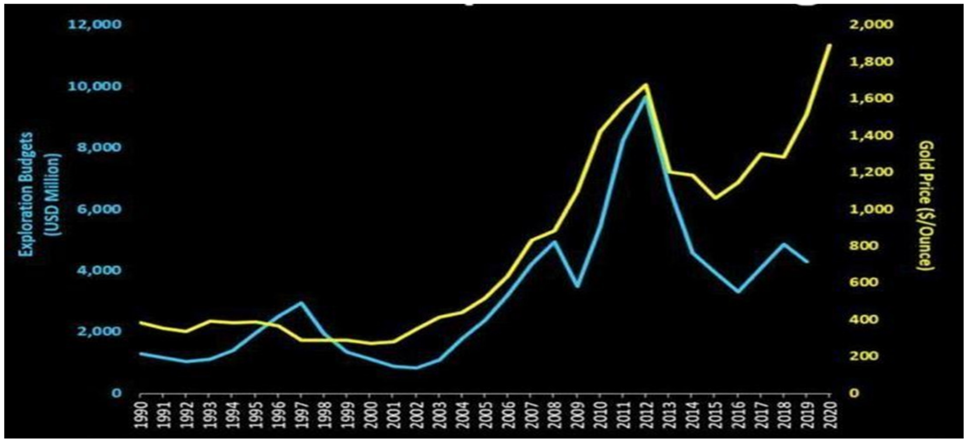


Gold Supply is Dwindling



Gold Discoveries are Falling

Fundamentals of GOLD - 2



Gold Price vs Exploration Budget

Gold vs Miners CAPEX

GOLD Outlook

- There is 12.5 % import duty on Gold in India.
- If the import duty is reduced, to that extent there will be a drop in Rupee Gold prices instantly.
- Subject to that volatility we remain bullish on Gold on a longer term basis.

Step : 5

Roadmap for 2021: Equity

Outlook for 2021: Equity

- Past decade has been favourable for equity as an asset class with accommodative stance of Global Central Banks to encourage Growth.
- We believe, markets may rally further with continued accommodative policies of Global Central Banks primarily US.
- However, the road to 2021 & beyond, consists of various Turning Points, which we believe may change the course of current market direction, leading to a change in sectoral leadership & investment styles.
- We would like to present various indicators which we believe, are at/close to their turning points.
- Hence, we believe, this phase may require investment portfolios to be highly nimble while giving due importance to overall asset allocation

Various pointers which could change the trend of the Equity market

1. Over the last decade, Global Central Banks, have supported growth by maintaining a low interest rate environment. Any change in the interest rate stance may be a turning point for the current market rally
2. Global Economies have expanded their balance sheets manifold in the last decade thereby increasing liquidity. Any change in the stance on quantum of stimulus may be a turning point for current market rally
3. In the last decade, globally, inflation remained benign. However, easy liquidity may result in inflation picking up, which may be a turning point for current market rally.
4. Commodity prices – one of the key indicators to gauge demand has already begun performing on a upper trend.
5. Dollar Index has begun depreciating on the back of significant Monetary stimulus by US Fed which may be a positive for Emerging Markets until the trend reverses – A Turning Point for Equity Markets.
6. In the last decade, equity markets delivered decent returns in relatively less volatile period due to ample liquidity. With limited room for rate cuts and fiscal stimulus there may be a turning point for current market rally.
7. Post 2018 market fall, market rally was concentrated and led by Growth stocks. Going forward, we expect the rally to be more broad based on the back of growth picking up and expansionary policy measures by Global Central Banks. Value based investment style may outperform growth investment.

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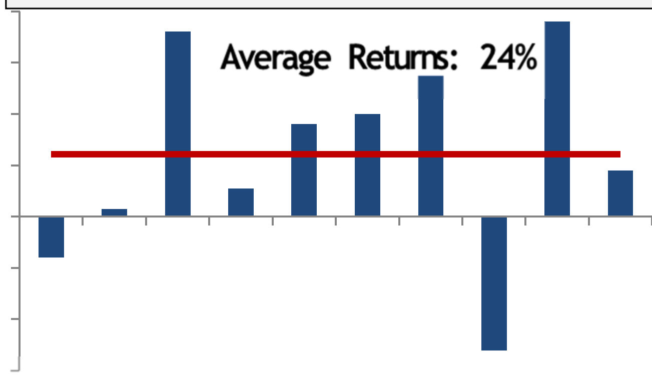
Backward and Forward: Journey from 2000 – 2020 and next 10 years

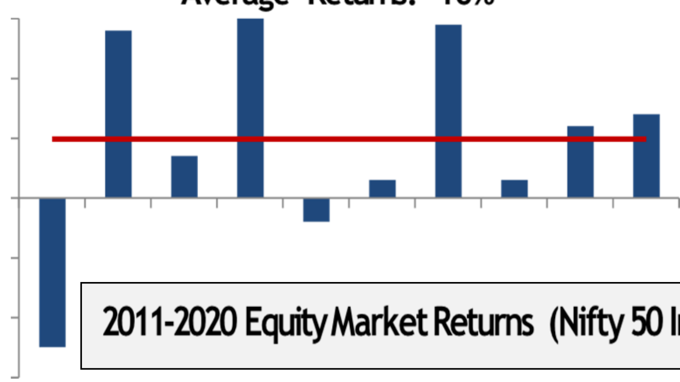
Last 10 years: Easy Monetary Policy + Interest rate cuts = led to lower volatility

2000 - 2020

Last 10 years: Equity as an asset class was positive and within Debt it was long duration scheme which gave higher returns.

2000-2010 Equity Market Returns (Nifty 50 Index)





2011-2020 Equity Market Returns (Nifty 50 Index)

Next 10 years: Limited space for rate cut + Higher global equity valuations = May result in Volatility.

2020 - 2030

Next 10 years: Investment portfolio should be value oriented and asset allocation portfolio that performs across time frames is recommended.

Volatility is not a BUG – It's a feature. Learn how to take advantage of the same

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Rolling return of S&P BSE Sensex	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years
Minimum Returns (%) / Observed on	-56.45 13-Jan-09	-18.52 11-Apr-03	-7.92 5-Aug-02	-2.81 25-Apr-02	5.07 27-Feb-09	6.94 23-Apr-12	7.87 24-Apr-17
Maximum Returns (%)/ Observed on	266.88 31-Mar-92	83.20 2-Apr-92	55.33 22-Apr-92	35.08 22-Apr-92	26.32 2-Jan-95	21.61 12-Dec-07	19.76 11-Jan-08
Average Returns (%)	**18.63**	**15.59**	**15.41**	**15.17**	**14.76**	**13.94**	**14.62**
Median Returns (%)	12.78	10.77	12.28	15.38	13.80	14.22	15.24
Standard Deviation (%)	33.68	16.48	12.54	7.58	3.87	3.18	3.08
% of -ve Returns	29.18	12.37	8.22	0.97	0	0	0
% of Returns >8%	58.50	60.42	67.98	79.90	98.12	99.34	100

Long term investment **reduces** the probability of **negative returns**

Equity: Outlook and Triggers for next 1-2 years

1. We are currently in a Developed World Central Bank Bull Market.
2. Going forward, we expect multiple turning points and triggers in the coming years to dominate market movement.
3. We believe, the current market rally may continue till the time certain turning points/ triggers play out. Market volatility too may continue given uncertainty related to COVID and Global Central Bank policies.
4. Macro economic environment is going to be critical and we may witness change in sectoral leaderships.
5. Recent market rally was narrow driven by select Growth stocks. Going forward, we expect broad-based reasonably valued companies to perform. <u>Value based investment theme should dominate.</u>

TURNING POINT

1. Above mentioned recommendation will change once below mentioned macro events come into place.
2. US Inflation – US acknowledging inflation and in conclusion pausing the stimulus.
3. US 10 Year Treasury Yield – US Treasury yield reaching 2%
4. Crude – Crude oil touching 60 $ per barrel may lead to high inflation.

Roadmap for 2021:   Debt

Outlook for 2021: Debt

1. Past few years have been favourable for fixed income as an asset class with RBI stance remaining supportive in terms of aggressive rate cuts and resulting abundant liquidity. These conditions created a conducive environment for duration and high quality instruments.
2. However, the road to 2021 & beyond, consists of various Points, which we believe may change the course of current market direction, leading to increased volatility and returns moderation.
3. We would like to present various indicators which we believe are at/close to their changing points.
4. Hence, we believe, this phase may require investment portfolios to be managed actively with focus on accrual strategy

Various pointers which could change the Debt market trend

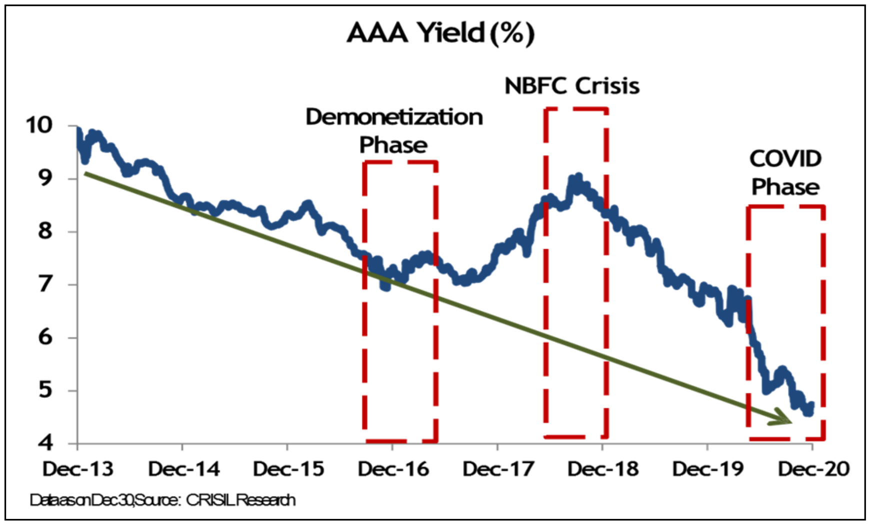
1. Accommodative stance coupled with abundant liquidity and aggressive rate cut enabled the yield curve to soften (Short term rates fell more than the long term rates).
2. We are close to all time low repo rates with 250 bps reduction in this rate cut cycle. We assign low probability for rate cuts and expect RBI to rationalize its stance based on the growth and inflation dynamics going forward
3. RBI may look through a high inflation phase till the growth recovers completely, this may result in negative rates which may be negative for fixed income markets.
4. Inflation may remain sticky as the food prices remain elevated due to supply chain shocks post COVID-19 and due to commodity prices which have started to inch-up
5. Liquidity has remained abundant in system due to slowdown in economic activity, high capital flows, RBI's Fx Operations and accommodative stance. We expect a turning point in liquidity conditions from abundant to moderate.
6. Capital appreciation strategy played out meaningfully due to ultra-loose monetary policy and AAA(1-4 Yrs) segment benefitted the most. Going forward returns expectations need to be rationalized.

Backward and Forward: Journey from 2010 – 2020 and next few years

Last 10 years: Easy Monetary Policy + Interest rate cuts = led to higher returns for Duration funds.

2010 - 2020

Last 10 years: Long Duration Funds were the best suited fund category for higher return in the Debt category.



Next few years: Limited space for rate cut + liquidity conditions might moderate = May result in volatility.

2021 - 2023

Next few years: Positive on accrual strategy as the yields of spread assets are reasonable compared to AAA papers and money market instruments.

Debt: Outlook for next 1-3 years

1. Capital gain strategy has played out meaningfully and going forward returns expectations need to be rationalized. Going forward accrual strategy is expected to take the driving seat.
2. RBI may continue to maintain accommodative stance and may look through the high inflation phase, but may start to rationalize stance once the economy stabilizes. Going forward, we assign low probability for rate cuts due to change in growth and inflation dynamics.
3. In the coming quarters, we expect liquidity to moderate as the growth & economic activity picks-up. In the current phase, more nimble and active duration management strategy is recommended to benefit from high term premium.
4. Duration needs to be managed actively at this current juncture. We advocate having medium to higher duration (3 -5 years) bond portfolio which may provide better carry and lower duration (less than 1 year) bond portfolio to manage interest rate volatility.
5. We recommend Accrual strategy with an aim to benefit from higher carry in the medium to long duration space for investment horizon of 3+ years. **Hence Medium duration and Dynamic Bond Funds would be a better place to park.**

SIP Returns: March 2020 onwards.
Never stop your SIP and Never time your SIP.

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Nifty Midcap 100	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
10 Yr	10.52	11.34	9.91	2.89	5.56	5.13	6.98	7.86	9.19	9.44	9.43	12.08	12.98
7 Yr	9.70	10.87	8.67	-1.76	2.03	1.30	3.91	5.05	6.77	6.85	6.57	10.28	11.41
5 yr	4.32	6.11	3.17	-11.05	-5.43	-6.15	-2.18	-0.25	2.62	3.13	3.10	8.68	10.58
3 yr	-1.56	1.39	-3.33	-24.95	-15.87	-16.34	-9.62	-6.05	-0.93	0.41	0.79	10.75	14.46
1 yr	2.42	13.11	-0.97	-51.01	-28.60	-27.59	-7.59	4.45	20.10	22.58	22.13	58.41	69.69

Nifty 500	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
10 Yr	11.42	11.27	9.92	4.52	7.03	6.47	7.88	9.00	9.59	9.42	9.82	11.85	13.05
7 Yr	11.54	11.24	9.16	1.14	4.74	3.86	5.87	7.44	8.18	7.75	8.17	11.06	12.72
5 yr	9.71	9.38	6.58	-4.47	0.84	-0.20	2.84	5.27	6.57	6.16	6.94	11.21	13.72
3 yr	7.73	6.87	2.01	-15.61	-7.02	-8.42	-3.30	0.86	3.24	2.86	4.40	11.96	16.51
1 yr	11.16	9.53	-3.97	-44.09	-21.81	-22.51	-6.47	7.58	15.05	13.16	18.25	45.39	61.53

SIP Returns: March 2020 onwards.
Never stop your SIP and Never time your SIP.

Nifty 200	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
10 Yr	11.57	11.29	9.92	4.66	7.20	6.64	7.94	9.10	9.55	9.31	9.77	11.79	13.00
7 Yr	11.73	11.25	9.15	1.34	4.99	4.11	5.98	7.62	8.17	7.66	8.18	11.07	12.75
5 yr	10.29	9.69	6.86	-3.91	1.47	0.42	3.25	5.77	6.79	6.25	7.15	11.39	13.91
3 yr	8.83	7.51	2.56	-14.70	-6.02	-7.48	-2.71	1.55	3.44	2.80	4.52	12.00	16.53
1 yr	11.89	8.82	-4.78	-43.76	-21.21	-21.98	-6.84	7.55	13.65	11.22	17.09	43.96	60.28

Nifty 50	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
10 Yr	11.63	11.16	9.79	4.64	6.53	6.53	7.78	9.05	9.48	9.12	9.7	11.65	11.64
7 Yr	12.01	11.26	9.18	1.55	4.23	4.23	6.05	7.88	8.42	7.78	8.51	11.31	13.11
5 yr	11.51	10.54	7.72	-2.83	1.33	1.33	4.07	6.83	7.79	7	8.16	12.25	14.89
3 yr	11.38	9.32	4.29	-12.84	-6.03	-6.03	-1.47	3.14	4.87	3.74	5.81	12.96	17.61
1 yr	14.05	8.52	-5.15	-43.43	-22.34	-22.34	-7.67	7.88	13.75	10.15	17.46	43.44	60.67

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Point No 6:

Our Past Wealth Management Call & it's Performance

Investment Call of 2017: Buy Pharma Funds

- What we said in 2017:
- After touching an all time high of 14020 in March 2015 this sector's own health has been into bad shape. Consistently the pharma sector has been correcting quarter after quarter since then.
- Using the Elliott wave science it looks like we are very close to the bottom using both the weekly and monthly charts. Currently the CNX Pharma Index is quoting at 9100 levels and the right zone to accumulate the undervalued stocks has arrived.
- Hence it makes a lot of sense to buy good quality Pharma Stocks, Pharma sector funds now for next 3-4 years. The right time will be June-July 2017 and right price zone will be 7500-9000. Thereafter only thing to do is Sit tight.
- In next 3-4 years I see the same index crossing the all time high of 14020 and making a new level of its own. And if this happens than the return in portfolio should be minimum 100% in next 3-4 years.
- So better to buy good quality pharma stocks/Pharma Funds now and create a right asset allocation for coming years.
- Its very very rare to find quality sectors at such levels of correction and when they arrive the news all around is painful and not so encouraging and that is when the value arrives and long term investment should be done.
- So start building your portfolio with right pharma stocks and funds.

CNX Pharma Index: 2017 -2020 (Book 50% Profit)

Investment Call of 2018: Buy Debt Funds and reduce exposure to Equity

- Investment Call of 2018-19
- In 2018,we gave a call to go overweight in cash holding aggressively and reduce the equity holding to not more than 25%.
- We and our clients made a good amount of money by earning around 7 % through debt fund returns and saved the erosion of wealth from equities where the yearly return was flat to negative in 2018 (Jan – Dec).
- In January 2018,total debt allocation of my wealth book was 72.8%. And the remaing portion of Equity was divided between SIP and Pharma Funds.
- And this entire Debt investment book was shifted to Mid-Small cap funds in 2019.

Investment Call of 2019: Buy Midcap & Small Cap Funds

- In January 2019,we gave a call to go overweight in Mid and Small Cap space, as it was looking attractive with a justification as to why one should opt for small and mid cap.
- Our entire saving which was into Debt funds during 2018 was shifted into Midcap and Small Cap funds via STP route from January to June 2019.
- We also reiterated this call in our regular presentations as well as from July 2019 till last one in January 2020.
- We are happy to see our call playing out well so far. And we still continue to remain invested.

CNX Midcap Index: 2019 -2020 (Stay Invested)

Investment Call of 2020: Buy Hybrid Funds + Small Cap Fund

- Equity Investment Plan 2020:-
- For SIP: Recommend accumulating Multi cap Funds in a staggered manner through SIP and STP route.
- For Aggressive Investor: Very positive on Small cap Funds with 3-4 year horizon only. Small cap Funds are available at very good valuations for investment. And only lumsum investment should be considered into small cap and midcap funds before June 2020.
- For Conservtive Investor: Asset Allocation schemes may be considered to address the near term volatility. Recommend Hybrid category for Low risk appetite investor and diversification of portfolio.

CNX Small Cap: 2019 – 2020 (Stay Invested)

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2021: Value Funds and little bit of Banking & Financial Services Sector

"Waiting helps you as an investor and a lot of people just can't stand to wait.

If you didn't get the deferred-gratification gene, you've got to work very hard to overcome that."

Charlie Munger

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Motilal Oswal Securities Ltd., 765 Fly Edge, Office# 703
Above Tirumala Showroom, Kora Kendra Flyover Junction,
Opp. McDonalds, Borivali (West)

Mr. Bhavya Sharma (B.Com, M.Com, CFP) +91.90290 20078 / +91.98920 56858

Mr Ashish Trivedi (B.Com, CFA) +91.98199 09963

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Near Chamunda Circle, S V Road, Beside Kotak Bank,
Borivali (West)

Mr. Bhavya Sharma (B.Com, M.Com, CFP) +91.90290 20078 / +91.98920 56858

Mr. Pawan Dubey +91.7045693914.

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Near Poisar Gymkhana, Kandivili (West)

Mr. Bhavya Sharma (B.Com, M.Com, CFP) +91.90290 20078 / +91.98920 56858

Income Tax & Real Estate

H.N. Goyal & Co Chartered Accountants, B-124/125, Rolex Shopping Centre,
Near Station Road, Goregaon (W), Mumbai 400 062

Mr. Ashok Nagori (B.Com, CA) +91.96994 42337

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Mr. Kapil +91.9820431415. / Mr. Bhavya Sharma +91.9029020078.

Thank You

for your time & interest

presented by **Bhavya Sharma**
B.Com, M.Com, CFP
+91.98920.56858
+91.90290.20078
bhavya124@gmail.com