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Executive Summary of the 55th Global Investment Advisory Committee (GIAC) Meeting

03rd February 2023

What's changed since our last meeting

Two big events have played out—India's union budget and the Federal Reserve's meeting. The union budget has been largely hailed as pro-growth given the government's large capex push, which has a multiplier effect. Meanwhile, the Fed's rate hike is within expectations, but its commentary was hawkish—at least market participants, eagerly anticipating the indication of a pause, thought so. Indian companies have reported good Q3FY23 top lines although bottom lines are clearly under strain despite easing input pressures.

Looking Ahead

The Fed's hawkish commentary – rather lack of indication on going slow – will keep markets on tenterhooks. The expectations of a pause are now pushed out. This means further tightening of monetary conditions. Meanwhile, China's reopening shall give the global growth the much-needed relief, although its exact impact is anybody's guess. What's certain though is that India's relatively expensive valuations vis-à-vis EMs, including China, could cause hot money outflows and keep Indian markets under pressure. The RBI too would have to raise interest rates to maintain some kind of differential with the US interest rates and to keep inflation under control.

In Focus – Portfolio Stance

Committee decided to maintain status quo – Neutral Equities.

Key variables to monitor:

a. US interest rates
b. India Earnings growth
c. India interest rates

Global Investment Advisory Committee

Viewpoints

Shiv Sehgal

Co-Chair, Global Investment Advisory Committee
President & Head
Institutional Securities

Invitee to the committee

Shiv struck a cautious note saying the market is anticipating a pause on interest rates and even a rate cut much sooner. Shiv opined that the Fed could actually surprise with a hawkish stance defying market expectations.

On the domestic front, Shiv argued the pain from Adani stocks going into a tailspin is behind, but warned its real fallout may not have hit the market yet since the international community's narrative on India has turned quite negative.

Shiv emphasized that the short-term sentiment has been dampened and he would not be surprised if there was a sharper pullback. Accordingly, Shiv preferred a more neutral to bearish stance on equities since he expects the fallout from the Adani fiasco to play out.

Ajay Vora

EVP & Fund Manager
Edelweiss Dynamic Growth
Equity

Invitee to the committee

Ajay believes the increase in capital expenditure via the union budget is far more appropriate allocation rather than the current rural expenditure. Most investors are worried about how the government and its agencies are approaching the issue of market sentiment. His also believes the government may make some announcement, and the only repercussion that may be witnessed may be in the growth factor for the overall system since the government has committed a great deal of capex across sectors.

The market may drift down 2–4% to a level of 16,800 on the Nifty, but until the effects of the Adani episode settle down, there may not be much upside potential.

Global Investment Advisory Committee

Kapil Gupta

Executive Director

Institutional Equities

Invitee to the committee

Beyond the volatility unleashed by current events (Adani episode), Kapil thinks 2023 shall be the year of growth slowdown and of bonds. He argues India's credit and capex cycles are likely to moderate. Accordingly, Kapil believes, over the next four quarters, India's capex growth rate shall continue to decelerate while working capital requirements would also decelerate. This also means the credit growth rate in the banking system would start to turn. Exports are already in the contraction zone, and the next stages of this would be the credit and capex cycles—which have begun to moderate itself. The events that are unfolding shall only continue to add conservatism towards lending.

Kapil maintains his bearish stance on equities, particularly the mid-cap space.

Ajay Marwaha

Senior EVP & Head

Fixed Income

Invitee to the committee

Ajay believes the interest rates situation internationally is turning dovish. The challenges for the US Fed are now going to be how to balance this out; the main concern is how fast and how much the yield curve would invert. Most market participants now believe there may be a pause post-March, but the market doesn't seem to believe this.

In India, there were two large redemptions on debt funds, Reliance took out about INR2000 crores because they needed the money for an acquisition, and this led to some credit selling. Ajay is a little cautious on credit given a contagion type event, although its probability is low. Accordingly, Ajay is marginally conservative on credit, but very bullish on yields and duration.

Global Investment Advisory Committee

Saurabh Rungta

Managing Partner & CIO,
Private Wealth
Management

Invitee to the committee

Saurabh views the union budget as good and realistic. Tax changes have grabbed a bigger mind share, particularly for UHNI clients. While the government has chosen capex over fiscal prudence, another way to look at it is that the government does not expect private capex to pick up this year and hence decided to do the heavy lifting itself.

Saurabh also noted that recent FII outflows from India are being redirected to other emerging markets, which are relatively cheap, including China, and that this trend may persist for some time. Globally, markets are pricing in terminal rates to be not very far away; hence, some amount of rally has started taking place.

The current Indian market rout led by one conglomerate may need some more time to settle down. All in all, Saurabh argued in favour of maintaining the underweight stance on equity.

On debt, he would look to add duration at 7.4%+. He is categorical of playing this theme through G-Secs only. Small savings disappointment, insurance demand falling, etc can cause the 10-year GSec to rise at some time in the future.

Gold is shaping up very well. Saurabh will accordingly prefer to add more to that position if the current correction persists.

The other members of the committee agree that they should reduce the existing stance in equities.

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