

Sustained inflows from DIIs & strong corporate fundamentals to act “Suit of Armour”; cushioning domestic equity market: Motilal Oswal Private Wealth

-MOPW Suggests investing in large & multi cap strategies over a 3-month period; select mid & small-cap strategies over 6 to 12 months

-MOPW still continues with their view to have a duration bias in the fixed income portfolio so as to capitalize on the likely softening of yields in the next 1-2 years.

According to **Alpha Strategist October 2024 report by Motilal Oswal Private Wealth (MOPW)**, As highlighted in MOPW's [Sep'24 Alpha Strategist “Goldilocks & Three Bears”](#), MOPW is already seeing risks emerging from global events and expensive valuations being in play. Heightened geopolitical tensions have increased volatility leading to rising crude oil prices, bond yields – bringing back the fears of inflation & its impact on cutting of interest rates cycle. Valuations of Indian equities, especially small & mid-caps are trading at significant premium compared to long term averages, while the RoE profile has improved across the indices. However, the sustained inflows from DIIs & strong corporate fundamentals will act as a “Suit of Armour” and cushioning domestic equity market valuations in the wake of geopolitical events and FII outflows. Additionally, after witnessing 4 years of double-digit earnings growth, it seems appropriate to moderate the expectations on earnings growth.

Considering current valuation levels and projected earnings growth, in MOPW's view, one could follow a staggered approach by investing in large & multi cap strategies over a 3-month period and in select mid & small-cap strategies over 6 to 12 months. MOPW still continues with their view to have a duration bias in the fixed income portfolio so as to capitalize on the likely softening of yields in the next 1-2 years.

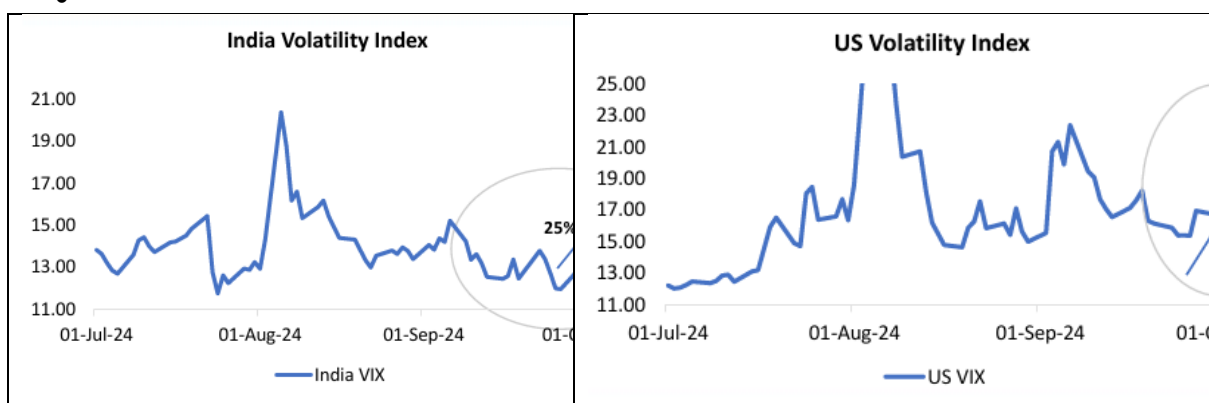
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Highlights of the Report

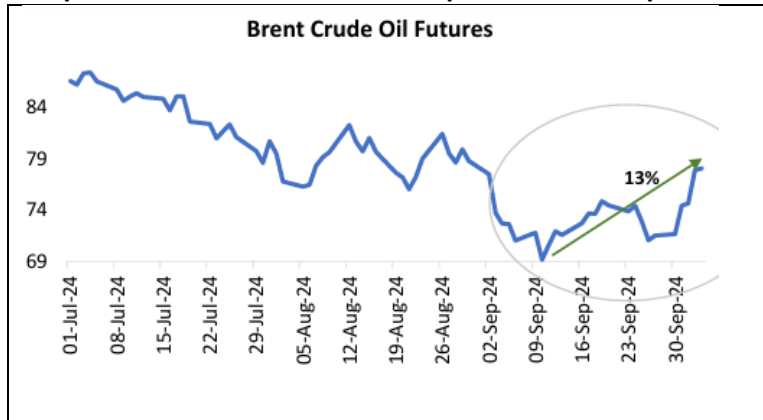
A.Iran – Israel Tensions increasing volatility

- India VIX increased by 25% from lows of 12 to 15 in a span of few days.
- US VIX increased by 38% from lows of 15.4 to 21.2 in a span of few days.
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Source: Internal Research, Investing.com

B. Impact of Iran – Israel tensions – spurt in crude oil prices



Source: Internal Research, Investing.com, Economic Times

C. Nifty Indices – Valuation, Returns profile & expected growth

Index	Trailing PE			Return on Equity		
	Current*	Avg from 2018	Premium	Current*	Avg from 2018	Diff
Nifty 100	25.1	23.6	6.4%	16.4%	13.5%	2.8%
Nifty Midcap 150	45.7	34.0	34.7%	12.6%	9.4%	3.1%
Nifty Smallcap 250	33.6	24.3	38.3%	14.0%	8.4%	5.5%
Nifty 500	27.8	26.2	6.2%	15.6%	12.3%	3.3%

* Current PE are as on 7th Oct 2024 and ROE numbers are as on 30th Sept 2024

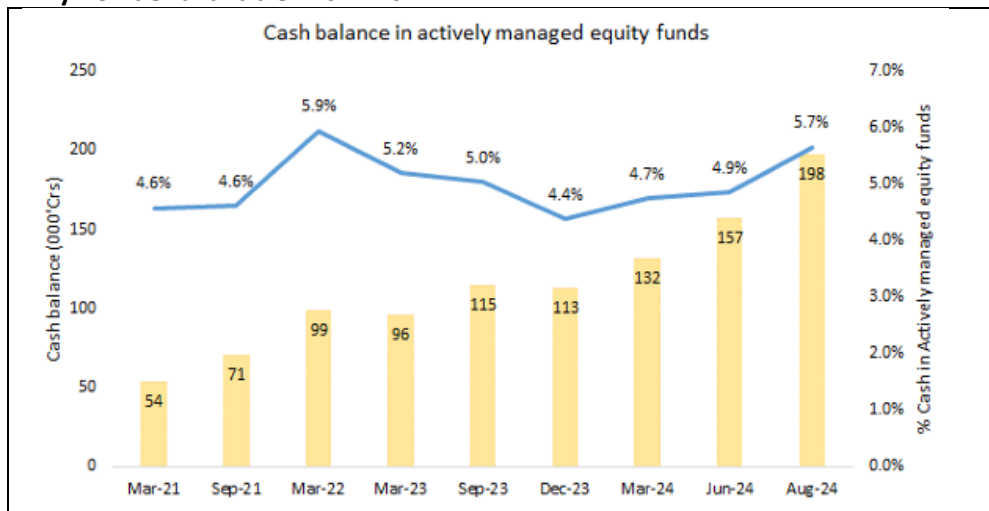
Source: Bloomberg

- Nifty Smallcap 250 and Nifty Midcap 150 are trading at significant premium compared to long term average
- RoE profile has improved across different Nifty Indices and the expected earnings growth also looks decent

D. MOFSL Universe – Sector Valuations

Currently, Banks (Private and PSU) are trading at a discount to their long-term 10 yr. avg. by 22% and 29% respectively. Banks haven't become overheated in terms of price performance and provide a margin of safety, especially when the broader market is trading at a premium valuation.

E. Dry Powder available with DIIIs



Source: ACEMF Next

The cash balance in actively managed equity funds (including Aggressive Funds & Balanced Advantage funds). In addition to this, monthly SIP allocations are at 23,500 Cr (on gross basis, as of Aug'24. EPFO allocation into equity (through ETFs) also is another source of inflows into the market

Equity Portfolio Strategy

- Equity market outlook continues to remain positive based on deleveraging of Corporate Balance Sheets, uptick in the Capex cycle and expected earnings to remain robust for the next two years.
- However, given the uncertainties in the global context and rich domestic valuations, it is advisable to tread with caution by adopting a strategy which is balanced and resilient.
- Based on their risk profile, investors having the appropriate level of Equity allocation can continue to remain invested
- If Equity allocation is lower than desired levels, investors can increase allocation by implementing a staggered investment strategy over 3 months for large & multi-cap strategies and 6 to 12 months for select mid & small-cap strategies with accelerated deployment in the event of a meaningful correction

Fixed Income Portfolio Strategy

MOPW reiterates their view to have a duration bias in the fixed income portfolio so as to capitalize on the likely softening of yields in the next 1-2 years

30% of the portfolio can be invested in

- Actively managed duration funds to capitalize on evolving fixed income scenario
- For passive duration allocation, one may invest in long term maturity G-sec papers to benefit from accrual income and potential MTM gains

30%-35% of the portfolio can be allocated to Multi Asset Allocation funds & Equity Savings Funds

- These funds aim to generate enhanced returns than traditional fixed income with moderate volatility through a combination of Domestic Equity, Arbitrage, Fixed income, International Equity, Gold & other Commodities

To improve the overall portfolio yield, 30%– 35% of the overall fixed income portfolio can be allocated to Private Credit strategies, REITs/InvITs & select high yield NCDs

For liquidity management, investments can be made in Floating Rate (9 to 12 months) & Arbitrage Funds (3 to 6 months)

Gold Outlook

- Geopolitical tensions have added to the risk premium for gold, further escalating tensions could continue to boost safe haven appeal.
- Central bank buying, festive and wedding-related domestic demand could boost sentiments.
- Over the next 2 Years, gold could be on track to hit fresh highs in the next couple of years.