ASK Private Wealth

Investment Policy Committee (IPC) – Moderating expectations

Dipankar Mitra, Senior Director, Research, ASK Private Wealth

Somnath Mukherjee, CIO & Senior Managing Partner, ASK Private Wealth

January 2025

IPC: Moderating Expectations

The Trifecta

- **Performance:** Equity market has weakened
- **Earnings:** Estimates being cut, asking rates still higher
- **Valuations:** High despite market correction
- Valuations and Future Returns inversely related
- Return dispersion increases when valuations are high
- **Flows:** FIIs counterbalanced by domestic so far
- **Flows:** Huge supply absorbing higher domestic flows
- Nifty fair value estimates have little margin of error
- **SMID:** The earnings-valuation gap is more for SMIDs
- **India:** Deficit goal and welfare constraining capex

Other Assets

- Long bond stays relevant despite Fed pivot
- Prefer InvIT’s over REIT’s
- Gold – to shine on rate cuts, demand and geopolitics too

US Trump Effect

- **The Trump Trade:** What happened?
- **Trump effect:** Tariffs are not a one-way street
- Some complication in the rate cut picture
- Impact on India unclear at this moment
- US and global opportunities

Strategy and Model Portfolio

- Stay Neutral on Equity; Overweight Domestic
- Fixed Income – Stay Neutral
- Strategy: Stay Neutral on Hybrid (REITs/ InvITs) and Commodities (Gold)
- Model portfolio: Construct and Stance
- ASK PW Scheme Performance

IPC: Staying Neutral

A. Equity – Stay Neutral:

- Equity performance has dipped during recent quarters corresponding with the slowdown across many sectors including housing, consumption, industry, investment and government.
- The Trifecta of earnings, valuation and flows have turned to moderate expectation of return in the coming period. EPS growth is now expected to be less than half of average while valuations stay high despite recent corrections while FIIs outflows are being balanced by domestic flows.
- Policy swings in US and China measures are key global variables to watch out for.
- We stay neutral on equity with overweight position on Domestic and Large cap segment.

B. Fixed Income – Stay Neutral:

- RBI raised rates by 250 bps and paused; inflation easing broadly despite periodic hardening.
- Liquidity deficit have reemerged following RBI forex operations and need to be countered further.
- US FED has taken decisive steps with 100 bps cut while expectation tampered for future cuts.
- India rate cut yet to start, continue our long bond strategy within overall neutral for fixed income.

C. REITs/InvITs – Stay Neutral:

- High interest rates and overhang of SEZ policy adversely affected the sector. However, IT sector ending WFH and GCC relocation have improved occupancy. Prices too have run up.
- We maintain neutral stance of the hybrid space while staying more positive on the InvITs sector.

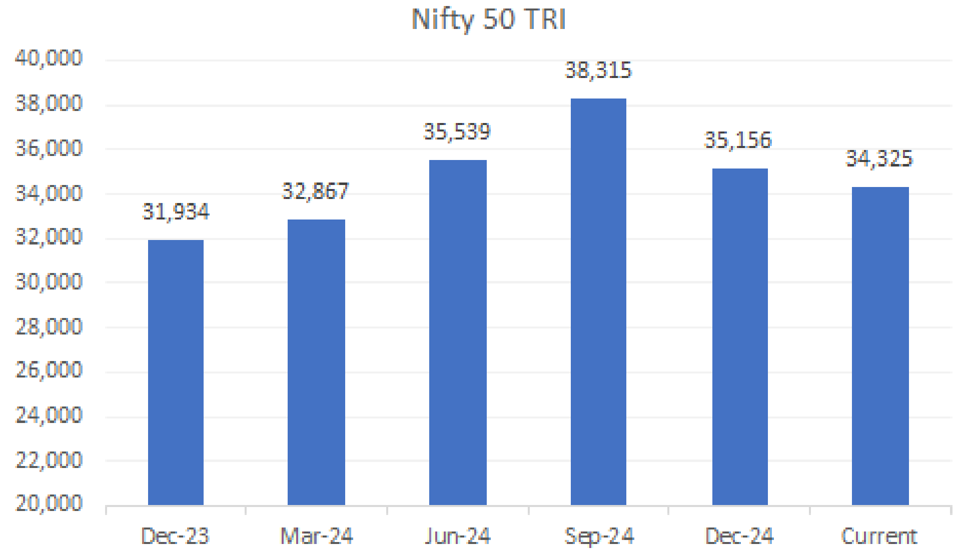
D. Gold – Stay Neutral:

- Gold has enjoyed a stellar run in recent times on the back of buying from Central Banks and China and India consumers. The medium term outlook remains positive.

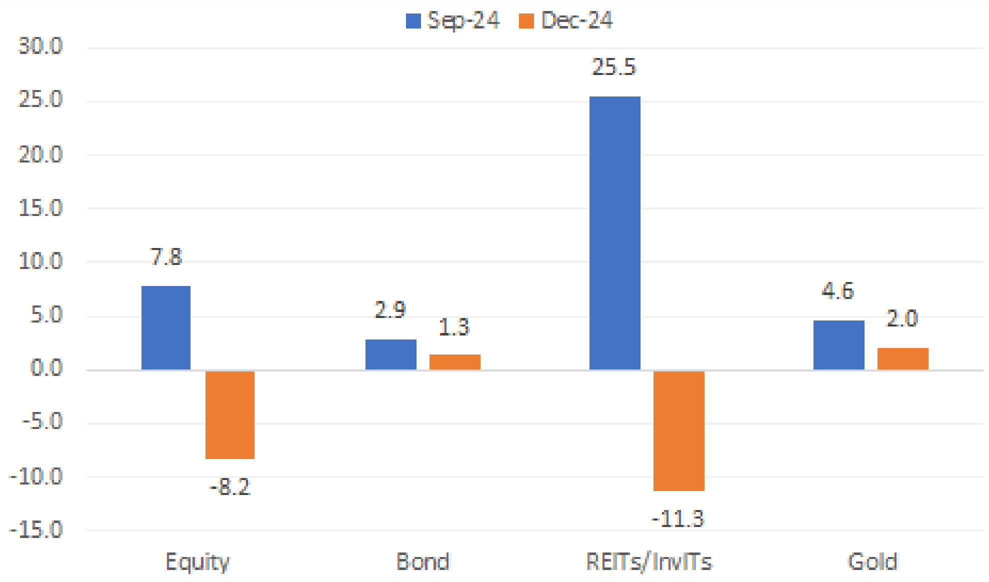
Earnings, Valuation, Flows – The Trifecta, Thinly poised on Knife's Edge

Performance: Equity market has weakened

Equity market rolled back by six months



Asset class performance: last two quarters



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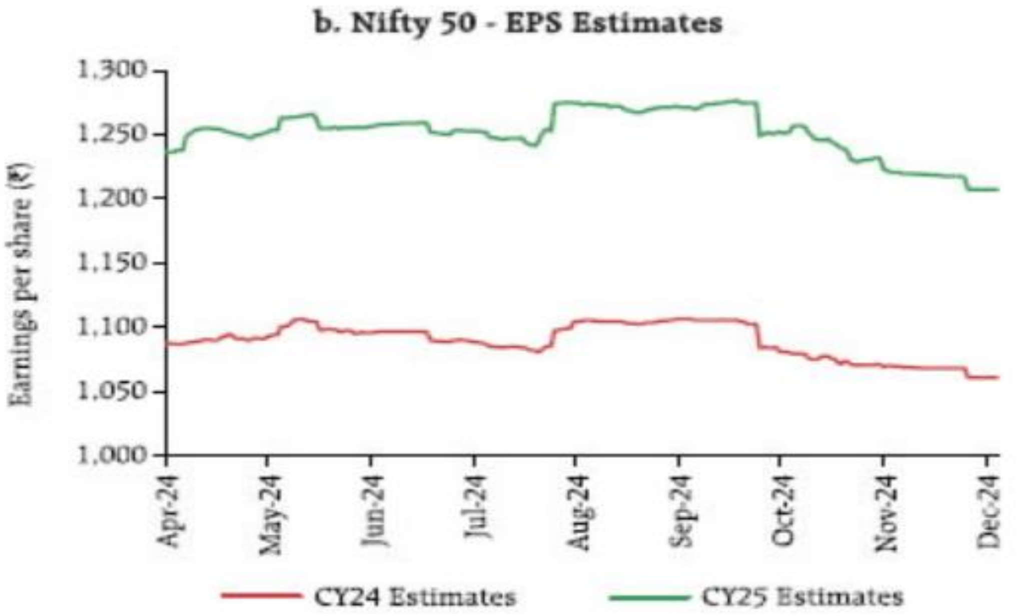
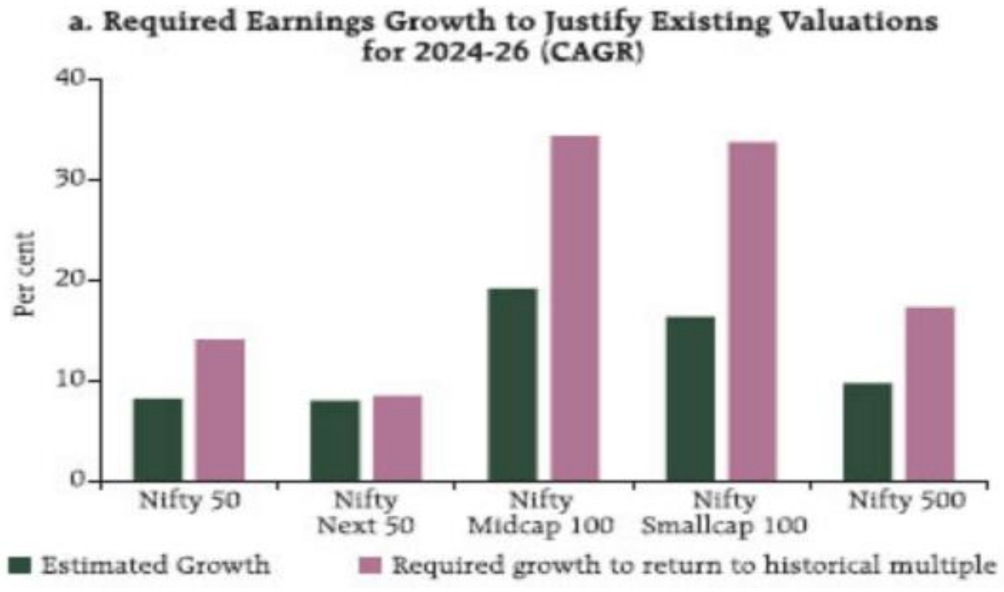
Source: Refinitiv, CMIE, ASK PW.

Earnings: Estimates being cut, asking rates still higher

Earnings are seeing more downgrades than upgrades



Asking rate for EPS is still higher



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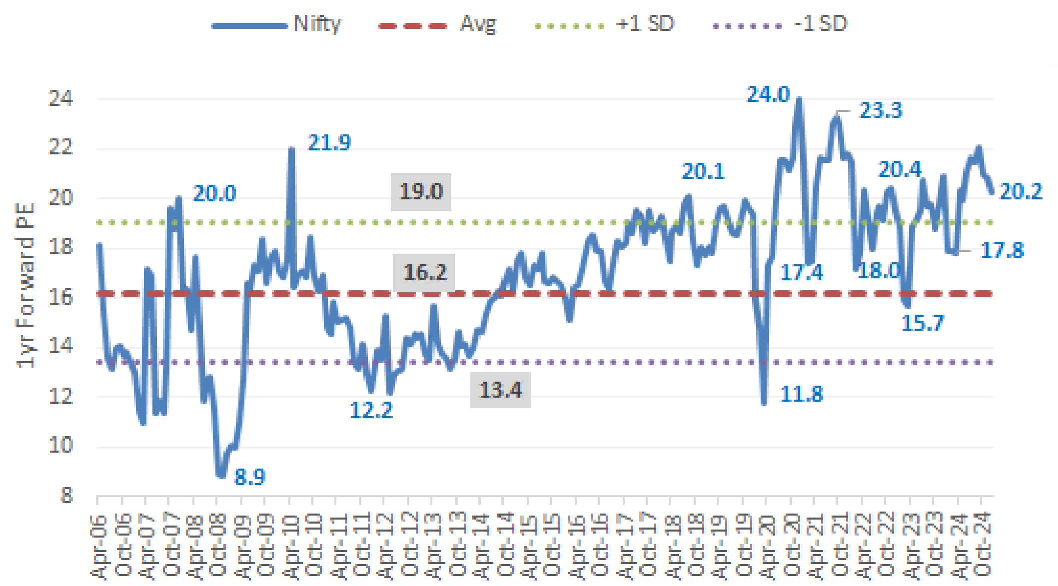
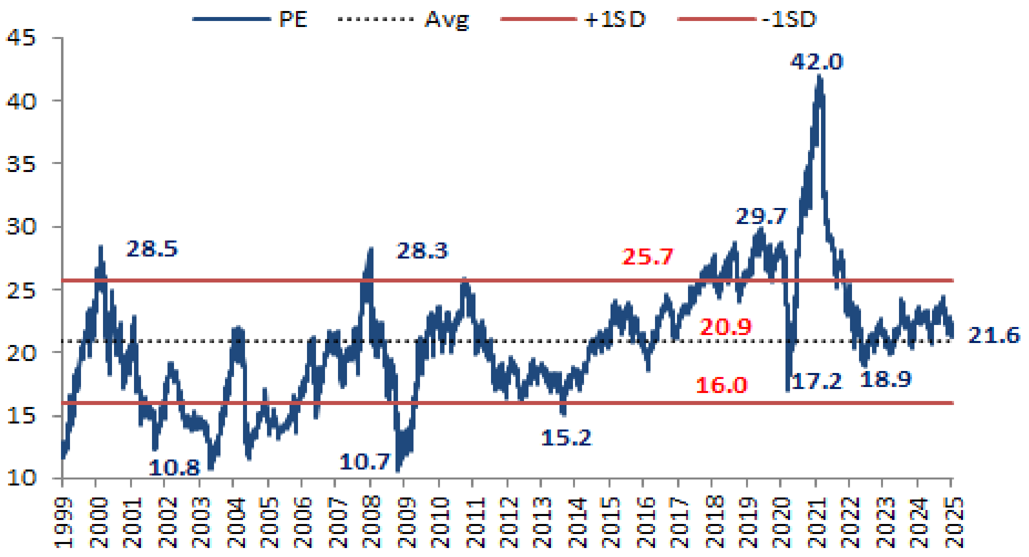
Source: RBI, Refinitiv, CMIE, ASK PW.

Valuations: High despite market correction

Nifty 12M Forward PE



Nifty Trailing PE



Broad market valuations are 1+ standard deviations above long-term averages.

Earnings growth taking a breather after 3 years of being on a tear.

First signs of large reductions in earnings estimates already visible.

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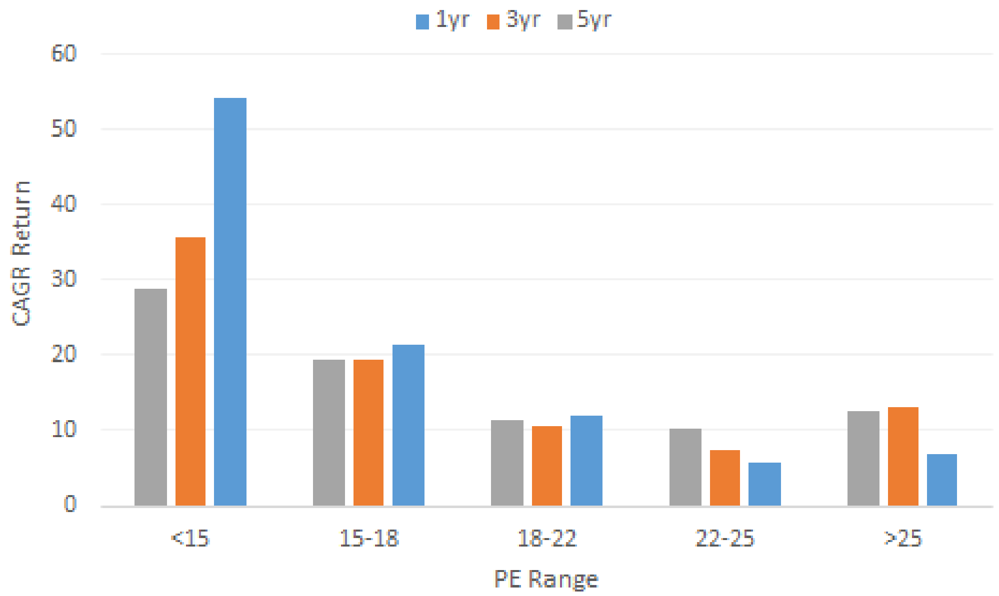
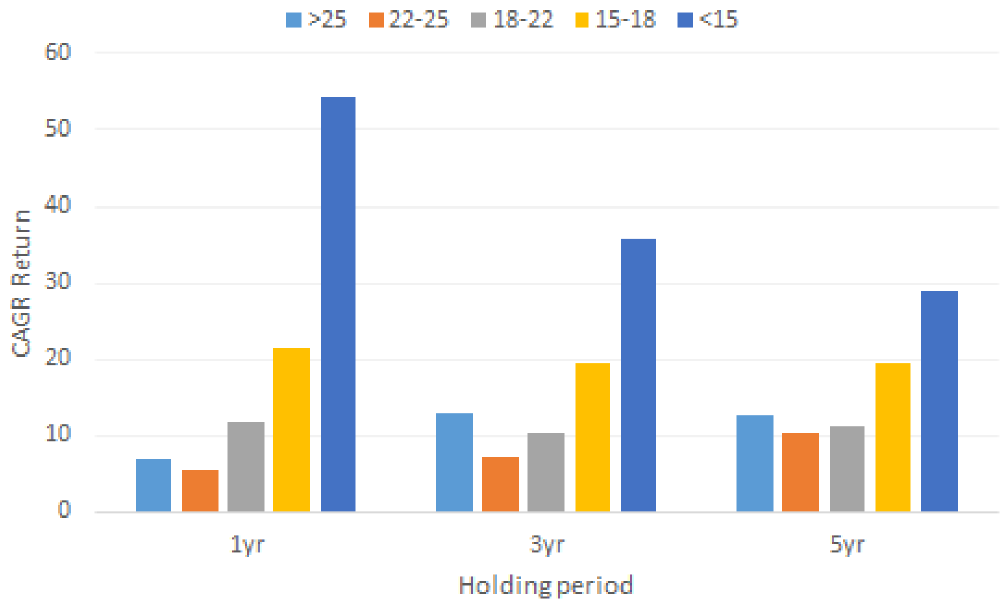
Source: NSE, Bloomberg, Refinitiv, CMIE, ASK PW.

Valuations and future returns inversely related

Future crucially depends upon starting point



Average returns ~10% if starting PE is above 18



Current Nifty PE is 21.6

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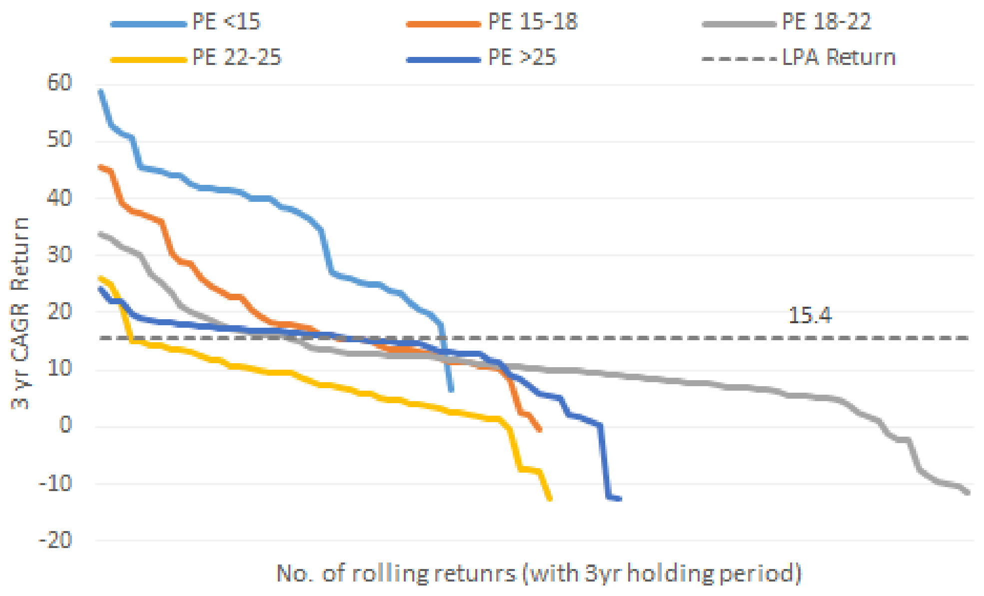
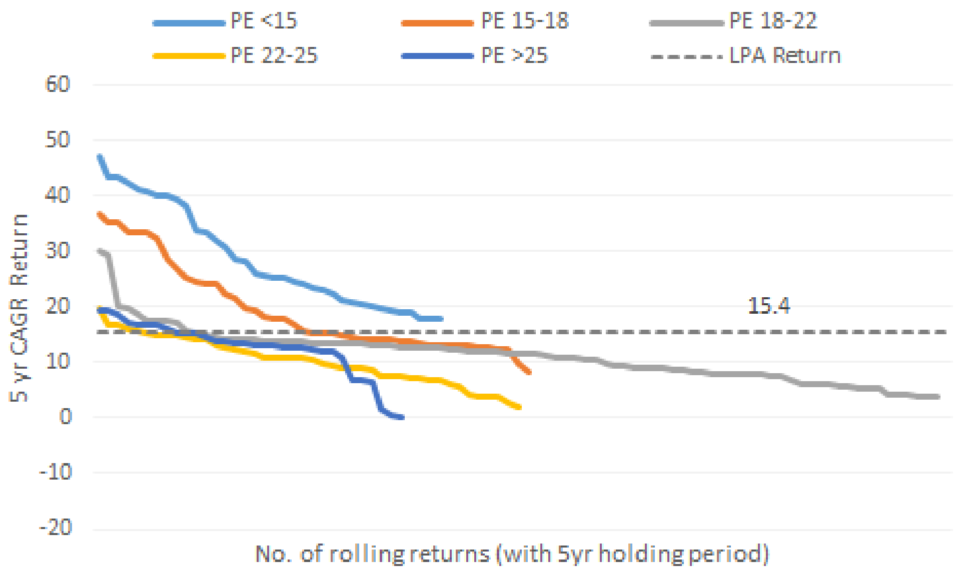
Source: NSE, Refinitiv, CMIE, ASK PW.

Return dispersion too increases when valuations are high

3yr return variations across PE range



5yr return variations across PE range



Current Nifty PE is 21.6

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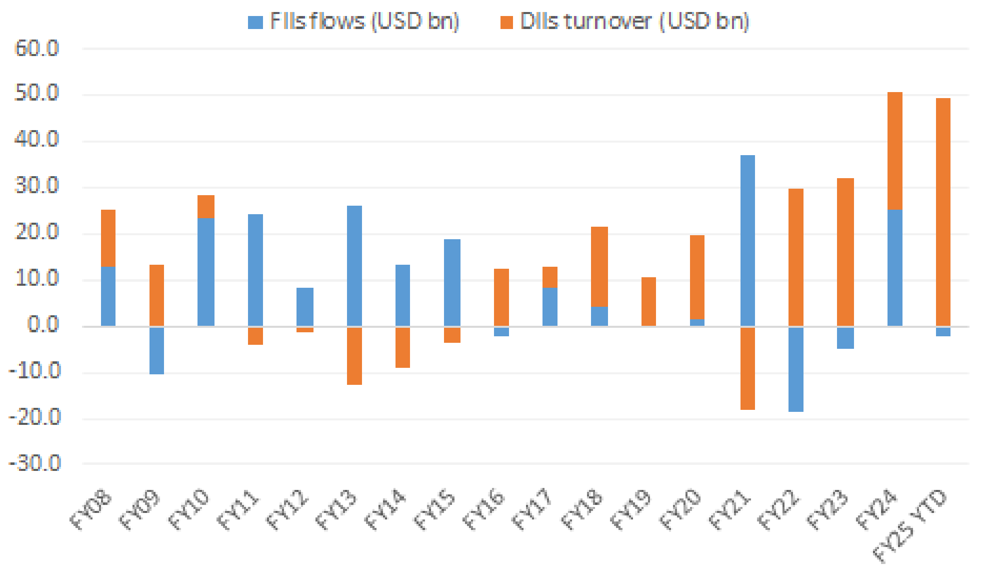
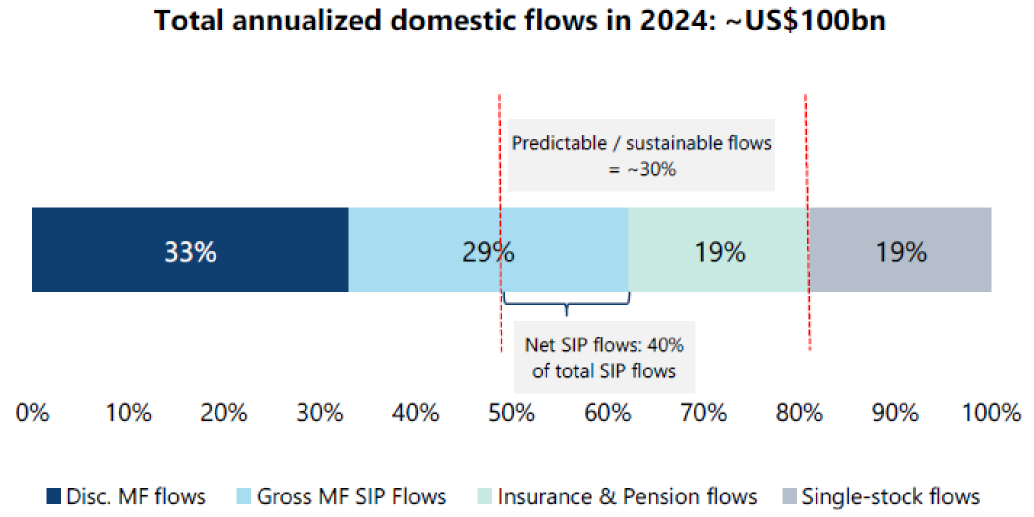
Source: NSE, Refinitiv, CMIE, ASK PW.

Flows: FIIs counterbalanced by domestic so far

FIIs outflows balanced by domestic flows



However, only one-third of domestic flows is stable



Domestic flows remain very strong; importance of FPI flows reduced significantly

Large cohort of domestic investors are very recent to markets, have only good experiences.

Chances of panic at a short-term drawdown limited given wealth effect and only 30% of domestic flows can be counted as stable flows.

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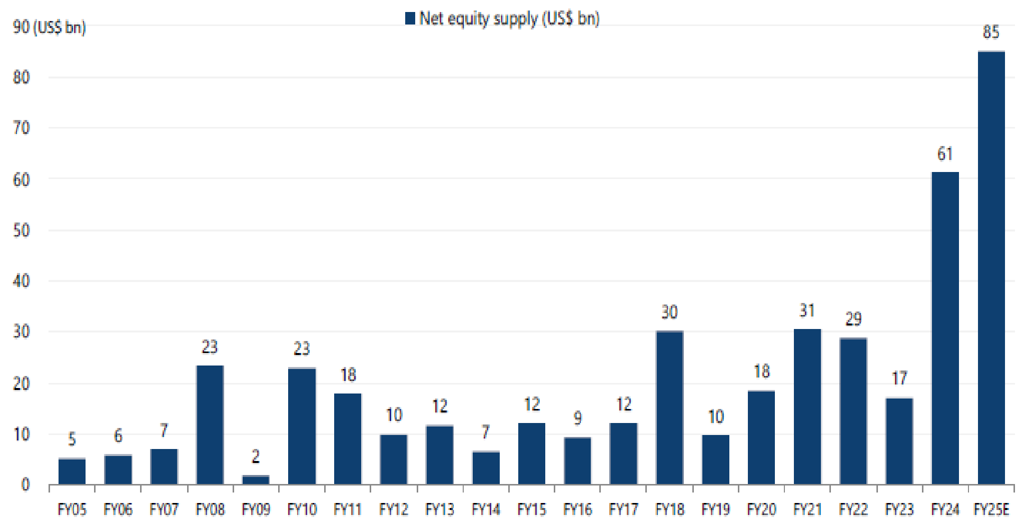
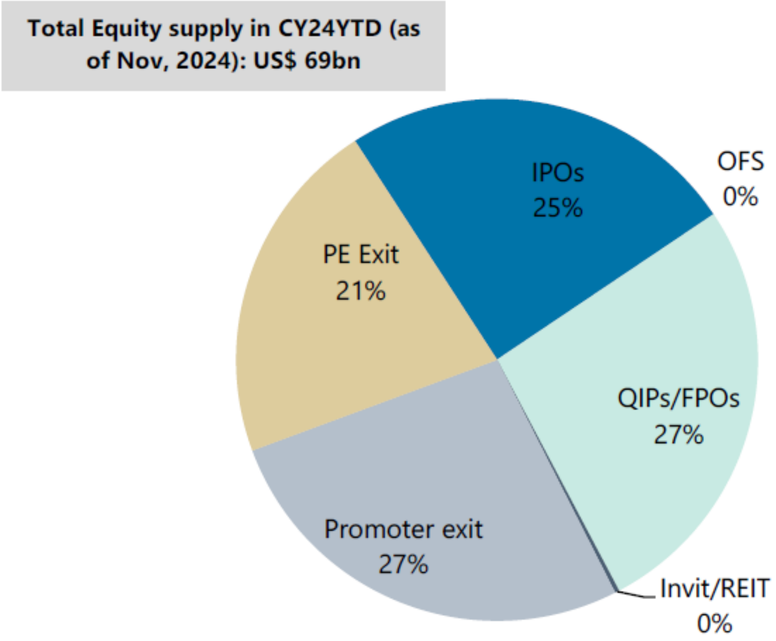
Source: CMIE, Refinitiv, Jefferies, ASKPW

Flows: Huge supply absorbing higher domestic flows

Record supply in primary market



However, three times supply through other mode



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Source: CMIE, Refinitiv, Jefferies, ASKPW

Nifty fair value estimates have little margin of error

The current market level prices in the best case

	Base case		Worst case		Best case	
Year	**FCFE**	**PV**	**FCFE**	**PV**	**FCFE**	**PV**
1	1546.6	1343.5	1489.9	1294.2	1631.7	1417.5
2	1685.8	1272.2	1564.3	1180.5	1876.5	1416.1
3	1837.5	1204.6	1642.6	1076.8	2158.0	1414.7
4	2002.9	1140.6	1724.7	982.2	2481.7	1413.3
5	2183.2	1080.0	1810.9	895.9	2853.9	1411.9
5	27971.4	13837.9	23202.2	11478.5	36565.5	18089.5
Nifty50 DCF Value		**19878.9**		**16908.1**		**25163.0**

Note - FCFE: Free Cash Flow to Equity, PV: Present Value, DCF: Discounted Cash Flow

Assumptions:

Discount Rate	
a. Risk free rate	6.8%
b. Implied equity risk premium	8.3%
c. Beta	1
Cost of capital = a + b*c	15.1%

Nifty fair value calculations indicate that the current equity valuations is sustainable only under best cash flow projections.

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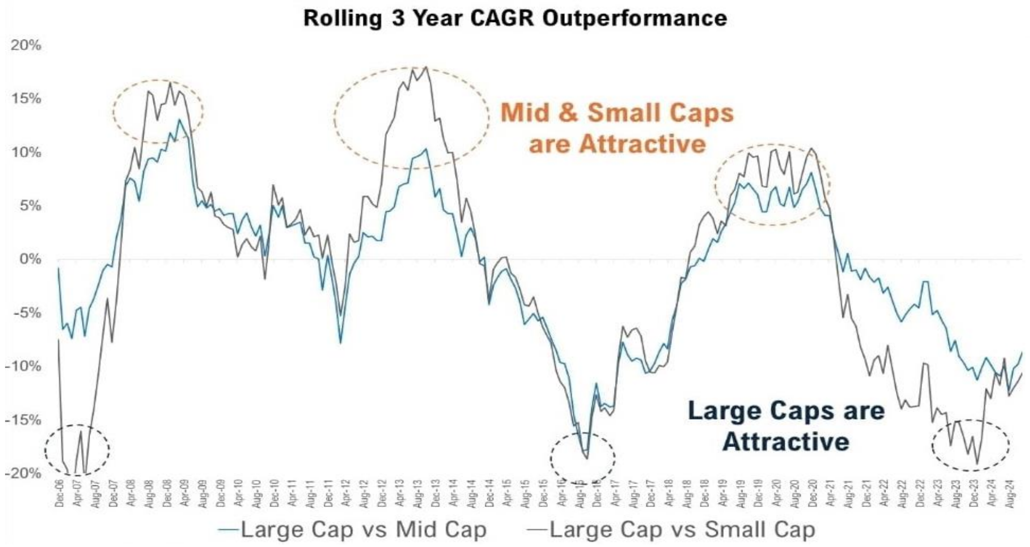
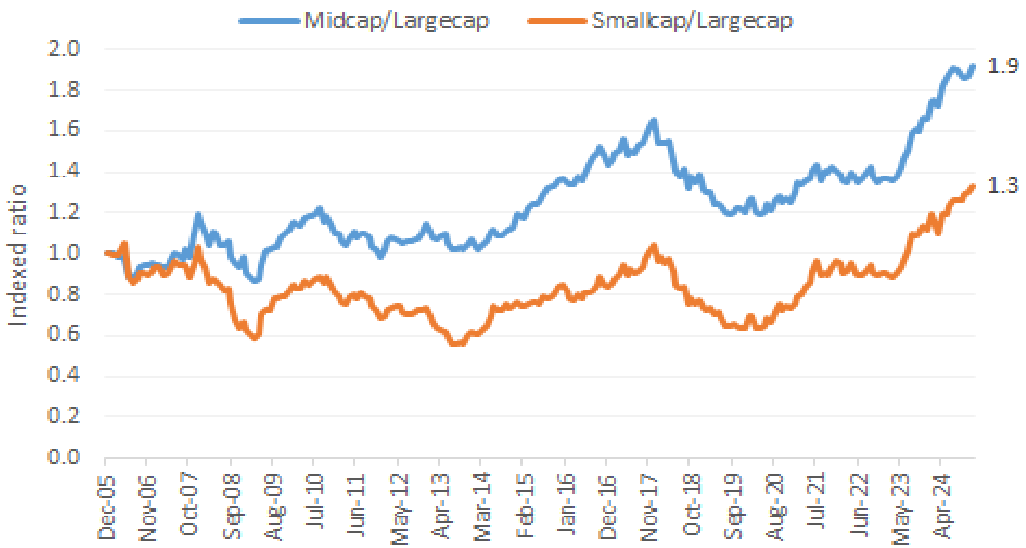
Source: CMIE, Refinitiv, ASKPW

SMID: The earnings-valuation gap is more for SMIDs

SMID cycles are turning



Midcaps have run up more



Mid and smaller companies even more stretched on multiples.

The asking rate of EPS growth is higher for SMID cos.

The cycle for SMID seems to be turning on valuation-earnings combo.

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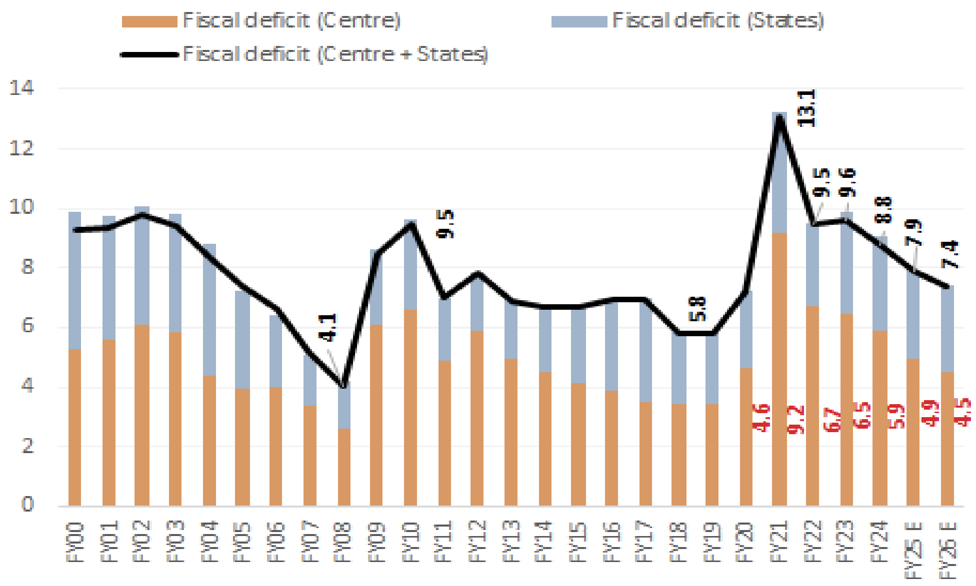
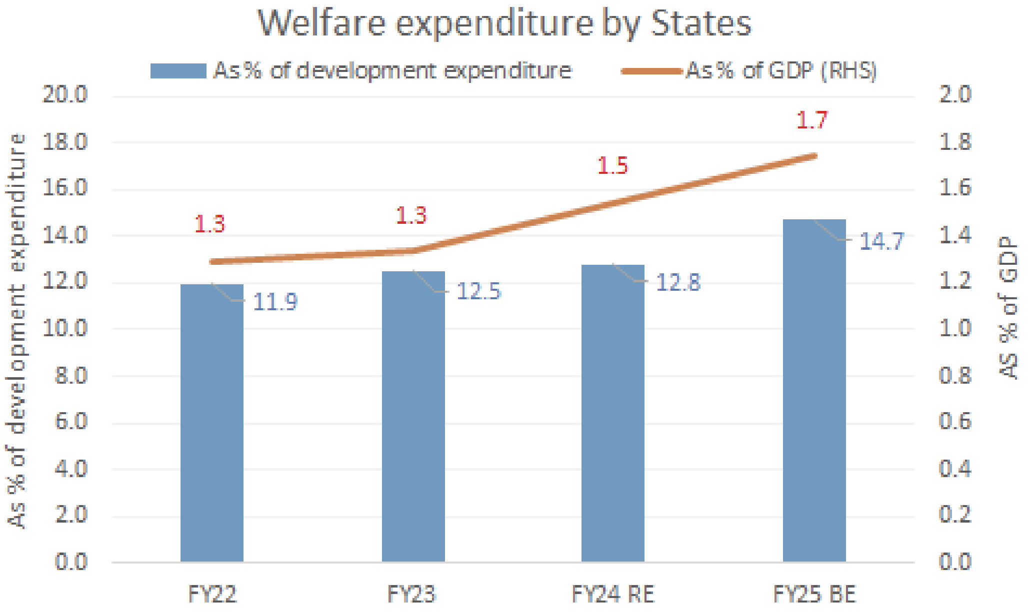
Source: DSP, Refinitiv, CMIE, ASK PW.

India: Deficit goal and welfare constraining capex spend

Fiscal goals would likely stay unchanged



Welfare spending increasing at state level



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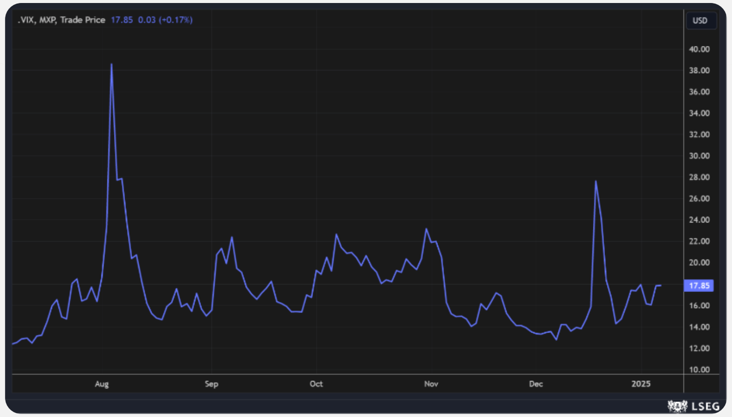
Source: CMIE, Refinitiv, ASKPW

US – Trump Effect

The Trump trade: What happened?

Equity

VIX

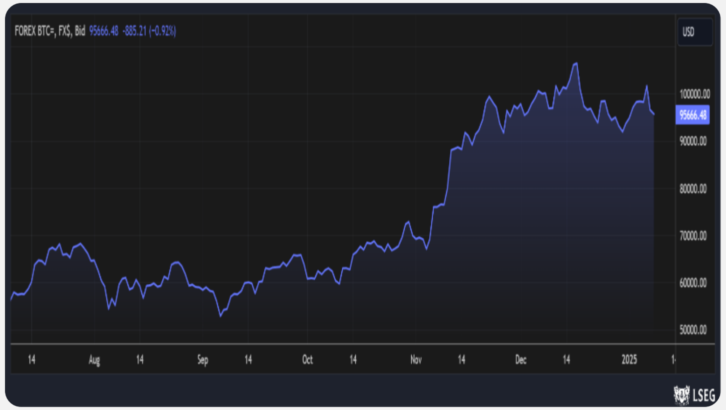


Bond Yield

USD

Oil

Bitcoin



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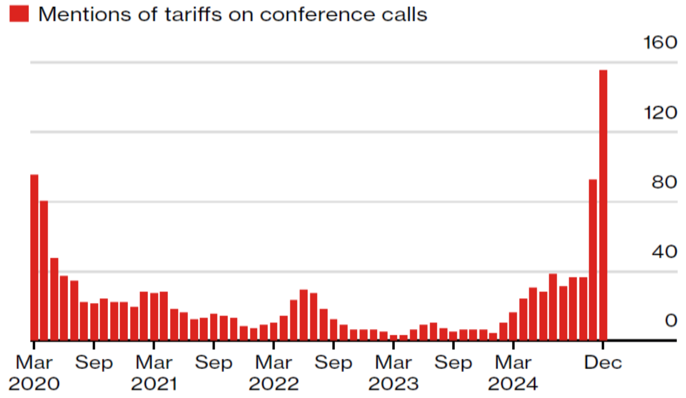
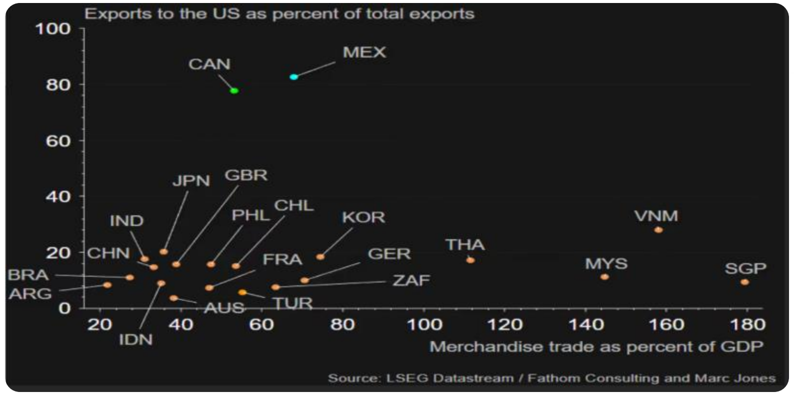
Source: Refinitiv, ASKPW

Trump effect: Tariffs are not a one-way street

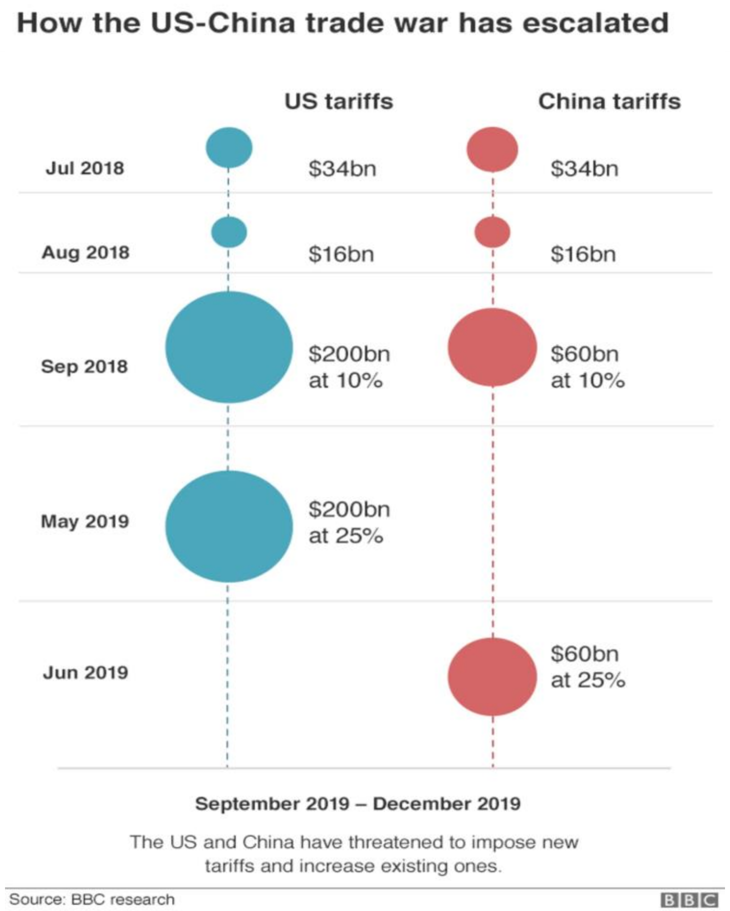
Tariff talk has escalated



US dependence for exports varies a great deal



Expect counter-measures from China and others too



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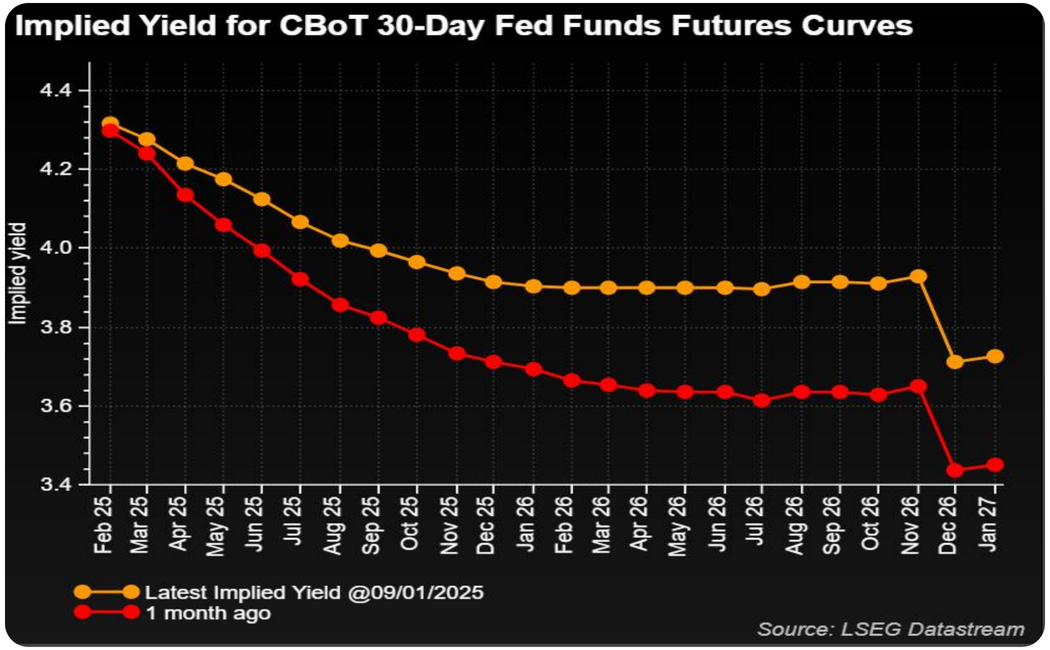
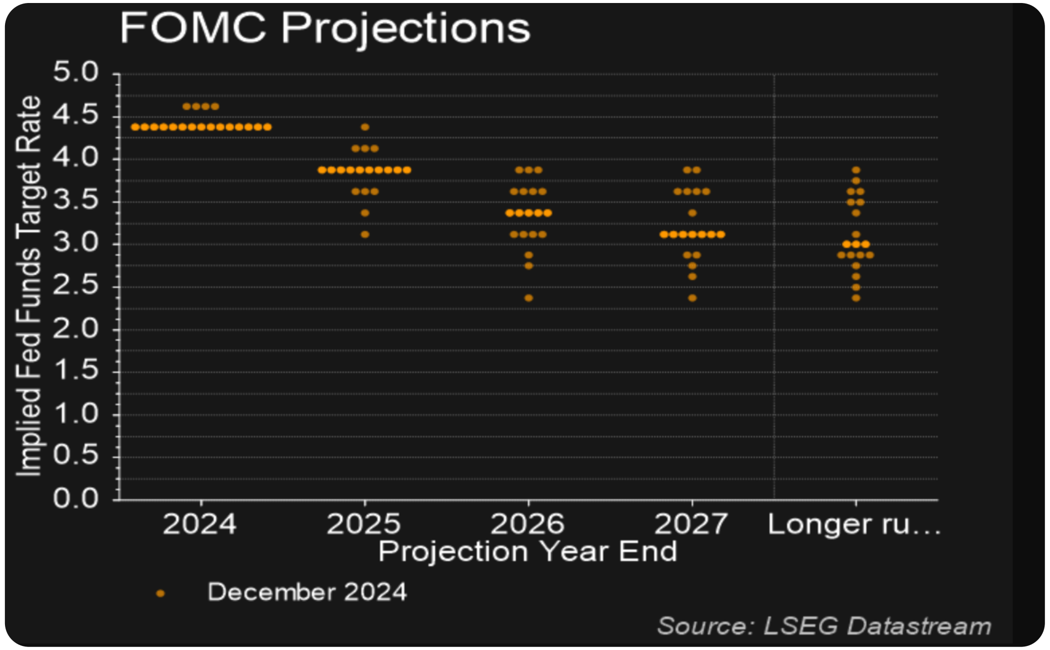
Source: CMIE, Refinitiv, SCB, ASKPW

Some complication in the rate cut picture

Significant hardening of rate cut expectations



Need to await revised dot plot by FED

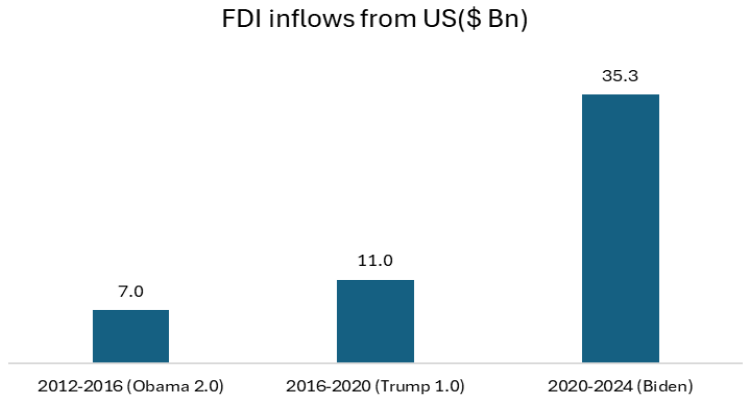


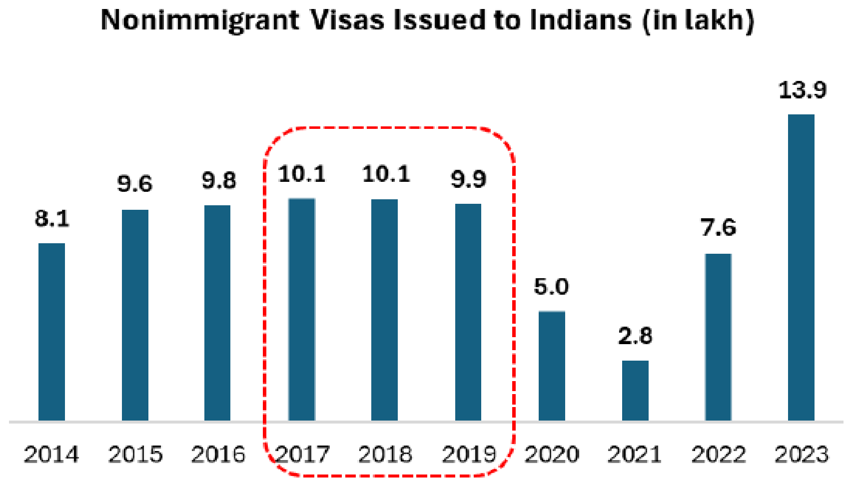
Source: Refinitiv, CMIE, ASKPW

Impact on India unclear at this moment

Rupee-Dollar Exchange Rate			
Presidency term	Average Exchange rate (INR)	Appreciation(+)/Depreciation(-)	Daily volatility
2012-2016 (Obama 2.0)	62.2	-28.7	4.1
2016-2020 (Trump 1.0)	69.2	-11.3	3.7
2020-2024 (Biden)	79.3	-14.5	4.1
2024 last one month	84.1	-0.3	0.1
2025-2029 (Trump 2.0)	87-92	-8 to -10	-

Source: SBI Research





US India trade dynamics		
	Year	Trade surplus ($ Million)
Obama 2.0	2013-14	16,637
	2014-15	20,634
	2015-16	18,555
	2016-17	19,905
Trump 1.0	2017-18	21,267
	2018-19	16,857
	2019-20	17,269
	2020-21	22,735
Biden	2021-22	32,853
	2022-23	27,679
	2023-24	35,320

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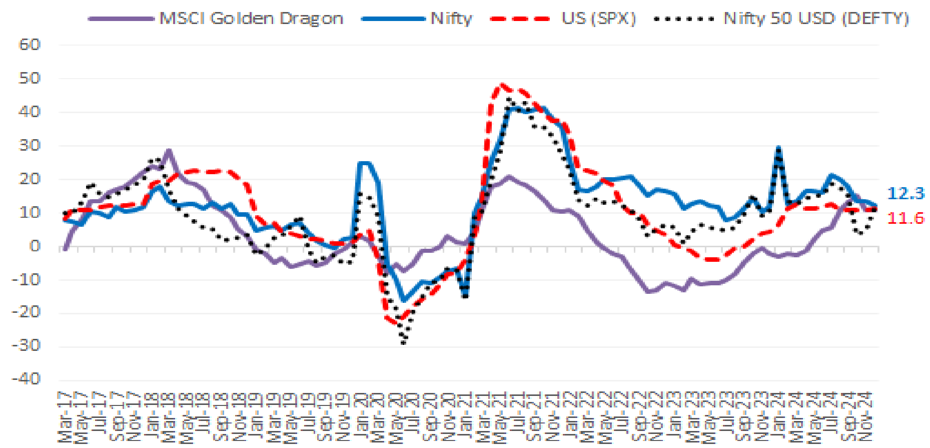
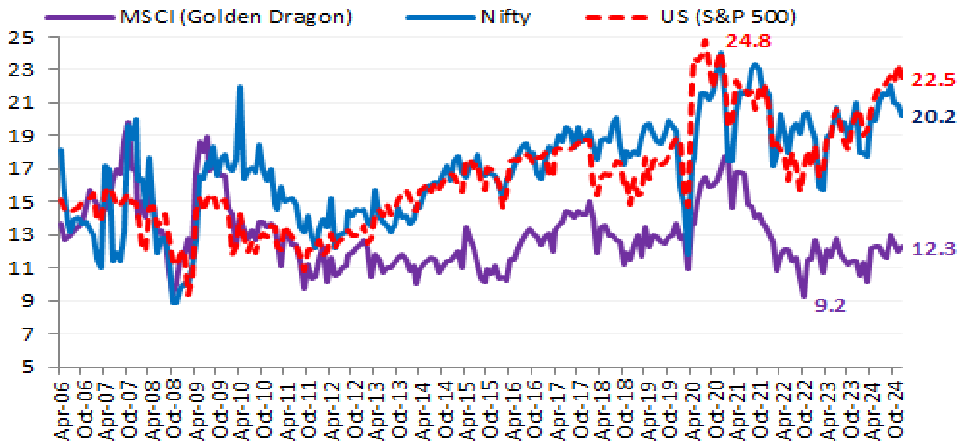
Source: Refinitiv, SBI, ASKPW

US and global opportunities

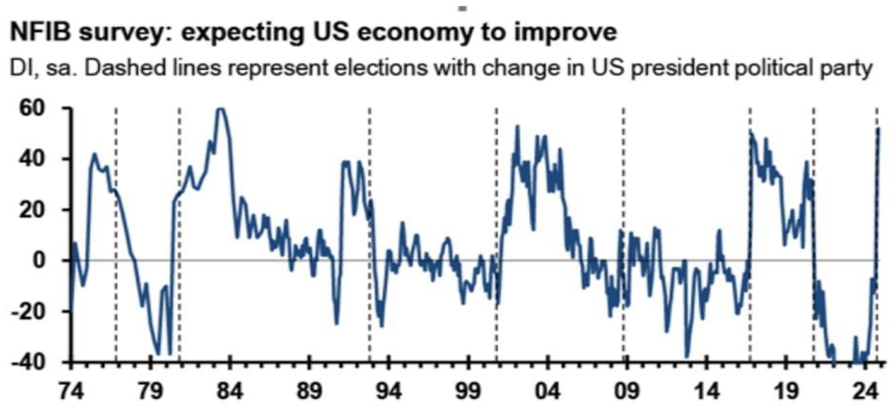
A convergence of EPS expectations



Valuation divergence persists on near-term drivers



Hopes are high on the impending policy changes



Source: CMIE, NFIB, Refinitiv, ASKPW

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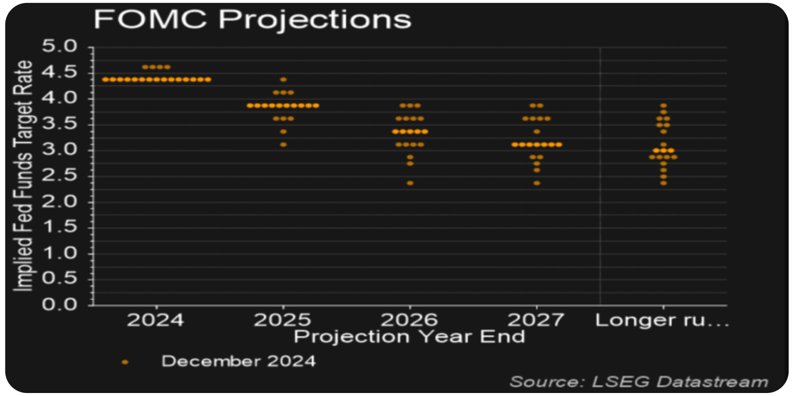
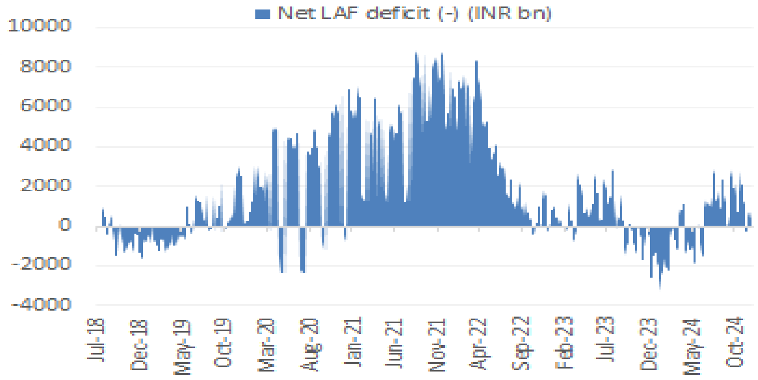
Staying Neutral – on Other Asset Classes Too

Long bond stays relevant despite FED pivot

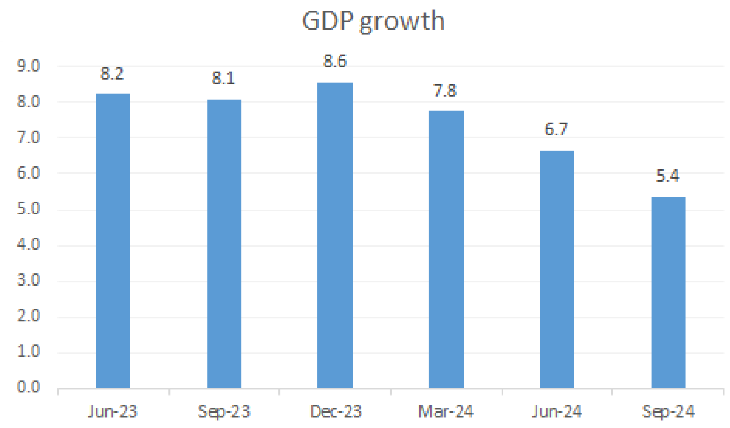
US broadly on easing path though extent may vary

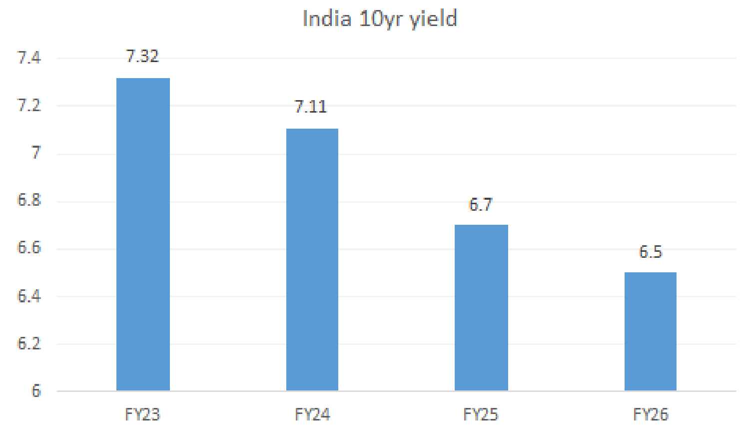


Slowing growth increasing pressure to ease liquidity



Growth slowdown makes it imperative to start policy easing in India





Source: Refinitiv, CMIE, ASK PW.

Prefer InvIT's over REIT's

Entity	FY24 Distribution Yield (%)	FY25 Projected Distribution Yield* (%)	FYTD IRR (%)	Since Inception XIRR (%)	Inception Date
Embassy Office Parks	5.9	5.8	26.05%	13.0%	Apr-20
Mindspace Business Parks	5.5	5.3	23.03%	8.0%	Aug-20
Nexus Selct trust	6.2	5.8	13.22%	34.2%	May-23
Brookfield India Real Estate	7.0	6.3	35.93%	12.3%	Feb-21

Entity	FY24 Distribution Yield (%)	FY25 Projected Distribution Yield* (%)	Projected Static Pool IRR (%)	Since Inception XIRR (%)	Inception Date
Capital Infra Trust (IPO)	-	24.0	11.0	-	Jan 25
NHAI InvIT	5.3	6.1	12.5-13	14%	Nov-21
Cube InvIT	8	8.2	13-13.2	21.1%	Apr-23
Indigrid InvIT	10.5	10.1	10-10.5	24.2%	Apr-20

REIT's have outperformed their historical averages over last year, due to increase in prices leading to yield compression.

REIT are more vulnerable to slowdown in economic activity and can see impact if there is any signs of the same

InvITs are relatively more stable and selectively provide opportunities with stable distribution yield, reasonable IRR on static pool, and the ability to add assets over a period of time.

Incremental allocations should be weighted towards INVITs in 2025.

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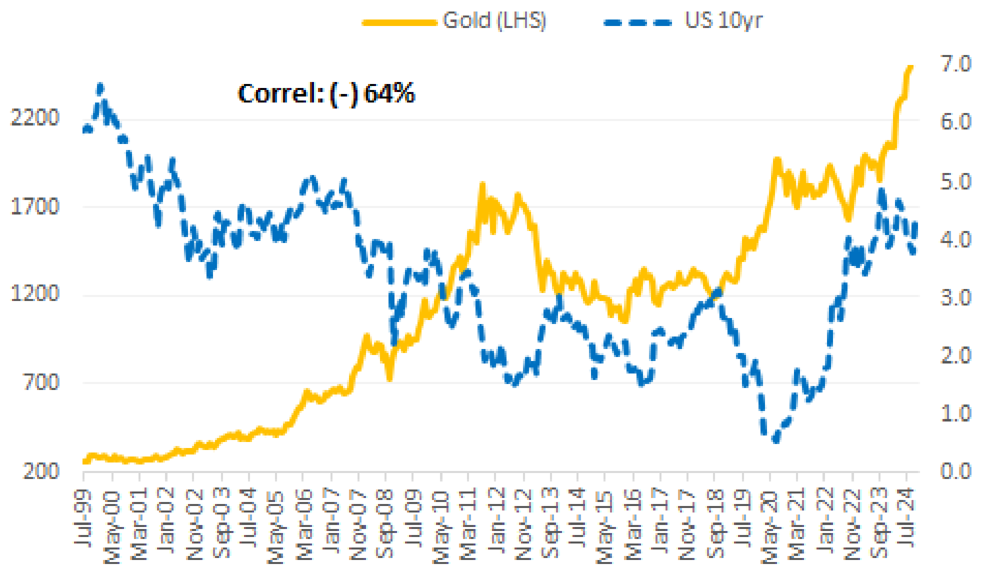
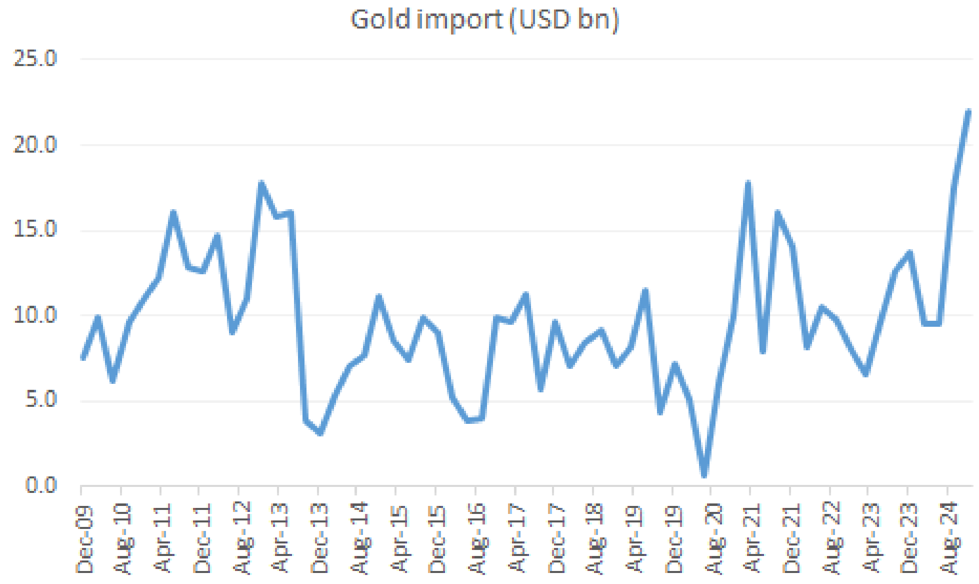
Source: Refinitiv, ASKPW

Gold – To shine on rate cuts, demand and geopolitics too

Rate cuts to sustain gold prices



Gold imports have surged reflecting demand



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Source: Refinitiv, CMIE, ASK PW.

Strategy: Stay neutral on Equity; Stay Overweight Domestic and Large Cap

1. Equity market performance has dipped during recent quarters. This follows a noticeable slowdown in various sectors of the economy including residential housing, transport, industry and investments. Slowdown in government spending and curtailment in capex spending is another contributing factor. The Trifecta of earnings, valuation and flows reflect a need for moderating expectations going forward.

2. Lack of topline growth and stagnant margin have started impacting corporate bottomline. Earnings downgrade cycles have started and EPS is estimated to grow only at 4-5% in FY25, i.e., less than half the long-period average.

3. Despite the recent corrections, valuations have remained elevated for the market as a whole and especially pronounced for the mid and small cap space. In the past starting point of valuations is seen to have material impact on eventual investment return. Nifty fair value calculations indicate little margin of error.

4. Strong flows including from the retail and across market segments have counterbalanced heavy FIIs selling so far.

5. Policy changes to be initiated under Trump regime in US could add to the market relevant factors for consideration while volatility may increase in the initial days of significant policy announcements. China too has announced sizable monetary and fiscal policy measures and succeded in meeting their growth target of 5% for the year.

6. On balance of considerations of opportunities presented by the economic growth, trifecta of earnings, valuations and flows and various risk factors as delineated above, we stay neutral on equities. We stay overweight on domestic equities within domestic large cap may continue provide a better earnings-valuation prospect.

Source: ASK PW

Strategy: Stay Neutral on Fixed Income

1. RBI has raised rates by 250 bps by Feb-23 and effected a pause in further rate hikes since. The underlying inflationary trend point softening on a medium-term basis while the core inflation has moderated consistently within the target rate of RBI.

2. The liquidity condition has hardened again on account of forex operations by RBI even as the government has started spending while credit growth has slowed down. RBI has restarted daily provisioning of liquidity while the government has announced buyback of securities of INR 200 bn. More measures may be required.

3. Inclusion of India as part of major bond indices has resulted in a flow of USD23 bn since FY24 onwards. Together with other factors this has been instrumental in bringing down 10yr yield firmly below 7% level during recent times.

4. US FED has effected a decisive 100 bps cut in policy rates in the current cycle. However, threat of imposition of tariff has lowered the expectation of the magnitude of further rate cuts. Future FED decisions would be contingent of evolution of growth inflation balance while staying on the easing course still.

5. In India too concerns over currency have balanced the extent of rate cut expected. Seen in isolation food inflation has remained higher within the board trend of easing. However, rate cut cycle is yet to begin and policy need to respond to growth imperatives as long as inflation remain rangebound.

6. On balance of considerations, we stay neutral on Fixed Income. We see recent hardening of 10-yr yield in US and its stability in India as supportive of our continued endorsement of long duration strategies.

Source: ASK PW

Strategy: Stay Neutral on REITs/InvITs and Gold

REITs/InvITs:

1 REITs/InvITs have been hit by sharp rise in interest rates, post-Covid dip in occupancy as well as overhang of SEZ policy.

2 However, as IT majors ended their WFH policy and relocation of GCCs to India have lifted the occupancy levels and raised prospects. Prices of REITs too have rallied on these developments.

3 Government support in the form of tax benefits as well asacceleration of urban and transport infrastructure is facilitating rapid growth of the two financing avenues that remain a medium term positive.

4 We have stayed **neutral on REITs/InvITs while being more positive on InvITs in particular.**

Gold:

1 Over long period gold has matched the performance of equity while giving superior returns than bond. Gold is seen uniquely placed to balance large drawdown in equity while broadly increasing in value in sync over long period.

2 Gold is thus seen as a no-cost hedge in a multi-asset portfolio where increasing the weight of gold is observed to have increased return historically without increasing the risk substantially.

3 Buying from Central Banks and emerging market provides succor to the long-term value of gold. The prospect of a multi-polar world and de-dollarization is also expected to benefit gold. The commodity polls also indicate continued prospects for gold going forward.

4 We have **stayed neutral on gold tactically.**

Source: ASK PW

Model portfolio: Construct and Stance

IPC Stance	Asset/Sub-Asset Class	DPMS Model Portfolios					
		AGGRESSIVE		BALANCED		CONSERVATIVE	
		SAA	TAA	SAA	TAA	SAA	TAA
N	I. Equity Allocation - Overall	80.2	80.2	45.0	45.1	14.2	14.3
N	Pure Equity Schemes	85.0	85.0	41.0	41.0	5.0	5.0
UW	Funds with Offshore Exposures	26.2	26.2	10.3	10.3	1.5	1.5
N	*US*	*19.6*	*19.6*	*6.8*	*6.8*	*1.0*	*1.0*
N	*China/EM*	*6.5*	*6.5*	*3.4*	*3.4*	*0.5*	*0.5*
OW	Domestic Funds	58.8	58.8	30.8	30.8	3.5	3.5
OW	*Large Cap Funds*	*13.1*	*13.1*	*6.8*	*6.8*	*1.0*	*1.0*
OW	*Multicap / Focussed Funds*	*19.6*	*19.6*	*10.3*	*10.3*	*1.5*	*1.5*
UW	*Mid/Small cap Funds*	*13.1*	*13.1*	*6.8*	*6.8*	*1.0*	*1.0*
N	*Hybrid Funds*	*13.1*	*13.1*	*6.8*	*6.8*	*0.0*	*0.0*
N	II. Fixed Income / Debt Allocation	9.8	9.8	33.0	32.9	63.8	63.7
N	Fixed Income Schemes	5.0	5.0	37.0	37.0	73.0	73.0
	Pure Fixed Income Schemes	3.0	4.0	15.0	15.4	42.6	43.2
	Equity Savings Funds	0.0	0.0	20.0	20.6	28.4	28.8
UW	Cash	2.0	1.0	2.0	1.0	2.0	1.0
N	III. Hybrid	5.0	5.0	7.0	7.0	7.0	7.0
	REITs	2.5	2.5	3.5	3.5	3.5	3.5
	InvITs	2.5	2.5	3.5	3.5	3.5	3.5
N	IV. Commodities	5.0	5.0	15.0	15.0	15.0	15.0
	Gold	*5.0*	*5.0*	*15.0*	*15.0*	*15.0*	*15.0*
	Total	100.0	100.0	100.0	100.0	100.0	100.0

ASK

Source: ASK PW

Performance of ASK PW Schemes

No.	Investment Approach Name	1M	3M	6M	1Yr	2Yr	3Yr	SI	D/o Inception
	Multi-Asset								
1	ASK Wealth Core Aggressive	-1.0	-5.9	1.2	15.0	18.3		17.2	06-May-22
2	ASK Wealth Core Balanced	-0.6	-3.1	3.1	12.2			15.4	30-Jan-23
3	ASKWA Harmony Conservative	0.1	-0.3	3.7	10.6	10.0	7.4	6.1	21-May-21
4	ASK Wealth Harmony Aggressive	-1.0	-4.9	1.8	16.0	19.4	11.3	10.7	19-Jul-21
5	ASK Wealth Harmony Balanced	-0.3	-1.5	3.0	11.8	11.7	7.3	7.0	28-Jul-21
	BM: NSE Multi Asset Index I	-0.6	-3.1	1.8	12.8	14.7	11.4		
	Equity								
6	ASK Wealth Core Equity	-1.1	-6.2	1.1				8.9	13-May-24
7	ASK Wealth CICERO Smart Beta	-2.9						-3.0	21-Oct-24
8	ASKWA Growth Opportunities Fund	-1.1	-6.5	-2.3	9.8	16.8	9.0	11.6	29-Sep-21
	BM: Nifty 50 TRI	-2.0	-8.2	-1.1	10.1	15.5	12.2		
	Fixed Income								
9	Harmony Income Opp Discre. Debt PMS	0.3	1.8	4.8	9.8	8.2		8.0	16-Mar-22
	BM: CRISIL Composite Bond Fund	0.5	1.3	4.2	9.0	8.1		6.6	

Note: SI - Since Inception (corresponding return calculated from the date of inception); BM – Benchmark
Return upto 1yr calculated on point-to-point basis and CAGR thereafter.

Source: ASK PW

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