The Return Of Volatility?

15th Oct'24

As we have elaborated in our previous monthly memos, the interplay between diverging monetary policies (Japan vs. other developed markets and larger emerging markets), rising geopolitical tensions (especially in the Middle East), the impending U.S. presidential elections, and their impact on the economy and policy decisions—amid exuberant risk-on sentiments and excess liquidity chasing risk assets—creates the perfect recipe for a volatility spike. This hasn't played out yet, barring the Yen carry trade unwind scare in early Aug'24.

For India, the sudden resurgence of the Chinese equity markets post-stimulus announcement, along with the broader impact on global commodities (especially crude prices), could have a material impact on risk assets. Hence, it is prudent to note the impending volatility spike that could arise from any or all of the factors mentioned when making investment decisions, especially in risk assets, either globally or domestically.

Will the Federal Reserve Continue to Act?

Since the Fed flagged off its monetary easing cycle in Sept'24 with a 50-bps rate cut, the markets had priced in more of the same for subsequent meetings, with median rate-cut expectations of at least 175-200 bps by CY'25. However, the latest jobs and unemployment data release may lead to a rethink on the future policy glidepath :-

- Non-Farm Payrolls for Sep'24 expanded by 254,000, significantly higher than ***market expectations of 150,000***. Moreover, the Aug'24 payroll additions were revised upwards to 159,000 from 142,000. July payrolls saw an even sharper readjustment of an additional 55,000 jobs.
- Hourly earnings rose by 0.4% for the month, making for a 4% YoY gain - ***both higher than expectations (0.3% and 3.8% respectively)***.
- The unemployment rate fell to 4.1% in Sep'24 from 4.2% in the previous month**.**
- The US (Consumer Price Index) CPI for Sep'24 increased by 0.2% MoM (exp 0.1%) and 2.4% YoY (exp 2.3%). Even core inflation ticked higher by 0.3% MoM(exp 0.2% and 3.3% YoY(exp 3.2%).

The Fed dot plot chart hinted at an additional 50-75 bps rate cut in CY24 and 100-125 bps cut in CY25 with terminal policy rate at 2.8%-2.9%, to be achieved by H1 CY26.

Global Markets Round Up:

- The US yields with tenors exceeding 1-year maturities witnessed sharp spikes between 25-50 bps with 2-year, 5-year and 10-year yields rising the most (between 42-50 bps) over the past month, the majority of the uptick occurring post the robust jobs data release .
- Global equities capped off a strong month, with emerging markets leading the way, primarily driven by the Chinese equities. The Morgan Stanley Capital International Emerging Markets Index (MSCI EM Index) gained 8.7%, while the Morgan Stanley Capital International World Index (MSCI World Index) rose by 4.5%. The Chinese equities led the overall outperformance in emerging markets, with the China Securities Index 300 (CSI 300) and Hang Seng Index gaining 25% and 23%, respectively, while the Indian indices lagged, with the Nifty 50 down 0.2%. The United States equities also had a positive month, led by the National Association of Securities Dealers Automated Quotations (NASDAQ) (+7.4%), Standard & Poor's 500 (S&P 500) (+5.4%), and Dow Jones (+4.4%). In Asia, the Nikkei and Korea Composite Stock Price Index (Kospi) capped off strong performances, gaining 8.9% and 3% over the past month.

Global Central Bank Policy Snapshot

We had three major global central monetary policy decisions namely the Reserve Bank of India (RBI), the Swiss National Bank (SNB) and the Reserve Bank of Australia (RBA), since the Fed policy pivot. While the RBI and RBA maintained status quo on rates, the SNB announced a further reduction in rates by 25 bps.

Central Bank	Rate	Last Change	Next Meeting	Expectations
Bank of Canada	4.25%	4th Sep 24, 25 bps Cut	23rd Oct'24	Rate Cut
Bank of England	5.00%	1st Aug'24, 25 bps Cut	7th Nov'24	Rate Cut
Bank of Japan	0.25%	31st Jul'24, 15 bps Hike	31st Oct'24	Status Quo
European Central Bank	3.50%	12th Sep'24, 25 bps Cut	17th Oct'24	Rate Cut
US Federal Reserve	5.00%	18th Sep'24, 50 bps Cut	7th Nov'24	Rate Cut
People's Bank of China	3.65%	25th Jan'24, 50 bps Cut		
Reserve Bank of Australia	4.35%	7th Nov'23, 25 bps Hike	5th Nov'24	Rate Cut
Reserve Bank of India	6.50%	8th Feb'23, 25 bps Hike	6th Dec'24	Status Quo
Swiss National Bank	1.00%	26th Sep'24, 25 bps Cut	26th Sep'24	Status Quo

Gold Prices Remain Resilient

Gold ended September up 5.7% and is currently trading up around 0.6% for the month of October (as of 14th October), having breached the $2600/oz handle in the process. This is due to strong safe-haven demand for this precious metal amidst geopolitical upheaval. This has offset some downward pressure caused by the strong US jobs report for October.

In addition to this, expectations centered around continuation of accommodative monetary policy stance from the US Fed has also played a key part in the bullish trend as gold, being a non-yielding asset, benefits in lower interest rate environments.

The rising fiscal deficit in the U.S. is also one of the key forces driving gold prices. The Congressional Budget Office (CBO) recently estimated that the US Federal Deficit was $1.8 trillion for fiscal 2024, the highest in the post covid era, as debt interest costs jumped sharply.

Silver is trading up 0.3% for the month of October (as of 14th October), after ending September up around 8.5%. Fueled by China's stimulus and rising industrial demand, the silver prices have been on an upward trajectory recently. Silver is also benefiting from expectations of further rate cuts by the Fed. A weakening U.S. Dollar makes silver more accessible to foreign buyers, boosting demand.

Crude Prices Rebound

Crude prices are up by around 8.35% in October (as of 14th October) to trade at around $74 per barrel (WTI benchmark). The prices had corrected by around 7.3% in September and by 5.6% in August. This rebound is occurring amidst the mounting threat of a region-wide war in the Middle East due to the Israel-Iran conflict. Traders are worried that Israel will hit Iran's oil industry, potentially triggering a cycle of escalation that causes a significant disruption of supplies in the Middle East. Nevertheless, sustained bullish price momentum in oil has been hard to come by, with demand worries coming out of China consistently weighing on the market.

The ongoing conflict between Israel and Iran is unlikely to have a significant impact on India's crude oil imports, as India sources only a negligible volume of oil from Iran. While the crude oil supply issues may not be a primary concern for India, price volatility is expected, with occasional spikes and higher monthly average prices.

China's Economic Struggles Continue

China's factory activity contracted for a fifth consecutive month in September as the world's second-largest economy struggles to revive its growth momentum. The official manufacturing purchasing managers' index came in at 49.8 in September according to data released recently from the National Bureau of Statistics. China's industrial profits in August plunged by 17.8% from a year ago, marking the largest decline in over a year. Retail sales, industrial production and urban investment all grew at a slower pace than anticipated last month. Deflationary pressures also picked up with the consumer price index up 0.4% YoY in September, down from 0.6% in August.

Nevertheless, following Beijing's aggressive economic stimulus measures, the flow of funds, which previously favored stocks from Japan, Southeast Asia and India, is reversing direction towards China. Shares in markets like South Korea, Indonesia, Malaysia, and Thailand have seen net outflows, while BNP Paribas recently reported that over $20 billion were pulled from Japanese equities in the first few weeks of September.

Strong gains in China signals challenges for other Asian markets including India. The rotation of capital may slow down the robust run for non-Chinese Asian markets. Particularly with respect to India where concerns remain over elevated valuations, the Foreign Institutional Investors (FII) outflow might exacerbate.

Dollar Index Rises

The dollar index is up around 2.5% in October, trading at 103 levels (as of 14th October). The US dollar reached new two-month peaks on the back of the resurgence of the risk-off mood in response to geopolitical concerns in the Middle East, while firm data from the US labor market also contributed to the strong advance.

The rupee was largely stable against the USD over the last month, hovering around the 84 level. This stability can be attributed to the RBIs active intervention in the foreign exchange market through substantial dollar purchases.

India's foreign exchange reserves crossed $700 billion for the first time on record, after climbing for seven straight weeks, on valuation gains and the central bank's dollar purchases. The forex reserves stood at $704.89 billion, having risen by $12.6 billion in the week through September 27, marking their biggest weekly increase since mid-July 2023. India is only the fourth economy in the world to cross $700 billion in reserves after China, Japan, and Switzerland.

Indian Macro Update:

India's macroeconomic landscape remains resilient, although manufacturing witnessed some moderation. Let's look at some of the key datapoints over the past month below:

Industry

- India's eight core industries declined by 1.8% YoY in Aug'24, compared to robust growth of 6.1% in Jul'24. Only two sectors namely Steel and Fertilizers recorded growth of 4.5% and 3.2%, respectively. Coal contracted the most, by 8.1%, followed by Electricity, which declined by 5%.

- The Index of Industrial Production (IIP) shrunk for the first time in 22 months by 0.1% in Aug'24, compared with 4.7% in the previous month. Capital goods witnessed a sharp deceleration with growth falling to 0.7% from 11.8% in the previous month. Consumer non-durables grew (-) 4.5%, continuing its third consecutive month of contraction, while Consumer durables slowed down to 5.2%. Three major components of IIP - Mining, Manufacturing and Electricity grew by (-) 4.3%, 1% and (-) 3.7%, respectively.
- India's Manufacturing Purchasing Managers' Index (PMI) slightly declined to 56.5 in Sep'24 from 57.5 in Aug'24, due to slower growth in output and new orders, as well as a deceleration in export demand growth. Input prices rose at a faster rate in Sep'24, while the rate of inflation eased to a five-month low, squeezing manufacturers' profit margins.
- The Services PMI fell below 60 for the first time in 2024, dropping to 57.7 in Sep'24, signaling a softer yet still historically robust rate of expansion. Total new business, international sales, and output all rose at the slowest rates since late 2023.

Fiscal

- Growth rate in GST collections slumped to a 40-month low of 6.5% in Sep'24, with total collections at INR 1.73 trillion and about 1% lower than in Aug'24. On a YoY basis, GST collections increased by 9.5%.
- India's fiscal deficit for Apr-Aug'24 stood at INR 4.35 trillion or 27% of overall budgeted estimates for FY'25, significantly lower than 36% for corresponding period in previous financial year.
- Total receipts stood at INR 12.17 trillion, while total expenditure stood at INR 16.52 trillion for Apr-Aug'24. The revenue receipts stood at INR 12.08 trillion split between tax and non-tax revenue of INR 8.74 trillion and INR 3.34 trillion respectively for Apr-Aug'24, accounting for 33.8% and 61.3% of budgeted estimates. The spike in non-tax revenues is owing to the record surplus transfer of INR 2.11 trillion from the RBI.
- The Capital expenditure stood at INR 3 trillion, while revenue expenditure totaled INR 13.51 trillion between Apr-Aug'24. The overall expenditure of INR 16.52 trillion accounted for 34.3% of the budgeted estimates for FY'25.
- The Union Government released a tax devolution of INR 1,78,173 crore to State Governments, in addition to the regular monthly instalment. Uttar Pradesh received the highest allocation, totaling INR 31,962 crore, followed by Bihar and Madhya Pradesh. The release provides timely funding to enable states to accelerate capital spending and finance their development/welfare-related expenditure ahead of the upcoming festive season.

Trade

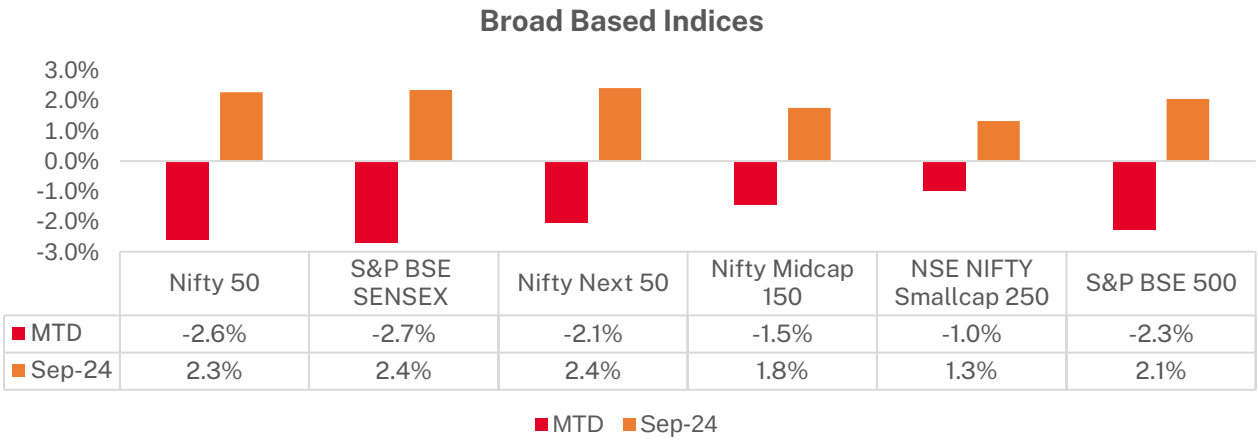
- India's Current Account Deficit (CAD) widened marginally to $9.7 billion (1.1% of GDP) in Q1FY25 from $8.9 billion (1.0% of GDP) in Q1FY24, and against a surplus of $4.6 billion (0.5% of GDP) in Q4 FY24.
- The widening of CAD on a YoY basis was primarily due to a rise in merchandise trade deficit to $65.1 billion in Q1FY25 from $56.7 billion in Q1FY24.
- Net services receipts increased on a YoY basis to $39.7 billion in Q1FY25 from $35.1 billion in Q1FY24. Also, private transfer receipts increased to $29.5 billion in Q1FY25 from $27.1 billion in Q1FY24.

Indian Equity Update:

Overview:

The Indian benchmarks logged losses on a MTD basis (as of 11th Oct'24), weighed down by foreign outflows, slowing corporate earnings and escalating tensions in the Middle East.

Performances of some of the key market indices for the month of September & MTD (as of 11th Oct'24) is given below:



	Nifty 50	S&P BSE SENSEX	Nifty Next 50	Nifty Midcap 150	NSE NIFTY Smallcap 250	S&P BSE 500
MTD	-2.6%	-2.7%	-2.1%	-1.5%	-1.0%	-2.3%
Sep-24	2.3%	2.4%	2.4%	1.8%	1.3%	2.1%

Q2FY25 earnings preview: Muted earnings growth expectations

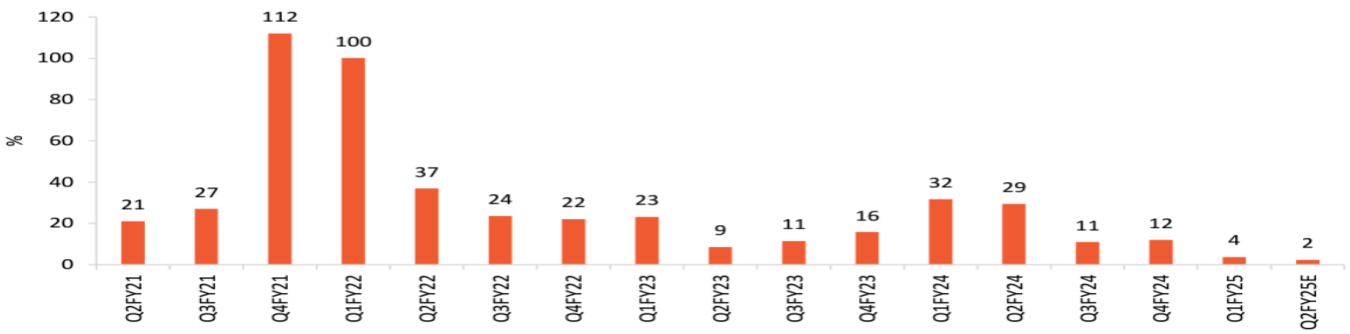
Caught in a tug of war between tailwinds and headwinds, the market expects Q2 to deliver the slowest earnings growth for Nifty companies in 17 quarters. The moderation in corporate earnings, after four consecutive years of healthy double-digit growth, is likely to come on the back of pressures from commodities, fading tailwinds from Banking, Financial Services, and Insurance (BFSI) asset quality improvements, high base, and easing demand.

Factoring in these trends, the Nifty 50 companies are expected to clock aggregate YoY revenues, EBITDA, and PAT growth of 4%, 5% and 2%, respectively.

Banks, automobiles, power/infra, are expected to see modest earnings growth owing to receding tailwinds. IT, telecom & pharma sectors would see improved traction in earnings. Consumer goods are likely to report muted growth.

The earnings growth is likely to be weighed down by Oil Marketing Companies (OMCs), Cement and Metal sectors. The Nifty 50 (ex-OMCs & Metals) is expected to deliver an ~7% YoY growth.

Nifty Companies to post 2.3% YoY PAT growth in Q2FY25



Source: Bloomberg; Sharekhan Research; Note: Above estimates does not include data for Adani Enterprises

Sector-wise Expectations:

Banks and NBFCs: Q2 is set to be another soft quarter for banks as earnings growth is expected to remain moderate, led by muted operating profit growth due to weak Net Interest Income (NII) growth and the normalization of credit costs. NBFCs are expected to deliver healthy loan growth, although margins will remain under pressure, and credit costs are likely to stay elevated.

Automobiles: While the auto sector is expected to witness a moderation in growth in Q2FY25, the EBITDA growth continues to be higher than that of the revenue growth. Two wheelers are expected to outperform the Original Equipment Manufacturer (OEM) space. All eyes are now on festive sales as OEMs have already build up inventory ahead of festive season.

Capital Goods: Strong execution of the highest-ever order books is expected to drive the sector. Margins are expected to improve, backed by the softening of commodity prices. The long-term public capex story remains strong, leading to healthy order inflows and execution.

IT: IT service companies are expected to report steady revenue growth with most Tier 1 companies seeing margin expansion as well.

Cement: Weak cement prices and negative operating leverage are likely to dent operational and net earnings performance during the seasonally weak quarter. Operating costs are expected to remain benign.

Building Materials: Net earnings are expected to decline amidst sustained margin pressures especially for wood panel companies. Plastic piping companies relatively better placed led by strong volume growth.

Infrastructure Logistics: In the infrastructure segment, barring L&T, weak execution and pressure on Operating Profit Margin (OPMs) are expected to dent net earnings. Logistics is expected to see improvement in demand led by early festive season demand pick-up.

Real Estate: The real estate sector is expected to see pre-sales booking in Q2 FY2025, driven by sustenance sales, as major launches are queued during festive season and Q4 FY2025.

Power & Utilities: NTPC and Tata Power are expected to report strong results with significant power capacity additions throughout the year. PowerGrid's numbers are anticipated to be soft due to weak capitalization. In the case of Calcutta Electric Supply Corporation (CESC), the hike in tariff rates will contribute to a strong performance.

Agri and Specialty chemicals: Geopolitical tensions in the Red Sea are increasing raw material and freight costs, potentially boosting short-term realizations. While export volumes rose in Jul-Aug'24, most companies saw declines in realizations. Management expects prices to recover in the second half of the year but concerns about pricing pressures in 2025 persist. Rising input and freight costs continue to squeeze margins amid weakening demand.

Consumer Discretionary: Hotels are likely to post a strong recovery after a dull Q1. In the lifestyle fashion space, value fashion segment will outpace other retailers. Quick Service Restaurants (QSR) are expected to post another quarter of subdued performance. Garment players are likely to deliver muted performance, while home textile players are expected to see a gradual pick-up.

Consumer Goods: Domestic demand stayed stable with rural demand outpacing urban demand. Revenues to grow by mid-to-high single digit for most companies driven by volume growth. Inflated input prices and higher ad-spends to dent margins. PAT growth to be lower compared to revenue growth for most companies.

Pharma: In 2Q FY25, market anticipates strong growth in aggregate sales within the Domestic Formulation segment, driven by robust performance in Cardiac, AI, Gastro, and Neuro therapies. However, this growth may be partially tempered by moderate to declining performance in the Respiratory therapy sector.

Q2FY25E sector wise y-o-y earnings growth estimates for Nifty constituents:



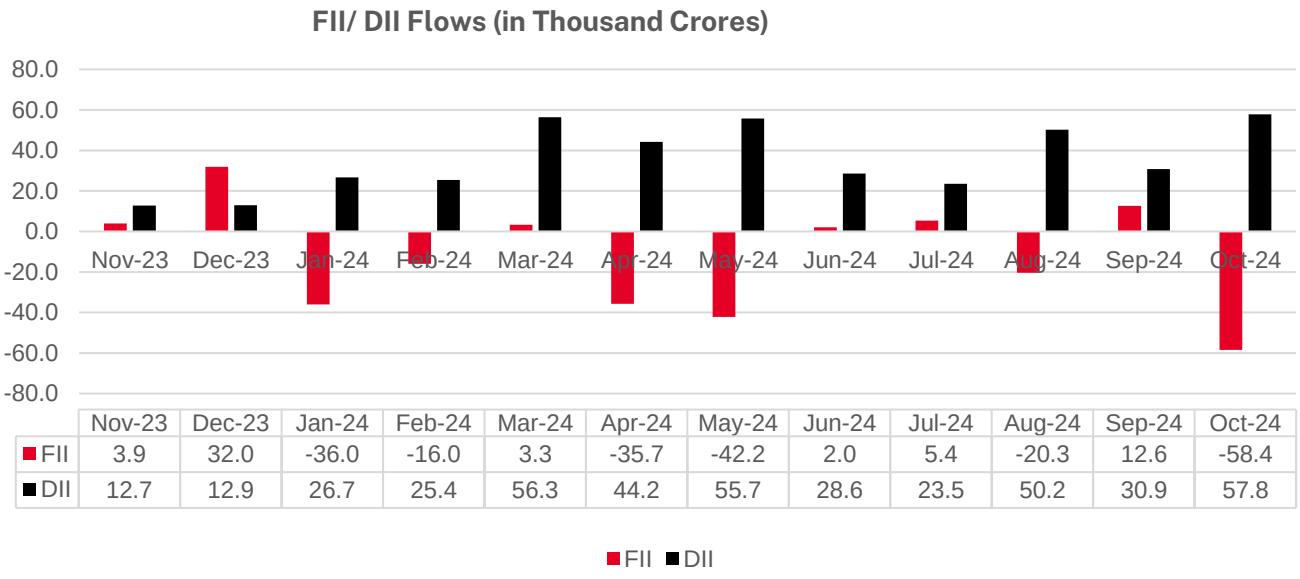
Source: Bloomberg; Sharekhan Research; Note: Above estimates does not include data for Adani Enterprises

FII DII Flows in Indian Equities:

Foreign institutional investors sold Indian shares for the last nine sessions, offloading roughly INR 58,394 crore worth of stocks in the month of October (as of 11th Oct'24), as they directed flows to China after it announced bumper stimulus measures.

The entire FPI selling, however, has been absorbed by the Domestic Institutional Investors (DIIs) who invested roughly INR 57,792 crore worth into Indian equities (as of 11th Oct'24) amid sustained fund inflows.

MoM flow data for FII & DIIs is summarized below:



	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24
FII	3.9	32.0	-36.0	-16.0	3.3	-35.7	-42.2	2.0	5.4	-20.3	12.6	-58.4
DII	12.7	12.9	26.7	25.4	56.3	44.2	55.7	28.6	23.5	50.2	30.9	57.8

Valuation & Outlook

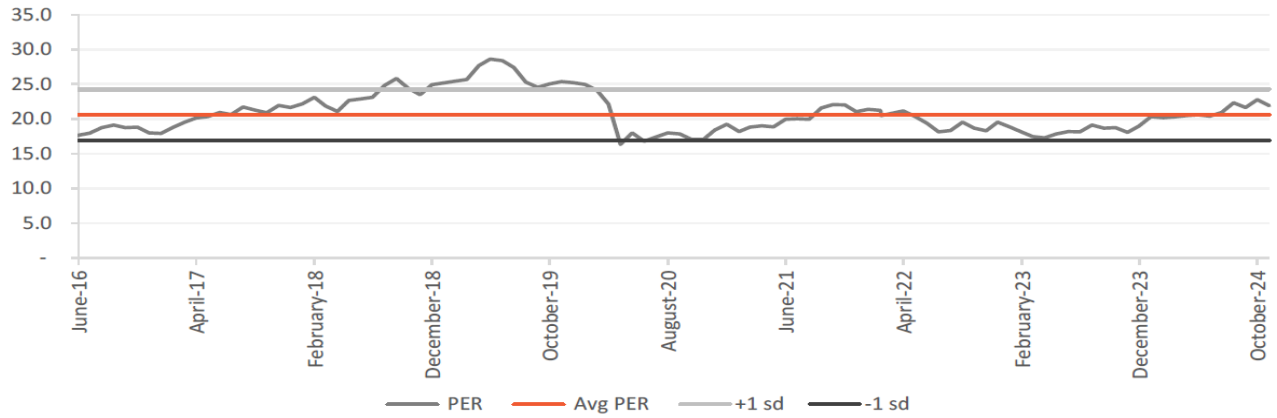
The Nifty is currently trading at a valuation of 22.9x/19.8x of FY25/26E earnings, slightly above the long-period average, despite a pull back of 5-7% from all-time highs.

We continue to prefer largecaps and prune exposure in midcaps & smallcaps, as large caps could still deliver reasonable returns given relative valuation comfort, coupled with the monetary easing cycle.

In the last three months, the Nifty 50 has started to outperform Nifty Midcap 150 & Nifty Small cap 250, although the outperformance is marginal.

In the near term however, market could witness more volatility owing to multiple global factors (geo-political tensions, US election outcome, further cuts from Federal Open Market Committee (FOMC) etc.) and domestic events (potential RBI rate cut and state elections).

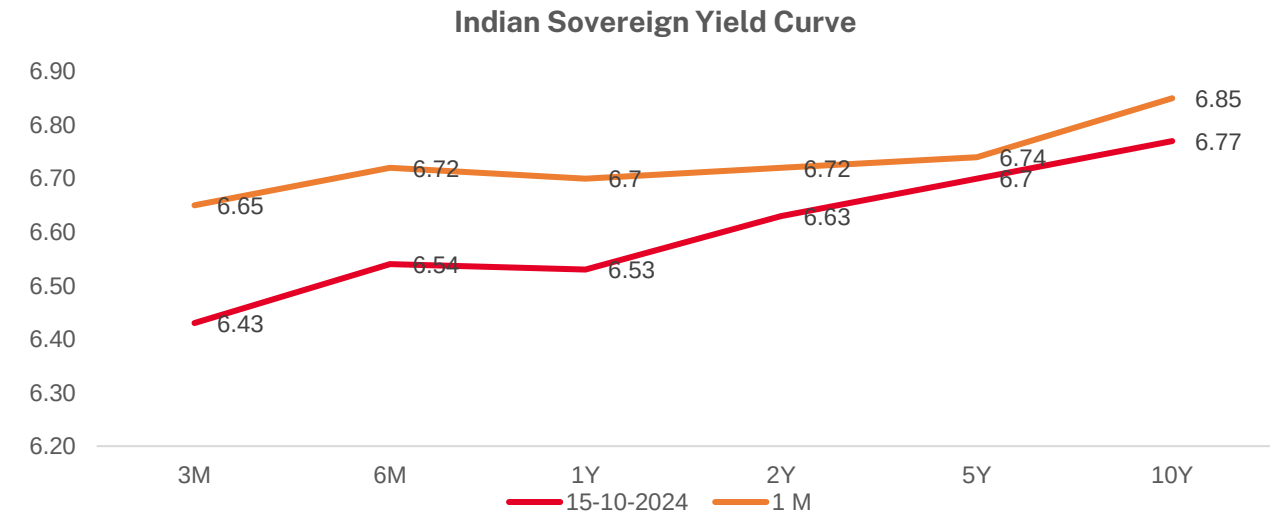
Nifty's 1-year forward P/E band:



Source: Bloomberg; Sharekhan Research

India Fixed Income Update:

The Indian sovereign yields held on to gains over the past month, more visibly in the shorter end of the yield curve (up to 1 yr tenor) as markets positioned itself for an anticipated RBI interest rate pivot in the current financial year. The FPIs inflows continued, although MTD October witnessed some reversal in trend. The chart below highlights the yield compression across tenors:



Source : RBI, CCIL

. Highlighted below are a few key existing and probable factors that are already impacting, or are expected to further impact Indian fixed income yields:

- **US Yields Spikes:** The U.S. Treasury yields witnessed spikes across tenors, more pronounced beyond the 2-year tenors, as markets reassess the projected interest rate glide path from the U.S. Fed following stronger jobs and unemployment data, as well as an uptick in CPI.

- **RBI Changes Stance:** The RBI Monetary Policy Committee (MPC) members in their latest monetary policy meeting on 9th Oct'24 changed their monetary policy stance from 'withdrawal of accommodation' to 'neutral'. They, however, kept the CPI projections for FY25 unchanged at 4.5%, while guiding towards a subdued inflation print in Q4 FY25 owing to a successful kharif harvest, sufficient buffer stocks of cereals, and the prospect of a strong crop in the upcoming rabi season.

- **System liquidity continues to be in surplus territory:** Indian system liquidity continued to be in surplus over the past month, although it did witness liquidity withdrawals in the second half of Sep'24, primarily due to advance tax outflows. The average daily liquidity surplus amounted to INR 1.02 trillion in Sep'24. For Oct'24 (MTD as of 15th), the average daily system liquidity surplus stood at INR 1.82 trillion. This surplus liquidity and the RBIs move to cancel T-bill auctions for two weeks in Sep'24, acted as a key support for shorter tenor yields.

- **Robust FPI Inflows in Sep'24 although MTD Oct'24 sees outflows:** The FPI flows in Indian debt markets remained robust in Sep'24 with combined inflows of $~4 billion. However, Oct'24 (MTD as of 15th) witnessed a reversal in trend with outflows of $0.04 billion. The FPI holdings through the Fully Accessible Route (FAR) continued to see robust flows both in Sep'24 as well as MTD Oct'24 with inflows of $2.7 billion and $0.4 billion, respectively. Since 28th Jun'24, the FAR holdings inched up by $~7.7 billion (INR 64,000 crores) indicating flows through the ETF route. India is set to join Bloomberg's local currency government index in Jan'25 followed by the FTSE Russel's Emerging Government Bonds Index in Sep'25, which is expected to further aid inflows through this route.

- **Sep'24 headline CPI spikes:** India's headline inflation spiked sharply higher in Sep'24 to 5.49%, after two consecutive months of sub 4% readings. The previous month's inflation print is the highest in 9 months and sits in the upper band of the RBI's tolerance range of 4-6%. The spike in food Inflation (9.24% in Sep'24 vs 5.66% in Aug'24)was the primary reason, with the lower base effect being the other key contributor to the rise in headline CPI. Within the food basket, vegetable inflation, at 14 month high, emerged as a significant contributor (primarily driven by the prices of onions and potatoes). A surge in edible oil and fruit prices were the other contributors. ***With expectations of a continued surge in food prices for Oct'24, the RBI may not consider an interest rate pivot in its Dec'24 policy meeting.***

OIS Curve Remains Inverted although the gap between 1 Y and 5Y curve narrows:

The Indian Overnight Indexed Swap (OIS) Curve is normally taken as a lead indicator for the future interest rate trajectory. Compared to the 1-year OIS level of 6.38 and 5-year OIS level of 5.96 as of 16th Sep'24, they stood at 6.43 and 6.18 respectively as of 14th Oct'24. Thus, while the inversion between 1- and 5-year tenor continues, the longer end has moved up significantly (22 bps) as compared to 5bps in the 1-year curve, leading to a reduction in spreads between 1–5 year window, from 42 bps a month back to 25 bps currently.

Investment Outlook:

As mentioned earlier in this memo, the interplay between multiple global events is expected to increase volatility in risk assets globally, and the FPI selloff-led decline in Indian indices this month highlights that Indian markets will not remain unaffected. While we believe resilient domestic

flows and a robust domestic economic framework will act as a crucial support, investors need to brace for headwinds in the coming months, as record high valuations will be assessed in conjunction with the earnings growth trajectory. Q2 earnings growth is expected to underwhelm, but we believe that is largely priced in, and markets will be focusing on festive demand and rural consumption-led recoveries in Q3 FY25, adding another layer of uncertainty alongside the global factors stated earlier.

Indian fixed income continues to be attractively poised based on a favourable demand-supply scenario, although the recent surge in inflation may delay the RBI interest rate pivot from Dec'24 to Q4 FY25/Q1 FY26. However, considering the higher terminal rate expectations globally, investors may consider a tactical allocation aimed towards a 75-100 bps easing in the current cycle, to be played out between now till end of FY'26. Additionally, healthy corporate balance sheets and an upbeat macro-economic landscape augur well for investors looking at corporate bond issuances across the credit curve.

The anticipated surge in volatility and green shoots with respect to sector rotation makes for attractive opportunities in the market neutral category as an asset class. The line up of global events reinforces the need for portfolio and asset class hedges at all times.

Deployment Overview:

We encourage investors to adhere to 'Asset Allocation' and calibrate investment decisions by carefully monitoring the ever-evolving economic and geopolitical data points. Marrying our in-house Asset Allocation framework with our current stance on markets (as explained above), the below points can be kept in mind :

Equities: Over the past three years, Indian equity performance have been primarily driven by Value and Momentum style of investing, with quality investing taking a breather. We believe that going forward, earnings will play a key role in driving stock prices as the exuberance around valuation re-rating dissipates. Stock selection, hence, is expected to play an increasingly important role and managers with proven track record in bottom-up stock picking with a keen eye on valuations and displaying requisite agility with respect to portfolio reorientation may continue to outperform their peers.

Fixed Income: Our investment positioning should be able to benefit from further yield compression in both the longer end as well as the shorter end of the yield curve. We believe that while allocation to duration is well poised, expectations of a shallower rate cut cycle warrant tactical positioning. Hence, we prefer allocations to short term funds, positioning for a decline in shorter end of the yield curve, with some duration build up. Dynamic bond funds, which are judiciously positioned to benefit from declines in the longer end yield curve, are also favoured, with the aim to revert to reduced exposures as and when the terminal rates are attained. Corporate yields in the 2–5-year bucket meanwhile remain attractive, and selective credit opportunities may be considered via pooled vehicles like AIFs.

Precious Metals/ Inflation Hedge: Our view on maintaining a steady allocation to gold and silver has reaped steady returns for investment portfolios over the past year and we continue to be bullish on these commodities as a vital asset allocation tool, especially in the current economic and geopolitical backdrop.

Market Neutral and Volatility Hedge: As we have stated earlier in this memo, volatility can witness sudden spikes driven by events both globally as well as locally. Hence, volatility hedge strategies primarily played out through a judicious mix of market neutral and select long-short strategies need to be considered in the current scenario.

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MF Specific Risk Factors: Mutual Fund investments are subject to market risks, read all scheme related documents carefully.