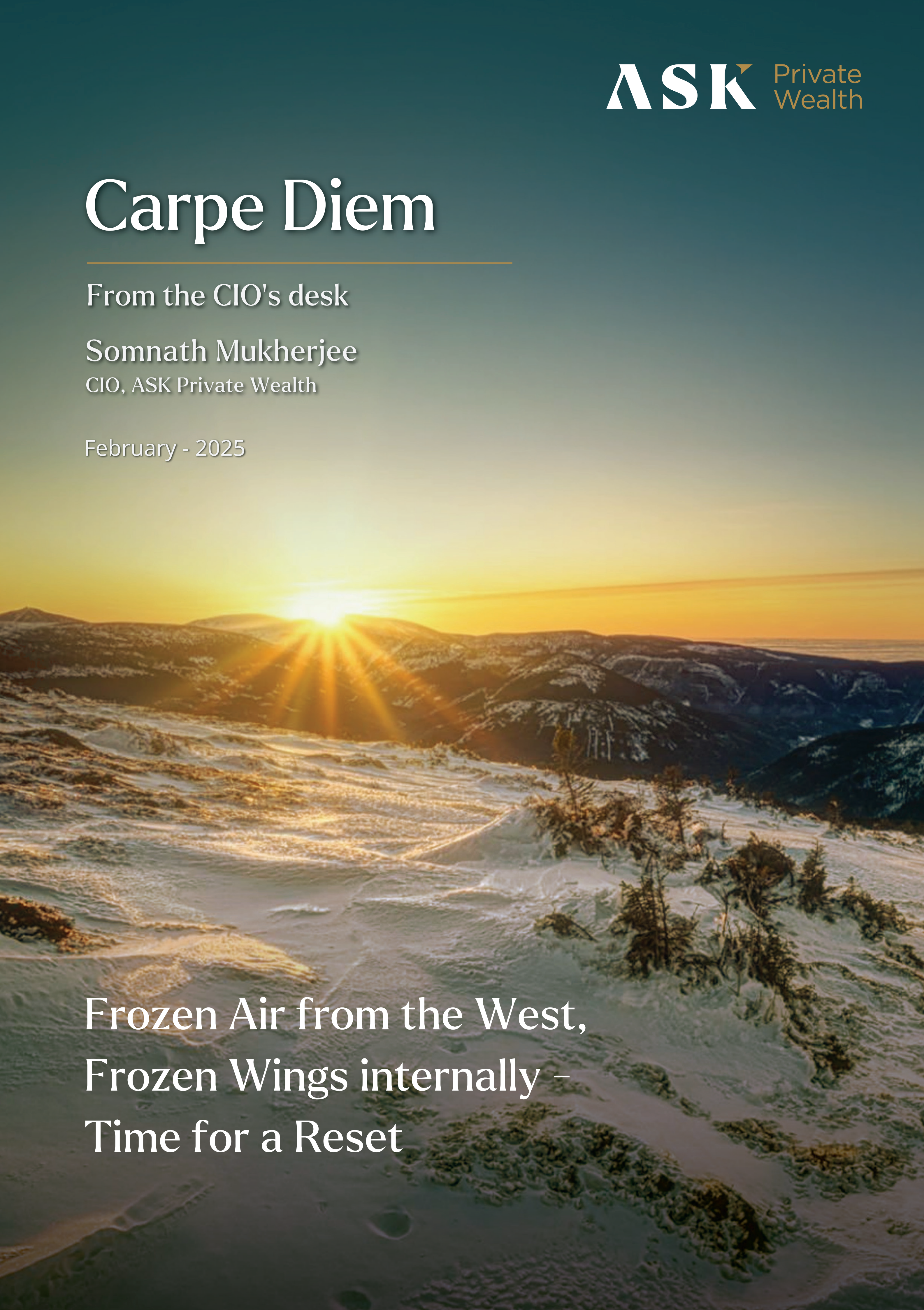
ASK Private Wealth



Carpe Diem

From the CIO's desk

Somnath Mukherjee
CIO, ASK Private Wealth

February - 2025

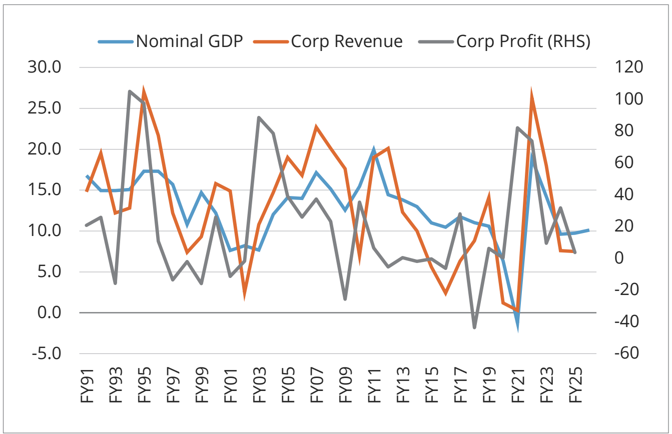
Frozen Air from the West, Frozen Wings internally – Time for a Reset

Frozen Air from the West, Frozen Wings internally – Time for a Reset

The Macro Reset

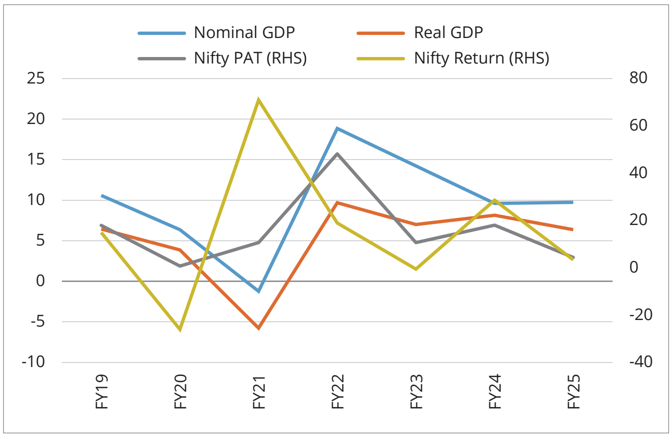
Indian economy and Indian equities are in the middle of a cyclical reset. Both macro growth and market returns had bounced back sharply post Covid, and finally both are taking what seems like a cyclical breather.

Figure 1: Lower GDP impacts corporate performance



Source: CMIE, Refinitiv, ASK PW.

Figure 2: Post Covid surge now subsiding



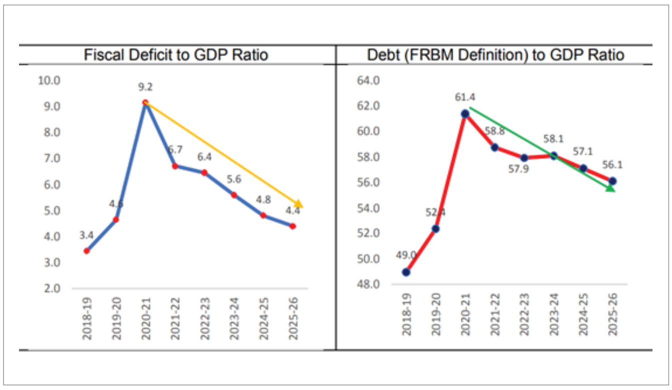
Source: CMIE, Refinitiv, ASK PW.

Life, Macros and Markets – Turn of the Cycle is eternal and inevitable

The intrinsic reasons for the breather are not much of a puzzle. For the last four years, growth has been driven by essentially 2 levers:

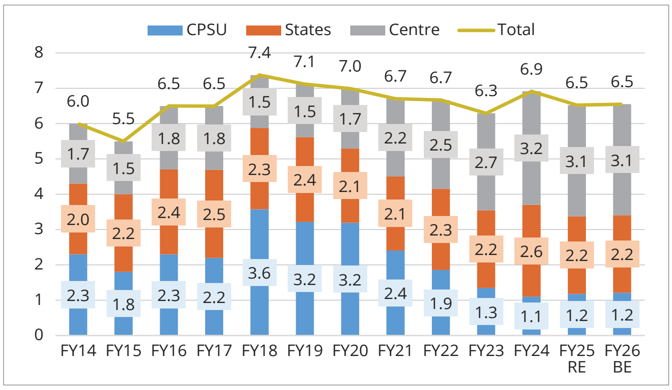
1. Public capex, funded from the Union Budget. This had the added benefit of the capex burden going out of PSU balance sheets, leading to sharply improved financial performance.
2. Elite consumption.

Figure 3: Fiscal compression to weigh on consumption even though tax breaks would help it



Source: CMIE, Refinitiv, ASK PW.

Figure 4: Capex – held at a static level with Union Budget replacing PSUs



Source: CMIE, Refinitiv, ASK PW.

Both have incrementally slowed down. The second on account of normal cyclicality of such consumption. The first because Union Government has stuck to its promises on the fisc – spending only as much as growth in revenues allow and sticking to an aggressive fiscal consolidation plan.

Additionally, state government budgets – most public capex projects are essentially joint ventures between the union government and states – have been eviscerated by increased welfare spends. There is far less headroom in state budgets for aggressive capex push.

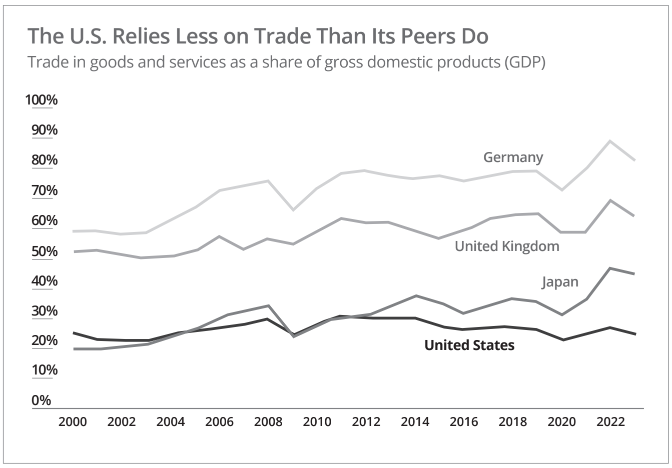
The Fault this time, is in our stars

But this is mostly peripheral, the fault, mostly, for now at least, is in our stars. Its all about US and Donald J Trump!

First, the case of the US. Not only is US the world's largest economy, consumer, importer and capital provider, it is also the most active pivot around which global politics revolves. Sudden changes in tariffs are not just inflationary (that is less of a concern today), but disruptive to supply chains.

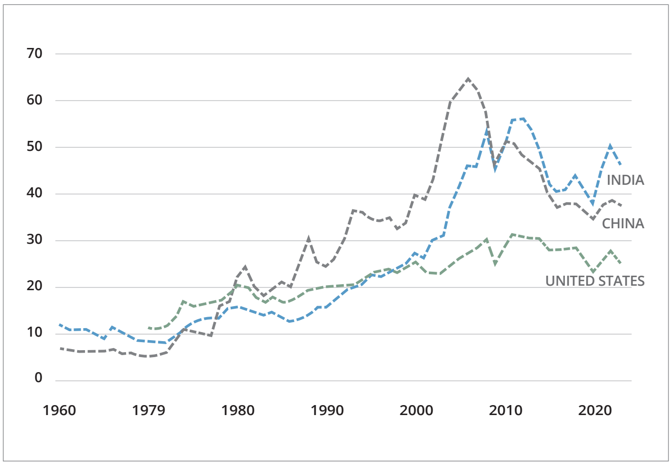
US can afford to carry on a trade war a tad more than rest of the world – it has one of the lowest Trade/GDP ratio in the developed (+China) world.

Figure 5: US has one of the lowest trade-GDP ratio even among developed world



Source: Bloomberg, Refinitiv, ASK PW.

Figure 6: India is far more an open economy than is usually recognised



Source: World Bank, ASK PW.

As can be seen, India's trade dependence exceeds both US and China. A trade war therefore has an outsized impact on India on first principles basis.

Second, US economy is still doing very well. Perversely, this augurs not-so-well for all Emerging Markets (EMs). When the US economy is doing well, US companies are posting great results and positive future guidance, and US yields are still high-ish – the trifecta poses an existential decision dilemma for capital allocators. Why bother with anything else, including EM equities, if US is doing so well?

Figure 7: US earnings are rising and still being upgraded

Source: Bloomberg, Refinitiv, ASK PW.

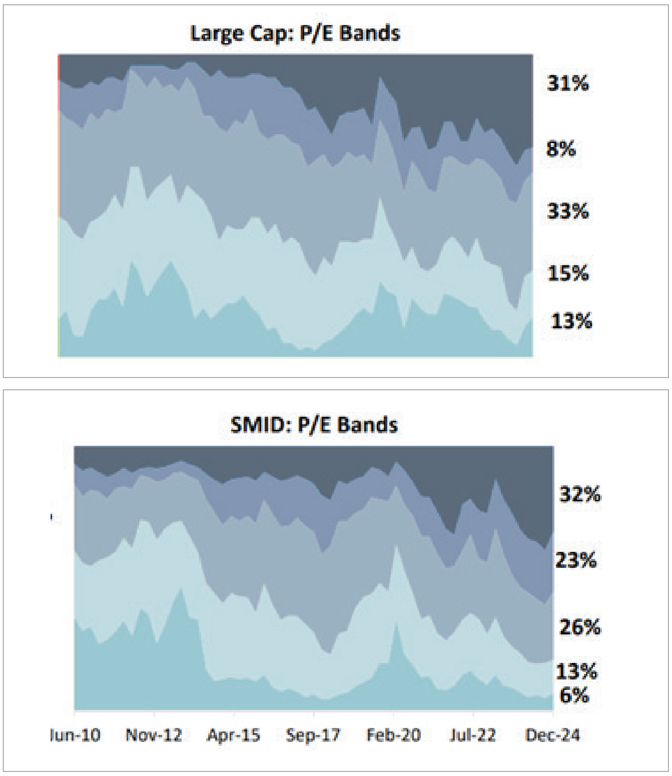
Figure 8: US economy and policy measures reflecting in Dollar strength (DXY)

Source: Refinitiv, ASK PW.

The Indian trifecta – Earnings, Multiples and Flows – are delicately poised (still)

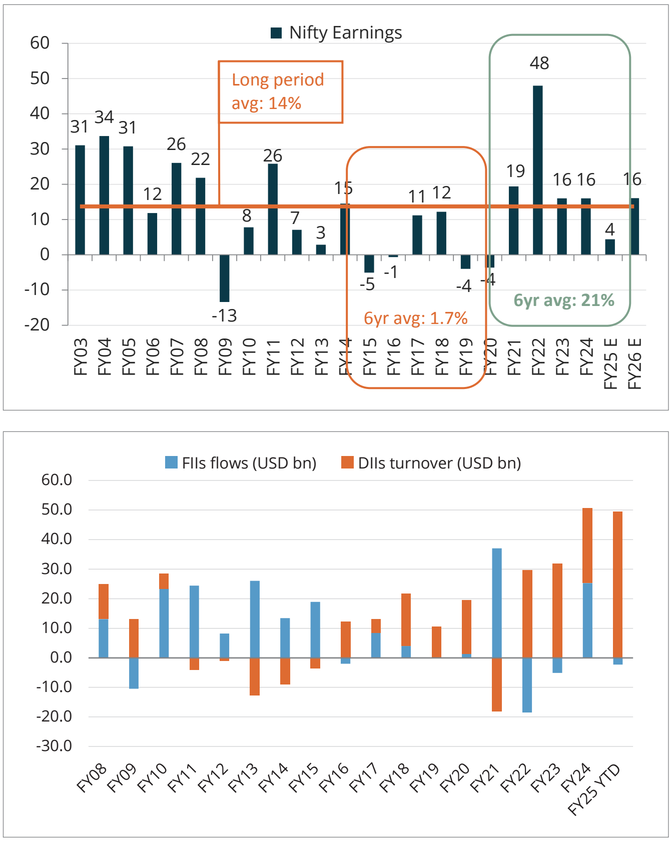
Despite a significant correction in headline levels, multiples are still reigning high. Across market-caps and sectors, lot many more stocks trade at above-average valuations than at average (or below-average) multiples.

Figure 9: Valuation concerns remains and still higher for SMID space



Source: DSP, CMIE, Refinitiv, ASK PW.

Figure 10: The balance of earnings and flows weakened in near term



Source: Bloomberg, CMIE, Refinitiv, ASK PW.

Navigating the mini-storm – with a little aid from RBI

RBI, under a new governor, has embarked upon its rate cut cycle, first time in 5 years. More crucially, it has started bringing out the heavy artillery to solve the chronic liquidity tightness in the system – CRR, OMOs, VRR – the entire arsenal is in play. Is it the start of "whatever it takes" moment in India? Tough to say, but monetary policy is the only macro game in town with policy-makers today, after the union government making it clear that fiscal prudence is non-negotable.

Figure 11: Rate cuts usually a step-function and takes 2-3 consecutive cuts to turn market sentiments

Source: RBI, TradingView, ASK PW.

Playing the rates cycle – multiple opportunities, across asset classes

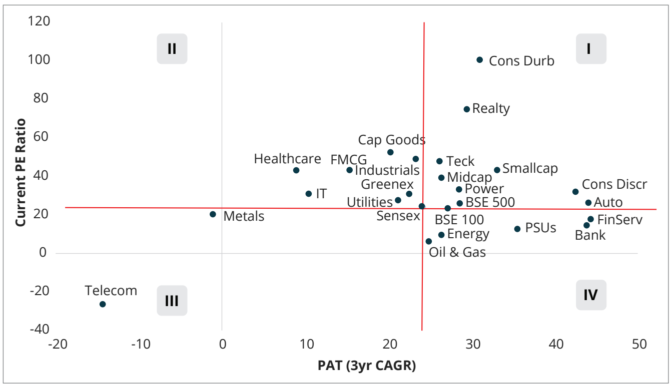
Rate cuts when pursued with matching liquidity easing can turn market sentiments in their expectations to lift GDP growth and drive asset prices.

Financials are well-placed, the only "value corner" in equities

One of the few investible patches in the market where valuations don't fall between twin stools of very-well-priced and insanely-priced.

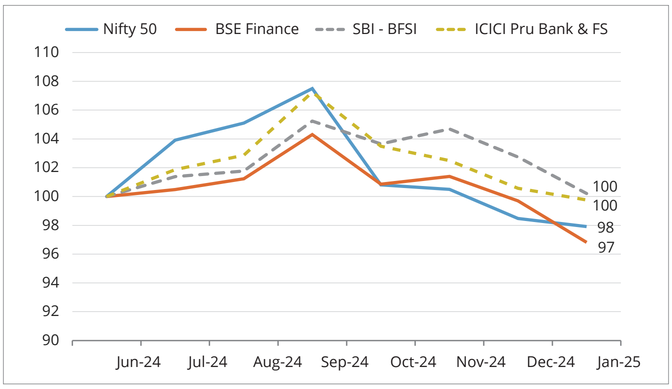
Financials, especially NBFCs, are a direct beneficiary of lower interest rates, as lower wholesale funding costs drop straight to the bottomlines. Banks have considerable slack on balance quality now, any improvement in system liquidity will ease out their asset-liability issues.

Figure 12: Financials offer one of the best earnings-valuations combination



Source: Capitaline, Refinitiv, ASK PW.

Figure 13: Financials have held up during recent market drawdown

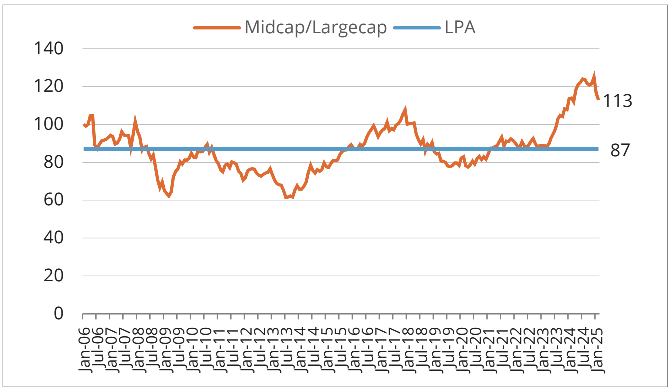


Source: Refinitiv, ASK PW.

Larger the better, for now

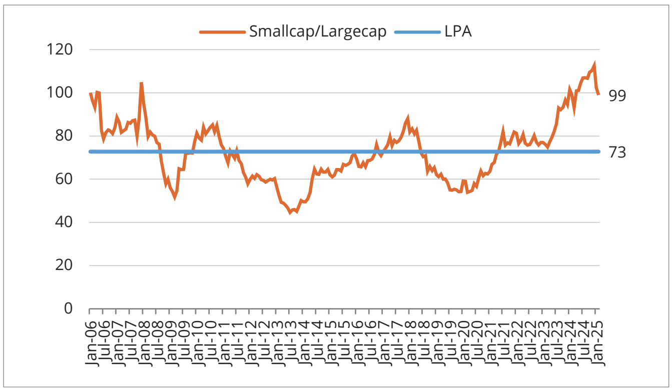
Larger companies are able to navigate volatile macros a lot better – that is a near-tautology. While profit pools have gotten a lot more dispersed in the last 4 years, ability of smaller companies to withstand systemic shocks is still to be tested. Above all, relative value is firmly locked in for larger companies.

Figure 14: Midcap has runup significantly ahead of largecap



Source: Refinitiv, CMIE, ASK PW.

Figure 15: Smallcap too has runup way ahead of largecap in recent times



Source: Refinitiv, CMIE, ASK PW.

Invits and long-tenor G-Sec – linear beneficiary of falling rates

As rates fall, the most linear (and direct) beneficiaries are long-tenor fixed income/hybrid fixed income assets. The cycle has been sticky on the upside – and thank God for that, as that has left ample opportunities for investors to build positions and participate.

Across our multi-asset portfolios, these tilts are being carried out – higher duration on bonds, increase in allocation to INVITs, sharp tilt towards large-caps in equities and a preference for financials.

While the air is frigid, its this air that is likely to be the harbinger of a warmer, nicer generation of investments that are fresher, with more promise than ever before. Even when stars are not aligned very well, opportunities abound – for us as investors to grab them instead of being frozen into inaction!

Disclaimer

Any information contained in this material shall not be deemed to constitute an advice, an offer to sell/ purchase or as an invitation or solicitation for making investment and ASK Wealth Advisors Private Limited (ASKWA) and its employees/directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use of this information. Recipients of this information should exercise due care and caution and read the Private Placement Memorandum / Disclosure Document for Harmony AIF and Harmony PMS products respectively.

(Link to Disclosure Document: **https://www.askfinancials.com/ask-wealth-advisors/disclosure.aspx**).
You may obtain advice of your finance / tax / legal / other professionals prior to taking any decision on the basis of this information.

Investments are subject to market risks and there is no guarantee, implied or otherwise, that the general objective of the fund or any other specific performance targets will be achieved. Past performance is not indicative of future results. Such past performance may or may not be sustained in future. Investors are not being offered any guaranteed or assured returns.

The performance related information provided herein is not verified by SEBI nor has SEBI certified the accuracy or adequacy of the same.