

Executive Summary of the 65th Global Investment Advisory Committee (GIAC) Meeting

7th December 2023

Current stance

The committee decided to maintain its slightly overweight stance on equity allocation, across its conservative, balanced and growth portfolios. Further, there was a consensus on maintaining a neutral stance in the mid and small-cap as well as international allocations front, while being slightly overweight on gold, as this asset allocation has enabled the fund to garner significant alpha. It was also decided that the committee would review the stance in its next meeting.

Key variables to monitor



US Fed interest
rate movement



Potential
geopolitical strife



Upcoming domestic
and global elections

What's changed since our last meeting

In its November meeting, the US Federal Open Market Committee maintained the benchmark interest rates at 5.25 – 5.50%, while also upgrading its general assessment of the economy, thus boosting market sentiment. The Reserve Bank of India's Monetary Policy Committee also maintained status quo on rates, for the fifth consecutive time. In the Assembly election results unveiled earlier in December, the ruling Bharatiya Janata Party came forward as the undisputed leader, with electoral wins in 3 of the 4 polling states and the party's decisive victory in the three Hindi heartland states is seen as an indicator of its performance in the Lok Sabha election of 2024. This victory has bolstered the domestic equities, with benchmark indexes scaling all-time peaks.

Viewpoints

Equity

Even as the festive season witnessed a decent uptick in consumer spending, we expect accelerated profit growth in the domestic space, going forward. Post-COVID, India experienced a robust rally in the equities, supported by strong earnings but given the large FPI outflow this year, the market was in a consolidation phase since March 2023. However, the markets have been rallying since the announcement of the election results and this momentum is likely to carry into the next year, as there are no expectations of a negative event in the run-up to the Lok Sabha elections of 2024. Only a major geopolitical event, of the stature of the Russia-Ukraine and Israel-Hamas conflicts, will impact the market and even in such a scenario, the impact will be confined to the extremely short-term period.

The markets are expected to maintain their rally till the Budget, with foreign inflows picking pace. Further, mid and small-cap stocks are expected to continue their strong performance, in a selective manner, even as foreign inflows will focus on large-cap stocks which have been underperforming. Banking sector stocks are expected to outperform the larger market, making it an attractive addition to the portfolio. Accordingly, the committee is keen on adding exposure to the sector through active plans.

Positive volatility is expected on the rate movement front, with market participants expecting rate cuts by March and this will act as a further enabler for equities. There may also be some volatility owing to the upcoming elections in India, UK, and USA, but again, the market is expected to remain resilient. In India, the incumbent BJP is expected to win for a third term, and market players are already factoring in the victory, propelling the rally further. Accordingly, in the second quarter, we may see the markets consolidating, following some profit-booking in the aftermath of the rally.

Debt

On the global front, the US labour market is indicating weakness and there is a possibility of a rise in the unemployment rate. Such an event may lead the US Fed to cut interest rates. It is possible that the RBI will also follow suit, as long as the disinflation continues. Further, with the possibility of a recession in the US, the RBI may be hard-pressed to lower rates, albeit in a manner slower than the Fed.

Commodities

In alignment with the committee's view, gold and silver have outperformed significantly, and this performance is expected to continue going ahead.

Divergent Views

While many market participants expect a rate cut from the RBI, in the event of a similar move from the US Fed, some parts of the committee do not expect the RBI to cut the repo rate in the near term.

Co-Chair Committee member



Shiv Sehgal
President & Head
Institutional Securities



Alok Saigal
President & Head
Nuvama Private

Other Committee members

- Amit Rajawat, Fund Manager, Infinity, Nuvama Private
- Ajay Marwaha, Head, Nuvama Fixed Income Advisory
- Ajay Vora, Head, Equities, Nuvama Asset Management
- Dhawal Dalal, CIO, Fixed Income, Edelweiss Asset Management
- Kapil Gupta, Executive Director, Equity Research, Nuvama Institutional Equities
- Onkarpreet Singh Jutla, Chief Product Officer, Nuvama Private
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