

Executive Summary of the 67th Global Investment Advisory Committee (GIAC) Meeting

5th February 2024

Current stance

The committee unanimously decided to maintain the current stance across equity, debt and gold allocations, till the election period, given the robust uptick being depicted by the market. There **hasn't been any change in our view**. Markets **should still benefit from the powerful tailwinds** of resilient earnings/growth, the approaching dovish policy pivot, and disinflation. A revaluation would also be considered if the Reserve Bank of India's Monetary Policy Committee decides to reduce the repo rate in its next meeting. Accordingly, the allocation to equities, in the balanced portfolio, currently stands at 55%, which is slightly overweight, in line with the positivity in the market.

Key variables to monitor:



RBI's rate
movement



China crisis



Lok Sabha
elections

What's changed since our last meeting:

Earlier this month, Federal Reserve Chair Jerome Powell stated that the central bank will approach interest rate cuts cautiously, likely moving at a slower pace than market expectations, despite confidence in the economy and a lack of significant pain from previous rate hikes. Powell emphasised the need for more evidence of sustainable inflation decline before considering rate cuts, indicating an unlikely move in March and a commitment to maintaining the benchmark borrowing rate at 5.25 – 5.50% until greater confidence in reaching the 2% inflation target is achieved. In the Interim Union Budget tabled on Feb 1, the ruling government prioritized fiscal discipline over populist spending to attract investors. Finance Minister Nirmala Sitharaman announced significant reductions in India's budget deficit for 2024–25, targeting 5.1% of GDP, and revised the current fiscal year's deficit downward to 5.8%, while Modi praised the emphasis on high capital expenditure, which has reached historic levels of INR 11.11 trillion.



Viewpoints

The prevailing crisis in China is sending shockwaves across the global financial landscape, with its far-reaching implications impossible to ignore. As China constitutes a significant portion of investors' portfolios, its ongoing turmoil is wreaking havoc on global markets, spelling out a calamity of epic proportions. The steep decline in Chinese stocks, exacerbated by the alarming free fall of the real estate sector, has shattered investor confidence, with listed real estate values plummeting from USD 520 billion to a mere USD 90 billion. This dire scenario, coupled with the government's opaque handling of corporate affairs, paints a bleak picture for both domestic and international investors, as the repercussions of China's economic woes reverberate worldwide. In India, the short-term repercussions of China's crisis are likely to be felt sooner rather than later.

On the domestic front, Indian markets have priced in the anticipated return of Prime Minister Modi and the influx of foreign investments, along with the fantastic earnings put forth by corporate. While the market is indicating strength in fundamentals, there is tremendous greed in the market and this could trigger a downfall. The small and mid-cap segments are maintaining strength despite being overvalued. However, the large cap segment, across sectors such as IT, banking and auto, does not indicate any froth.

In terms of alpha generation, the view cannot be more futuristic than 4-9 weeks, given the dynamic nature of the market. Over the last three and six month periods, we have attained an alpha of 3.5% and 4.4%, respectively, over the benchmark, indicating the strength in the current portfolio composition. Gold continues to perform well as an asset class and we have maintained our stance on the safe metal. Further, there has been a reduction in international exposure, led by an exit from global funds and a 5% allocation to the US market. We expect sectoral rotation to continue going ahead.

Contrarian view

With investor confidence waning in China due to ongoing economic turmoil, manufacturers are increasingly turning their attention towards India as an attractive alternative. The shift reflects a growing recognition of India's stable economic environment and favourable business climate amidst the uncertainties in the Chinese market and can lead to greater and faster growth for the economy.

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
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