

Executive Summary of the 73rd Global Investment Advisory Committee (GIAC) Meeting

27th August 2024

Current stance

At its August meeting, the committee unanimously decided to maintain its current portfolio stance, after considering the projections for the market and the robust alpha generated by the different portfolios. Accordingly, the current equity allocations remain fully overweight, with a distribution across portfolios as follows: 30% for conservative, 60% for balanced, and 94% for growth, while maintaining a neutral stance on mid and small-cap stocks.

Key variables to monitor:



State elections



US Fed rate movement



Inflation figures

What's changed since our last meeting:

Recent developments in the US economy have fuelled speculation about potential Federal Reserve rate cuts with a trio of Federal Reserve officials expressing increased confidence that inflation is moderating sufficiently to justify a reduction in interest rates. This sentiment was bolstered by a larger-than-expected drop in US jobless claims, suggesting that concerns over a deteriorating labour market may have been overstated, and that the gradual softening of the labour market remains on track. Federal Reserve Chair Jerome Powell has signalled a strong likelihood of a rate cut in September, indicating that the risks of rising inflation have diminished while concerns about employment have grown. At the Kansas City Fed's annual economic conference in Jackson Hole, Powell emphasised that while the Fed has maintained the current rate at 5.25%–5.50%, the central bank is prepared to adjust policy based on incoming data and evolving economic conditions. This follows minutes from the Fed's July policy meeting, which revealed broad support among officials for a rate cut, highlighting progress in inflation control. The Fed's September meeting remains pivotal, with expectations of potential easing on the horizon.

On the domestic front, reports indicated a notable uptick in India's active workforce, with both rural and urban participation rates rising, signalling a rebound in employment. Consumer sentiment, which had been on a downward trend for the past three weeks, also improved as urban and rural figures recovered. Retail inflation in India moderated to 3.54% in July, a significant decrease from 5.08% in June and 4.75% in May, marking the first time in nearly five years that CPI inflation fell below the Reserve Bank of India's target of 4%. Further, the Indian economy has maintained its growth trajectory in the first quarter (April–July) of the current financial year, according to the Department of Economic Affairs' monthly review. The report indicates a positive economic outlook, supported by strong domestic activity, improved external trade, and increasing capital flows. While employment conditions present mixed signals, overall growth indicators reflect sustained momentum as the fiscal year progresses.

Viewpoints

It remains the committee's view that the domestic market is primarily driven by liquidity, a trend that is likely to persist in the following months. The influx of larger Initial Public Offerings may absorb some liquidity, though this is unlikely to correct current market trends. Notably, the banking sector allocation has underperformed; however, the committee anticipates an improvement in the sector's performance, in the next three to four weeks, driven by the US Federal Reserve's expected rate cut in September, which has become almost certain.

While India is unlikely to follow with rate cuts, in alignment with the Fed, the Reserve Bank of India is expected to enable easing of liquidity, which should benefit the banking sector. Thus, the committee is keen on maintaining the portfolios' over-allocation in the financial sector. Going ahead, strong liquidity flows and robust earnings visibility are expected to sustain positive market performance, despite the currently distressing scenario with regards to rural consumption.

Main global concern remains growth, but closer to home the economy still seems to be in a reasonably healthy position (characterized by cooling inflation and resilient activity) and this, coupled with monetary easing, will help keep pullbacks brief and shallow. That said, elevated valuations will act as a headwind at the Index levels and hence active allocations will matter in the months ahead.

Accordingly, the committee's strategy of being overweight in gold, equities, and midcaps continues to align with current market conditions, even as the performance of the portfolios has been robust. The committee might also explore more proactive strategies with ETFs and remains bullish on gold and silver miners over the next 12 months. In the fixed income segment, the committee is considering reallocating its funds to higher-yielding securities.



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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