Ladderup WEALTH MANAGEMENT

We focus on "doing the right things" than doing too many things.

Newsletter - October 2023

Equity markets enter consolidation phase; fixed income remains attractive given high interest rates

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Over the last four to five months, the Indian equity markets have rallied significantly, with the **benchmark Nifty50 index breaching the 20,000 points milestone earlier in September.** Following this surge, the markets have now entered a phase of consolidation, with Nifty closing at 19,638 points, 2.7% down from its all time high of 20,192 reached in mid September.

The substantial rally in the small- and mid-cap segments, which prompted these stocks to top the markets, indicates that domestic equities have attained a level of maturity and consolidation. Further, a hefty sum of ₹ 26,300 crores was raised by 31 corporates in H1FY24 through Main Board IPOs indicating maturity of the markets.

Foreign Institutional Investors sold INR 14,768 crores worth of equities in September[1], and this outflow is in resonance with what is happening in the global market. Even as the US Federal Reserve maintained status quo on rates during the September meeting, the move was interpreted by the markets as a skip and not a pause, resulting in a spike in the US Treasury yields to levels that were last seen in 2007. Further, the bullishness depicted by a majority of Fed committee members signals that 2024 will continue to see high interest rates in the USA as well as Europe.

In August, US wage growth slipped, with the jobless rate climbing to 3.8%[2], showing that fewer job opportunities are being created than before, thus indicating a cooling of the labour market. This means that while the economy still continues to grow, the expansion is lower than its past performance. Separately, the dollar has strengthened again and oil continues to rise owing to the production cuts from both Saudi Arabia and Russia.

Going ahead, the high demand in winter is likely to push up oil prices even further and if this occurs, it will negatively impact India's already widening trade deficit and trigger a rise in inflation. Accordingly, the RBI is expected to maintain its current stance of holding the interest rate but if inflation rises, then the repo rate may also see an upswing.

Among other triggers, the Vidhan Sabha elections are round the corner and will be followed by Lok Sabha elections. This year's budget will be a statement of account and not a full budget, so from an investor's perspective, it is advisable to hold on to your investments for the near future. We are not expecting a major correction in the absence of major global triggers.

In this scenario, the fixed income market remains an attractive choice because of high interest rates. There are several opportunities which can be harnessed, especially in the short term and Ladderup strongly recommends the same.

Separately, the Indian economy and its Make in India initiative continues to gain in strength, with the premium iPhone 15 smartphone being manufactured in the country. Further, **the passing of the Women's Reservation Bill, for both the Parliament and the Assembly, highlight India's robust efforts towards enabling gender equality. The four-month monsoon season has also concluded on a positive note,** with the **country receiving "normal" rainfall** according to the India Meteorological Department[3], thus boosting hopes of strong agricultural output and thereby lower inflation expectations.

Source-1: FIIs turn net sellers in September for first time in 6 months, here's why | India Business (republicworld.com)
2:https://www.moneycontrol.com/news/world/us-jobs-data-in-august-payrolls-rise-by-1-87-lakh-unemployment-rises-to-3-8-11296661.html
3:https://timesofindia.indiatimes.com/india/monsoon-ends-with-normal-rainfall-as-positive-factors-countered-el-nino-effect-says-imd/articleshow/104068566.cms?from=mdr

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Proud Portfolio

A unique approach to build a 'high quality high growth' portfolio of stocks that can deliver sustainable growth.

Domestic markets remained cautious as headwinds from the global market like rising US dollar index and treasury yields coupled with higher crude oil prices and continued selling by FIIs kept domestic investors under vigil. Meanwhile, there have been some encouraging signs including the robustness of the Indian economy, anticipated strong corporate earnings, and ongoing investments in mutual funds, particularly via SIPs. ***The PMS has moved cautiously in deploying cash while holding on to the current investments that have done well.***

Stocks in the news

01

HDFC Bank will be evaluated against global peers-
International investors are more likely to club HDFC Bank with its global peers such as Bank of America and Wells Fargo to decide on their investment strategy as India's most-valued lender becomes the seventh-largest bank in the world by market value. HDFC is the only bank with $100 billion in market-cap from India. HDFC Bank may now be stacked up against banks in global portfolios, not just for emerging market portfolios, and compared with Indian banks.

02

3M launches an abrasive robotics lab in Bengaluru-
The company 3M has inaugurated its first abrasive robotics lab in India, located at its Bengaluru centre. This addition brings the global count of such labs to 17 within the company. Out of the 1,100 employees of the Indian listed entity of 3M, 10% are part of the R&D team. Company executives revealed that 3M's growth in India is propelled by a rise in customers seeking automation solutions. They noted that the current focus on exports is driving the need for stringent quality control, which in turn is fuelling demand. 3M utilises robotic processing in manufacturing & product development along with emerging technologies such as machine learning to enhance automation.

03

Accenture's muted growth impact Indian IT companies-
Major Indian IT stocks such as Infosys, Wipro, and Tech Mahindra declined 3%-6% percent reacting to Accenture's modest revenue growth guidance of 2-5% YoY in constant currency terms for the FY24. On the full year's guidance, its CEO told analysts that Accenture is not assuming "that there's an improvement in the discretionary spend environment or the macro". The major pain areas of the muted results were due to Communication, Media and Technology sector which fell by 12% in YoY terms. Accenture's numbers are seen as a bellwether for the IT sector in India, as it gives an indication of how Indian IT companies' numbers are likely to fare with the earnings season for the September quarter kicking off next month.

Market update

FII inflows:
After 6 straight months of inflows, foreign portfolio investors turned net sellers in September. FPIs sold Indian equities worth ₹14,768 crore in September and had invested ₹12,262 crore in August. The outflows are in contrast to the pumping of Rs. 1.7 lakh crores in the last six months by the FPIs. However, despite FPIs becoming sellers, Indian benchmarks delivered positive returns and even hit new peaks in September on the back of strong domestic investor inflows as well as the successful G20 summit. However, the second half of the month witnessed some consolidation dragged by high US bond yields and a rise in crude prices. Before turning net sellers in September. Nifty rose by 2.0% in September after a 2.5% decline in August.

India to be part of JP Morgan Global Bond Index:
India to be included in the GBI Global Diversified Index which accounts for $213 billion. India bonds will be given a weightage of 10% in the index which is roughly $21 billion as per current value and will become a part of the Index from June'24 with 1% getting added every month over the next 10 months. Currently, 23 Indian government bonds with a combined notional value of $330 billion are index eligible. The total inflow into India because of such inclusion in the index from just passive funds is expected to be more than $20 billion and this number is expected to cross $40 billion if we factor in the investments from active funds and the high possibility of inclusion of Indian bonds in the other two major indices (Bloomberg Barclays and FTSE Russel) as well.

Proud Portfolio Performance vs benchmark for September'23

Particulars	Proud Portfolio	NIFTY 50 TRI	Outperformance
1M	0.7%	2.0%	-1.3%
3M	4.8%	2.7%	2.1%
6M	19.6%	14.0%	5.6%
1Y	12.9%	16.1%	-3.2%
2Y	10.4%	6.9%	3.5%
Since inception	25.1%	20.7%	4.4%

As on 30th september 2023

Source-1: hdfc: HDFC Bank will be evaluated against global peers, says Jefferies report - The Economic Times (indiatimes.com)
2:https://blinks.bloomberg.com/news/stories/RZJSZZYJZHUY
4:FPIs turn net sellers in September after 6 straight months of inflows; (livemint.com)
5:Explainer: What India's inclusion in JPMorgan's bond index means for its markets | Reuters

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Fund Snapshot - Quant Flexi Cap

Historical performance

Particular	FY 19	FY 20	FY21	FY 22	FY 23	FY 24 YTD
Quant Flexi Cap	-0.58	-27.73	109.26	46.72	1.43	21.95
Nifty 500 TRI	9.73	-26.62	77.58	22.29	-1.22	19.56
Average	7.13	–22.46	68.96	21.23	-1.78	20.17

Performance Snapshot Sep 22 to Aug 23

Particular	Return
Quant Flexi Cap	17.8%
Benchmark	12.3%
Outperformance	**5.6%**
Category average	14.5%

Top 3 sectors performance wise Sep 1, 2022 to August 31, 2023

Sector	Weight	Sector Return	Contribution to fund return
Materials	13.27%	42.20%	3.72%
Consumer Staples	12.72%	31.35%	3.53%
Consumer Discretionary	5.41%	6.00%	1.92%

Top stocks as per performance Sep 2022 to Aug 2023

Company	Weight	Return	Contribution to fund return
ITC Ltd	6.8%	50.7%	3.5%
NTPC Ltd	4.7%	46.3%	1.8%
Punjab National Bank	2.8%	81.2%	1.4%
Indian Hotels Co Ltd	3.1%	37.9%	1.3%
Aurobindo Pharma Ltd	1.1%	59.3%	1.2%
Total	19%		9%

Top stocks as per allocation Sep 2022 to Aug 2023

Company	Weight
ITC Ltd	6.8%
Reliance Industries Ltd	6.8%
State Bank of India	6.6%
HDFC Bank Ltd	4.9%
NTPC Ltd	4.7%
Total	29.8%

Summary

- The fund is managed by Mr Sandeep Tandon and Mr Ankit Pande, Mr Sandeep has a vast experience of over 27 years and is one of the crucial member in developing the VLRT framework and Mr Ankit has an experience of over 9 years in the equity markets.
- The fund performed significantly well compared to the benchmark with an absolute return of 17.8% and an outperformance of over 5.5%.
- The returns can be majorly attributed to the stock selection of the fund manager.
- The top 3 performing stocks for the fund were Usha Marin Ltd(109%), Punjab National Bank(81%) and Zensar Technology(75%) indicating the superior stock picking ability of the fund.
- The top 3 sectors of the fund were materials, consumer staples and consumer discretionary
- Within the Consumer staples the fund's top holding was in ITC with a weight of 6.83% which rallied significantly over 50%.
- The fund made a good bet of underweighting IT sector by 7%, which played out well as global macro conditions weakened due to rising inflation and increasing interest rates

Historical Performance is captured from 1st September 2022 to 31st August 2023.
Data captured from 31/08/22 to 01/09/23
Source- Bloomberg, ACE, Ladderup internal team