

Newsletter - August 2023

Fed hikes rate to 5.25-5.50% - stay invested in equities and focus on fixed income for long-term

After a pause in June, the US Federal Reserve resumed its unprecedented rate hike cycle with the fund rate now at 5.25% - 5.50%, its highest level in the last 22 years¹. Given the Fed's hawkish stance, global and domestic markets had already anticipated this decision. Fed Chief Jerome Powell has indicated that further actions would be dependent on various reports expected before the next meeting. Moving to the domestic market, we have already received earnings reports from several companies, with IT majors being at the forefront. Infosys and TCS both indicated caution in their outlook, despite robust results, with the former presenting an especially negative stance regarding the next half-year period. This makes us wary about the actual scenario, given the contradicting outlook from two giants engaged in similar activities. Investors should keep this uncertainty in mind while considering positions in August.

From an Indian equity perspective, the first quarter of financial year 2024 was positive, with markets climbing consistently to new highs amid a massive amount of foreign investment being poured in. **Since May, foreign institutional investors have pumped in more than INR 85,000 crores into the market, depicting their strong belief in the country's potential².**

Even as markets continue their Bull Run and valuations soar, we must understand that the scenario remains reasonable, compared to the overvalued peaks attained in 2021. The corporate performance has seen an uptick in the last two years, post covid, and that rationalises the recent rally that the Equity markets have witnessed. However, global macroeconomic factors remain volatile, given the significant monetary tightening that the developed world has undergone. We believe that such large-scale monetary tightening cannot be without impact on consumption and demand. And if that impact is not visible yet, it shall be felt in the next few quarters by way of reduced consumption. Going ahead, on the domestic front, we shall keep an eye on the monsoon's progress and its impact on agriculture and the overall supply chain. The latest attempt by the political parties to form the I.N.D.I.A alliance against ruling party BJP shall also need to be watched. The key events to look out for, from the US markets' perspective would be the upcoming jobs and consumer price inflation reports. **The current swap market pricing indicates a 50% probability of another rate hike before the Fed's tightening cycle ends and a sustained easing in price pressures, over the coming months, would be necessary for the Fed to put a stop to this tightening.**

We are advising our clients to stay invested in Equities but fresh investments should be staggered sufficiently to take advantage of any volatility in the near term. Fixed Income continues to be an attractive segment to invest in. The 10-year government security closed at 7.12% on July 123, from 7.04% a month ago, indicating strong potential in dynamic bond funds and target maturity funds, especially from a 2 year investment horizon.



Raghvendra Nath
Co-founder, Managing Director



Source:
1. <https://economictimes.indiatimes.com/markets/stocks/news/fed-raises-interest-rates-leaves-door-open-to-another-hike/articleshow/102148863.cms>
2. <https://www.cnbctv18.com/market/india-fii-equity-market-nift-sensex-foreign-investors-17301231.htm>
3. <https://www.outlookindia.com/business/10-yr-g-sec-yields-rise-commercial-papers-more-preferred-than-cds-rbi-report-news-303788>

Proud Portfolio

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

The month of July witnessed continuance of the rally that started three months ago. **The Nifty index scaled a new peak of 19,990 during the month on the back of encouraging corporate earnings. However, the markets started consolidating towards the end of July after a rapid rise in the previous quarter.** The PMS has moved cautiously in deploying cash while holding on to the current investments that have done well.

Stocks in the news

Out of the 100 companies in the BSE 100 Index, 70 of them have announced their Q1FY24 results. The below table summarizes whether the actual sales and earnings have beaten the estimates.

Particulars	Sales surprise	Earnings Surprise
Positives	49.06%	37.93%
Negatives	39.62%	43.10%
Inline	11.32%	18.95%

Source : Bloomberg

ITC has incorporated its wholly owned subsidiary in the name of 'ITC Hotels' on July 28, 2023. Top officials at ITC have mounted a sharp defence of the move to demerge the hotel business from the Rs 72,000 crore¹ tobacco-to-hotels conglomerate, arguing that the spinoff promises to bring big benefits to the parent as well as the new entity in terms of the return ratios improving immensely, reinforcing the company's stand on sharper capital allocation strategy.



Indian Hotels reported a 30% jump in its consolidated net profit to ₹236 crore in the April-June quarter.² The company reported revenue from operations up by 15% over the same period in FY23. The management commented, "The outlook for the upcoming quarters remains strong with pace of demand driven by domestic consumption momentum, global events, and revival of international arrivals."

Market update



FII inflows:

FII continues to pump in funds into the Indian Equity Markets, reflected in strong inflows of Rs. 46,617 Cr, lower than previous month's inflow of Rs. 47,184 Cr. Nifty 50 raced to a record high of 19,992 and ended at 19,740 on the last trading day of July. The sustainability of the rally hinges on the ongoing result season wherein variables like credit growth, margin expansion, order book for capital good companies, volume growth for FMCG companies, constant currency growth and management commentary with regard to demand would be, inter alia, the key monitorable for Q1FY24³ result season.



Nifty trades flat in the last trading week of July:

The combined market valuation of 7 of the top-10 most valued firms fell by Rs 77,434.98 crore in the last week of July, with ITC and HDFC Bank taking the biggest hit, in-line with a muted trend in equities. Last week, the BSE benchmark fell by 524.06 points or 0.78 per cent. While Reliance Industries, HDFC Bank, Tata Consultancy Services (TCS), ICICI Bank, Hindustan Unilever, ITC and Bajaj Finance Limited were the main laggards in the top-10 pack, Infosys, State Bank of India and Bharti Airtel made gained in their market capitalisation

Proud Portfolio Performance vs benchmark for July'23

Particulars	Proud Portfolio	NIFTY 50 TRI
1M	2.3%	3.0%
3M	11.0%	9.9%
6M	15.4%	12.6%
1Y	14.3%	16.3%
2Y	13.5%	13.2%
Since inception	25.7%	22.2%

Source: 1 <https://www.telegraphindia.com/business/itc-officials-mount-defence-of-move-to-demerge-hotel-business-from-rs-72000-crore-tobacco-to-hotels-conglomerate/cid/1954927>

2 <https://economictimes.indiatimes.com/markets/stocks/news/market-valuation-of-seven-of-top-10-most-valued-firms-falls-by-rs-77434-98-cr-itc-hdfc-bank-major-laggards/articleshow/102246581.cms>

3 <https://www.cdslindia.com/publications/FII/FPI/WiselnvstmntDtls.aspx>

Fund Snapshot- Motilal Oswal Midcap Fund

Historical performance

Particular	FY 19	FY 20	FY21	FY 22	FY 23	FY 24 YTD
Motilal Oswal Midcap Fund	1.22	-24.19	68.88	38.22	10.00	17.10%
Nifty Midcap 150 - TRI	-0.65	-30.09	101.57	25.05	2.77	19.40%
Average	-0.64	-24.69	86.18	24.47	0.75	16.60%

Performance Snapshot

Particular	Return (1 June'22 to 31 May'23)
Motilal Oswal Midcap	27.78%
Benchmark	19.81%
Outperformance	7.97%
Small Cap Category average	16.36%

Top 3 sectors performance wise for 1 June'22 to 31 May'23

Sector	Weight	Sector Return	Contribution to fund return
Consumer Discretionary	29.5%	33.6%	12.1%
Industrials	15.3%	48.8%	7.1%
Financials	14.8%	27.9%	3.3%

Top stocks as per performance

Company	Weight	Return	Contribution to fund return
Tube Investments	12.4%	84.0%	9.0%
CG Power & Industrial Solutions	8.8%	114.6%	7.2%
Cholamandalam Investments	3.8%	54.0%	2.2%
KPIT Technologies	1.5%	44.5%	2.1%
Phoenix Mills	8.9%	27.9%	2.1%
Total	35%		23%

Top stocks as per allocation for 1 June'22 to 31 May'23

Company	Weight
Tube Investments	12.4%
Phoenix Mills	8.9%
CG Power & Industrial Solutions	8.8%
Gujarat Gas	6.2%
Campus Activewear	6.9%
Total	43.1%

Summary

- The fund is managed by Mr. Niket Shah since March 2018, he has over over 10 years of experience and has previously served as the head of midcap research at Motilal Oswal securities limited.
- The fund performed significantly well compared to the benchmark with an absolute return of 27.8% and an outperformance of over 8%.
- The returns can be majorly attributed to the stock selection of the fund manager.
- The top 3 performing stocks for the fund were CG Power & Industrial solutions (114%), Tube Investments (84%) and Indian Hotels (66%) indicating the superior stock picking ability of the fund.
- The top 3 sectors of the fund were consumer discretionary, industrials and financials.
- Within consumer discretionary the fund was significantly overweight in Tube Investments, Indian Hotels and Barbeque nation which turned right s these stocks generated handsome returns for the fund
- Even though Indian IT sector was facing headwinds, the fund's concentrated bet on coforge and KPIT contributed to the outperformance.