

"Volatility comes and goes, but the fundamentals of investing remain unchanged"— John C. Bogle

MARKET WRAP-UPS:
Equity, Debt and Global

FUND MANAGER TALK: India's
Growth Potential Shines Through
for the Next Decade

BOOK SUMMARY: The Black Swan:
The Impact of the Highly
Improbable

FINANCIAL PLANNING:
Enhance Your Wealth with
Step-up SIP Investments in
Mutual Funds

LIFESTYLE: Swiss Watch Brands
Embrace India: Seizing
Opportunities in a New Market

Guest Editor - Sankaran Naren (ED & CIO, ICICI Prudential AMC)



Sankaran Naren, ED & CIO, ICICI Prudential AMC, has been associated with the AMC since October 2004, playing a pivotal role in overseeing the entire investment function across the mutual fund and the international advisory businesses of the company.

Commencing his journey with the AMC in 2004 as a fund manager, Naren has progressed through various roles within the investment function, ultimately assuming the position of Chief Investment Officer. His leadership has been instrumental in building strong investment processes, contributing to the AMC's consistent and sustainable performance across various product categories. Currently, he manages some of the flagship schemes of ICICI Prudential Mutual Fund.

He was also a member of the esteemed panel of invitees for the Honourable Prime Minister's pre-budget consultation meeting for 2020. In recognition of his work, various leading investment authors have featured him through dedicated chapters in their investment books. He is widely recognised as India's leading mutual fund and capital market investment Guru. Naren has been honoured with the CIO of the Year award at the Asia Asset Management —Best of the Best Awards—2023. Sankaran Naren is also a member of the Committee on Equity Matters

India's Growth Potential Shines Through the Next Decade

India today has emerged as one of the world's fastest-growing economies owing to the remarkable economic growth seen over the last decade. Through strong macroeconomic management and a resilient corporate sector, the nation has emerged as a symbol of stability amidst global uncertainty. Prudent fiscal policies marked by controlled fiscal deficit, current account deficit management and relatively stable inflation underscore India's economic resilience. Despite the hurdles presented by the COVID-19 pandemic, India has stayed on track, demonstrating remarkable resilience and adaptability amidst challenging times. This has led to India being seen as an appealing investment destination.

Particularly noteworthy is the significant narrowing of India's inflation differentials compared to Western economies like the USA. This progress is notable given that Western countries generally experience lower inflation rates than India. All these factors have not only contributed in bolstering investor confidence but also have paved the way for a sustained bull market over the last decade and beyond.

Additionally, the evolution of India's corporate landscape since 2010 has been instrumental in fuelling growth and boosting investor trust. Government policies emphasizing enhanced transparency and corporate governance have prompted businesses to reinforce their fundamental strengths and improve their balance sheets, thus creating a favourable environment for investment. Similarly, the banking sector underwent a comprehensive and thorough clean-up process, which was instrumental in restoring trust and stability in the overall financial system. This involved addressing non-performing assets, improving risk management practices, enhancing transparency, and implementing stricter regulations. As a result, banks strengthened their ability to support economic growth and financial stability. In contrast, Aashna finds herself in a different realm of employment. Her role in the manufacturing industry offers her a structured routine, consistent income, and access to various benefits. She is part of a well-oiled machine, working alongside skilled professionals and contributing to the production of goods that reach far beyond the city limits.

In a world grappling with the challenges of an aging and declining population, India's remarkably young and large population presents a myriad of opportunities waiting to be embraced. To better understand India's prospects, let's draw a comparison with Indonesia, a country sharing similar demographic characteristics¹.

Despite India's robust macroeconomic indicators, the current market valuations are not cheap, as they continue to trade above long-term averages. The ongoing rally in equity markets has elevated the country's market cap to GDP ratio to 125%, surpassing the historical average of 81%. Furthermore, our in-house Equity Valuation Index has moved to the higher end of the neutral zone suggesting that market valuations are not cheap.

Given the elevated valuations and very positive investor sentiment amidst the ongoing bull market, one should exercise caution and acknowledge potential risks. Thus, in this scenario, we recommend investors to implement a holistic asset allocation strategy which is tailored to meet their financial goals. The recent significant price movement seen in commodities, particularly gold and silver have been encouraging, but one should restrain allocation to commodities as per their asset allocation plan.

One of the learnings from managing public money at ICICI Prudential Mutual Fund has been that market bottoms are easier periods to invest into while market highs are a period when one has to have a cautious approach to investing. In bull markets, recognise risk and in bear markets, think long term is the simple investment framework that we hold the investor in good stead over the long term. In accordance to this, over the past six months as the markets inched upwards, we have been telling investors to opt for hybrid/asset allocation strategies like multi-asset allocation, balanced advantage, or equity savings offerings, all which provides access to multiple asset classes within a single scheme. By adopting such an approach, the investment experience over the long



term tends to be good. For those considering incremental allocation to equities, we believe large caps are better placed than mid and small caps given the relative attractiveness valuation wise, and the better margin of safety large caps offer.

Within the realm of asset allocation, Indian fixed income too emerges as a compelling investment avenue, bolstered by its inclusion in bond indices, controlled inflation, and declining fiscal deficit.

Although India presents a compelling long-term structural story, we believe asset allocation strategies are better placed during market peaks. A balanced investment approach that encompasses equity, debt and commodities can effectively optimize risk-adjusted returns while bolstering portfolio resilience.

In conclusion, we remain positive on India's promising outlook for the next decade supported by prudent policy framework laid down by the Government and the RBI paving a solid foundation for sustained growth and stability. For lump sum investments, investors can consider hybrid or asset allocation strategies like multi-asset, balanced advantage, or equity savings category offerings. Existing investors can continue to stay invested as India's long-term growth story remains intact.

For those investors who wish to add equity should focus on large caps and schemes that has flexible investment mandate to move between market cap and sectors such as flexicap, business cycle and dividend yield strategies.

Equity Market Wrap-up

Market Overview

The Domestic equity markets rose initially during the month supported by robust domestic manufacturing and services data for Mar 2024, India services PMI also rose in Mar 2024, and it was one of the strongest growth rates seen in over 13-and-a-half years. The S&P BSE Sensex breached the 75,000-mark for first time ever while the Nifty 50 also climbed to a new record peak.

Outlook and Future Triggers:

- The banking sector's performance surpassed expectations, displaying steady margins and profits, while the IT sector remained subdued, with selective companies poised for success.
- Geopolitical tensions contributed to market volatility, influencing investor sentiment and market movements.
- India's Return on Equity (RoE) surged from 10% to over 15% in the past four years, indicating improved profitability and efficiency in the market.
- Large-cap companies, particularly in banking and financial services, present attractive value propositions, aligning with market trends.
- Earnings growth expectations are robust, ranging between 14-15%, reflecting optimism about corporate performance.
- Quarterly earnings outlook and elections are crucial factors affecting market dynamics.
- Interest rate fluctuations globally and in India may significantly impact the market.
- Manufacturing and capex are key determinants of India's long-term success.
- Liquidity-driven benchmark indices touched all-time highs, raising concerns about valuations and pre-election rallies.

Key Market Dynamics:

- The quarterly earnings outlook and upcoming elections are pivotal factors shaping market dynamics, influencing investor sentiment and market direction.
- Global and domestic interest rate fluctuations have significant implications for market behavior, impacting investment decisions and economic outlook.
- On a macro level, manufacturing and capex are the key things that will determine India's long-term success.
- Record-high liquidity-driven benchmark indices raise concerns about valuations and potential market corrections, especially in the context of pre-election rallies.

Positive Market Trends:

- India's economic outlook is promising, with a projected GDP growth of 7.6%.
- Corporate earnings are expected to grow by double digits, driven by a strong election mandate and healthy demand.
- Stable policies and increased spending should boost investments and consumer spending.
- Decent corporate earnings, anticipated rate cuts, and upcoming elections are key market drivers.
- Large-cap valuations are around long-term averages, while mid and small-cap valuations are supported by expected earnings growth.

Suggested Funds Strategy:

- **Funds strategy : Large-cap bias, multi-asset allocation, and balanced advantage funds.**

Debt Market Wrap -up

Market Overview:

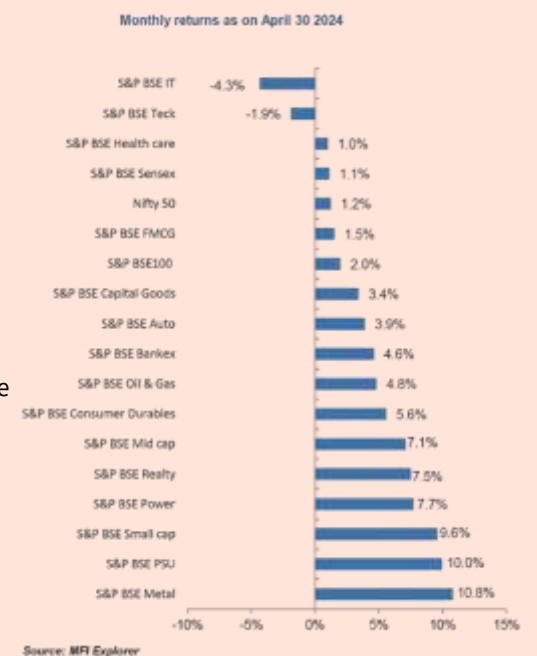
- April witnessed market volatility due to geopolitical tensions and US rate cut delays amidst high inflation.
- Domestic indicators like CPI meeting expectations and RBI maintaining status quo provided relief.

Debt Market Outlook:

- Global bonds face headwinds from potential Fed rate hikes and inflation.
- G-secs driven by global monetary policy and domestic demand-supply dynamics.
- Liquidity in banks may tighten due to GST outflows and forex interventions, with RBI offering temporary support.

Yield Expectations:

- Short end rates may rise as banking system liquidity enters deficit territory.
- Yields expected to be range bound; 10 yr.-g-sec likely between 7.10 % and 7.30%.



Economic Factors Impacting Markets:

- Resilient economic activity, tighter job market, slower inflation declines, and rising geopolitical uncertainty affect expectations of global central bank easing.

Recent Trends:

- Domestic bond yields rose by 10-20 bps due to global bond yield movements and rising crude prices.
- Bonds expected to remain range bound; 10yr g-sec in 7.10%-7.30% range.

Investment Opportunities:

- The short end of curve is attractive with spreads over operational rates.
- Low duration and short-term funds suitable for short term; gilt funds for long term.
- Volatility expected due to swings in US yields and geopolitical uncertainties.
- 10-year benchmark bond likely to trade within 7.10%-7.30%.

Investment Strategies:

- Suitable time to invest in fixed income funds with lower inflation and attractive real yields.
- Longer duration funds appear lucrative.
- For Short term investment horizon investors can opt for ultra short term and low duration funds, while for long term investment investor can explore short term funds, banking & PSU funds, and corporate bond having roll down strategies and dynamic bond funds.



Global Market Wrap-up

April Market Recap: A Snapshot

- Tough Month for Equities and Fixed Income: April proved challenging for both stock and bond markets.
- Inflation Concerns: Hot US inflation data fueled fears that central banks might delay monetary policy easing, affecting market sentiment.

Market Performance:

- Global bonds fell by 2.5%, and developed market equities dropped by 3.7%.
- Emerging market equities saw positive returns of 0.5%, buoyed by higher commodity exposure and investor interest in undervalued Chinese equities.
- Interest rate-sensitive sectors like small caps and REITs suffered declines.

Fixed Income Market:

- Rate expectations shifted, with markets pricing out a one and a half rate cut in the US for the year.
- 2-year Treasury yields rose by 40 basis points to 5.0%, and 10-year Treasury yields increased by 47 basis points to 4.7%.

Commodities and Value Segment:

- Commodity prices surged amid a backdrop of economic resilience, buoyed by mounting concerns over tensions in the Middle East.
- Within the equity market, the value segment demonstrated notable strength, outpacing growth counterparts.

Europe:

- Eurozone and UK equities outperformed US counterparts.
- Eurozone's flash composite PMI rose to 51.4, UK's composite PMI to 54.
- MSCI Europe ex-UK Index fell by 1.5%, UK equities delivered positive total returns of 2.5%.

Emerging Markets:

- Emerging market equities posted a modest yet positive return of 0.5%.
- The uptick was propelled by heightened commodity exposure and growing investor interest in undervalued Chinese equities, contributing to the overall performance.

Inflation Dynamics and Central Bank Policies:

- Eurozone and UK headline inflation receded, leading to expectations of rate cuts from the European Central Bank and Bank of England.

Investment Outlook:

- Persistent inflation remains a key risk, emphasizing the importance of considering both recession and inflation scenarios in portfolio risk management.
- High-quality bonds and alternative investments like infrastructure offer potential resilience in different market conditions.
- Alternative investments like infrastructure show promise if inflation persists due to low correlation with bond and equity markets.

Indices	Country	1 Mth (%)
United States		
Nasdaq 100	U.S.	-4.46
Nasdaq Composite	U.S.	-4.41
Asia Pacific		
SET Composite Index	Thailand	-0.73
Jakarta Composite	Indonesia	-0.75
Straits Times Index	Singapore	2.13
KOSPI Index	South Korea	-1.99
Nikkei Stock Average 225	Japan	-6.03
Taiwan SE Weighted Index	Taiwan	0.50
Shanghai Composite Index	China	2.09
S&P BSE Sensex	India	1.13
S&P/ASX 200	Australia	-2.95
Europe		
FTSE 100	U.K.	2.41
CAC 40	France	-2.69
DAX Index	Germany	-3.03

Source: MFI Explorer & Refinitiv

US Market:

- Tough month for both equities and fixed income markets.
- Hot US inflation data and weak first-quarter GDP fueled fears of delayed monetary policy easing.
- Global bonds fell by 2.5%, developed market equities dropped by 3.7%.
- S&P 500 fell by 4.1% due to pressure from rising bond yields.

Japan:

- Japanese equities faced pressure from widening interest rate differentials.
- Eurozone inflation flat at 2.4%, UK headline inflation receded.
- Markets are confident in rate cuts from ECB and BoE.

Financial Planning

Received a Pay Raise? Enhance Your Wealth with Step-up SIP Investments in Mutual Funds

Maximizing Your Investments with Step-up SIP

As the appraisal season rolls around and you find yourself with a salary hike or bonus, it is essential to consider smart financial moves to grow your wealth. While treating yourself is tempting, investing a portion of your extra income can significantly boost your financial health. One such avenue is through equity mutual fund schemes, with the added advantage of utilizing the Step-up SIP feature to amplify your investment potential.

Understanding Step-up SIP

Step-up SIP, also known as Top-up SIP, is a feature that allows automatic increases in your SIP contributions over time. This means you can gradually boost your investment amount at regular intervals, either by a fixed percentage or amount, such as 10% or Rs 500, respectively. You have the flexibility to choose the interval for these increases, like every six months or annually, tailoring it to your financial goals. Additionally, you can cap the maximum limit to ensure it aligns with your investment budget.

Example: The table below explains how the Step-up SIP calculation works. As we can see with every 10% hike in SIP contributions annually, the value at the end of the year of 10th year too grows substantially. There is a difference of around Rs. 35 Lakhs

Assuming a year on year 10% step-up SIP for next 10 years			
Year	Monthly SIP (INR)	Amount Invested	Corpus Value (INR)
2024-25	10,000	1,20,000	1,27,665
2025-26	11,000	1,32,000	2,70,872
2026-27	12,100	1,45,200	4,57,852
2027-28	13,310	1,59,720	6,82,716
2028-29	14,641	1,75,692	9,51,556
2029-30	16,105	1,93,261	12,71,348
2030-31	17,716	2,12,587	16,50,077
2031-32	19,487	2,33,846	20,96,869
2032-33	21,436	2,57,231	26,22,154
2033-34	23,579	2,82,954	32,37,840
2034-35	25,937	3,11,249	39,57,511
2035-36	28,531	3,42,374	47,96,655
2036-37	31,384	3,76,611	57,72,921
2037-38	34,523	4,14,273	69,06,406
2038-39	37,975	4,55,700	82,19,982

Assuming INR 10K SIP for next 10 years with no change in amount			
Year	Monthly SIP (INR)	Amount Invested	Corpus Value (INR)
2024-25	10,000	1,20,000	1,27,665
2025-26	10,000	1,20,000	2,58,106
2026-27	10,000	1,20,000	4,16,743
2027-28	10,000	1,20,000	5,94,418
2028-29	10,000	1,20,000	7,93,413
2029-30	10,000	1,20,000	10,16,287
2030-31	10,000	1,20,000	12,65,907
2031-32	10,000	1,20,000	15,45,480
2032-33	10,000	1,20,000	18,58,603
2033-34	10,000	1,20,000	22,09,300
2034-35	10,000	1,20,000	26,02,081
2035-36	10,000	1,20,000	30,41,996
2036-37	10,000	1,20,000	35,34,701
2037-38	10,000	1,20,000	40,86,530
2038-39	10,000	1,20,000	47,04,578

For illustration purpose only. The annual rate of return assumed at 12% CAGR.

Harnessing the Power of Step-up SIP

During performance appraisals, when you receive additional income, it's an opportune moment to consider increasing your SIP contributions. Since expenses may not rise proportionately with income, diverting the surplus into investments can yield substantial returns.

Key Benefits of Step-up SIP

- **Building a Bigger Corpus:** By leveraging Step-up SIP, you enhance the power of compounding, enabling the creation of a larger investment corpus to meet your future financial objectives.
- **Countering Inflation:** Increasing your SIP contributions annually helps combat the eroding effects of inflation, ensuring the preservation of your purchasing power.
- **Faster Goal Achievement:** Incremental increases in SIP contributions accelerate progress towards your financial goals, potentially allowing for early goal fulfillment.
- **Focused Planning:** Step-up SIP enables concentrated planning by directing additional investments into existing schemes, optimizing portfolio management and wealth maximization.

Key Considerations

When implementing Step-up SIP, ensure alignment with your financial goals, risk tolerance, and investment objectives. Quantify your goals, assess the time horizon, and invest regularly irrespective of market conditions. Remember to maintain a long-term investment horizon of five to seven years or more, even during market volatility, to realize the full potential of SIP investments.

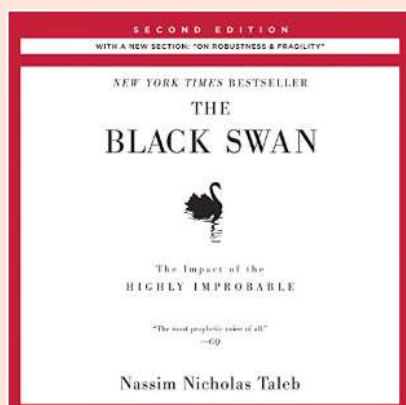
In conclusion, Step-up SIP presents a strategic approach to augmenting your investments, offering the dual benefits of wealth accumulation and financial goal attainment. By embracing this feature, you can navigate market fluctuations with confidence while steadily growing your wealth over time.

Book Summary

The Black Swan: The Impact of the Highly Improbable

“The Black Swan: The Impact of the Highly Improbable” is a book by Nassim Nicholas Taleb is a captivating exploration of the concept of black swan events – rare, unpredictable, and high-impact events that have significant consequences.

Here are the key details and a summary of the book:



Key Takeaways:

- Life is full of unexpected events, both good and bad, that can greatly impact our lives.
- Humans tend to focus on what seems likely and probable, often overlooking the possibility of unlikely events.
- We often try to find patterns and reasons for events, even when they are purely random.
- Instead of ignoring extreme events, we should recognize their significance and use them as a starting point for understanding.
- Historical data is not always a reliable guide for predicting the future, as unexpected events can disrupt patterns.
- Rather than wasting time trying to predict extreme events, it's better to adapt and adjust our plans accordingly.
- Positive unexpected events, or "black swans," can bring great opportunities for growth and success.
- To take advantage of these opportunities, we need to stay alert and open to new possibilities.
- Ultimately, our reactions to events determine their impact on our lives, so it's important to take control and shape our own destinies.

Understanding Black Swans:

- Black swans are highly improbable events that disrupt human activities and challenge conventional beliefs.
- The term originates from the discovery of black swans in Western Australia, nullifying the belief that all swans were white.

Characteristics of Black Swans:

- **Rarity:** Black swans are outliers, lying beyond the normal range of expectations.
- **Impact:** They have a massive impact on society, often challenging the status quo.
- **Retrospective predictability:** Despite being unexpected, they can be explained and predicted after they occur.

Financial Implications:

- Traditional financial models often fail to capture black swan events, leading to inaccurate risk assessments.
- Risk management models, like the bell curve, overlook extreme deviations and fail to predict unexpected events.

Past Predictions Fallacy:

- Relying on past data to predict the future can lead to false expectations and surprises.
- The example of a fed turkey before Thanksgiving illustrates the fallacy of relying on past experiences to predict future outcomes.

Narrative Fallacy:

- People tend to interpret history as a clear progression, ignoring randomness and unpredictability.
- Eschewing storytelling in favor of experimentation and knowledge can help avoid the traps of narrative fallacy.

Assessing Real-world Risk:

- Oversimplifying risk assessment can worsen outcomes, as seen in the example of a coin flip game.
- Focusing on "anti-knowledge" and adjusting to the existence of black swans can help mitigate risks.

Taking Advantage of Positive Black Swans:

- Positioning oneself in industries with high potential for positive outcomes, like venture capital or scientific research, can lead to disproportionate payoffs.
- Instead of relying on top-down planning, recognize and seize opportunities as they arise.

Control and Reaction:

- Focus on controlling reactions to black swans rather than trying to predict them.
- Adjusting to the existence of black swans can help limit downsides and capitalize on positive opportunities.

Conclusion:

- Black swans are inevitable, and adjusting to them is crucial for success.
- Investors can mitigate risks by diversifying their portfolios and investing in mutual funds across multiple asset classes.

Lifestyle

Swiss Watch Brands Embrace India: Seizing Opportunities in a New Market

Swiss watchmakers are increasingly setting their sights on India, thanks to a new free trade agreement that promises to gradually facilitate luxury timepiece exports. While some brands are already gearing up for this opportunity, others are cautiously observing whether India will emerge as a lucrative market.

Yves Bugmann, president of the Federation of the Swiss Watch Industry, emphasized India's enormous potential despite its current standing at 22nd place for Swiss watch exports in 2023, with a value of just 218.8 million Swiss francs. High taxes, including customs duties of around 20 percent for watches and an 18 percent goods and services tax, have historically deterred watch brands.

However, the recent free trade agreement signed by the European Free Trade Association (EFTA) offers hope for a shift in this landscape. Bugmann questioned whether India could become the "new El Dorado" for the watch industry, acknowledging the uncertainty surrounding this prospect.

A study by Deloitte projected that Swiss watch exports to India could surpass 400 million francs by 2028, potentially propelling it into the top 10 export markets within a decade. With the EFTA agreement in place, there is a sense of optimism among industry experts, including Karine Szegedi, the report's author, who noted a palpable momentum at the Geneva salon.



Sources: Investing.com, NSE, Motilal Oswal Commentary, Mint, ICRA, Reuters, RBI, MFI explorer, Money Control

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18th Floor, One Horizon Center, Golf Course Road, Gurgaon, Haryana 122002
Phone: +91 124 668 7770 | Fax: +91 124 668 7778 | Email: info@InvesTek.in | Website: InvesTek.in
Delhi | Mumbai | Ahmedabad | New York