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SAYONARA 2021…LOOK BACK AND LOOK AHEAD TRENDS

PREFACE

Dear Clients,

We must accept finite disappointment but we must never lose infinite hope. - Martin Luther King

2021 has been a year that we were happy to see the back of, until Omicron brought back the uncertainty that has besieged us since the start of the pandemic. This has been a period of historic disruption of day to day life, tech innovations and adaptation, evolving business models, trade tensions as well as impact of geopolitics on global business. The financial markets have had exciting events be it the emergence of the retail investor as a significant market participant, the quick recovery, new heights and accompanying volatility of equity markets, the newly minted Unicorns in the unlisted space, large technology companies seeking listing in the public markets and many events that couldn't have been imagined at the start of the year.

We do hope, as your wealth managers, we have helped you navigate these unprecedented times. It's been our goal to look for opportunities that difficult times tend to throw up be it calling for increasing Equity Allocation starting Oct/Nov'20, launching discretionary Equity PMS strategies - CALIBER and Alpha Growth that have delivered substantial alpha over benchmarks and peers, astute Fixed Income trades, Marquee private market transactions that have been multi baggers in a short time through our Direct Deal Vertical and the Ambit Select Managers across Mutual Funds, PMS and AIFs, It gives us some satisfaction as we take stock of the year, that we put our best efforts and applied our cumulative experience to deliver good outcomes for our clients.

In this edition of ***Know the Now: Sayonara 2021*** Sunil Sharma, our Chief Investment Strategist has put together look back and look ahead trends. What lies ahead in 2022, is on everyone’s mind. The surge in demand coming out of the Covid-19 induced recession clubbed with supply chain disruptions has created a perfect inflation storm with ensuing impact on monetary policy, interest rates and liquidity setting the stage for further volatility. The most important variable though is the virus ... are we stuck with it forever? The science on it along with the vaccines, tests and cures are going to be a key determinant of the economic outlook ahead. While it's too early to judge the impact we must be prepared that the early part of 2022 may be spent in dealing with it. Bummer though that is, the show must go on.

We will be releasing our Annual Outlook **Trendonomics** with a curated set of expert opinions and views across a range of subjects which will help us direct the journey ahead (do look out for your copy).

My team joins me in wishing you and your loved ones a happy holiday season and a great year ahead.

Stay Happy. Stay Safe.

Amrita Farmahan
Chief Executive Officer

INVESTMENT COMMENTARY

Sayonara 2021…Look Back and Look Ahead Trends

Sunil A. Sharma
Chief Investment Strategist

If there's ever a year one can be happy to wish goodbye to… this one is sure to be a top choice for many of us. As we move ahead, we list ten key storylines that are takeaways from this year, or noteworthy for next year:

1. *This Story Has Legs for 2022 and Beyond* – the Retail Investor Bought Low, Kept Buying and Won the Volatility Battle

For years, developed markets have contributed volatility to our domestic public markets, via QE driven policies and flows. While FIs typically sold high and bought low, retail Indian investors would typically do the opposite.

Domestic investors post 2010 finally said "no mas", walked away from equities in 2012-13, re-entered in 2014, only to be punched in the face again in 2015-16.

Since the IL&FS correction of 2018, however, retail investor behaviour has reversed and **domestic investors have been buying during corrections**. Millions of retail investors have bought, and bought, and bought… and made a killing in equities. Kudos to Indian investors for recognizing that **imported volatility is ultimately, and almost always, opportunity.**

2. Dark Clouds Do Have a Silver Lining

Dark clouds is an understatement for the collective angst, trauma and tragedy experienced during the second wave of the pandemic. A silver lining that has emerged is that the way we work may be permanently changing.

For a few important sectors, this is a sustainable margin and productivity boost that will drive earnings and provide a welcome offset to inflationary challenges.

3. 2021 - A Great Year for Equities

The Nifty 50 TRI began the year at 19,833 and as of this writing, the **Nifty 50 TRI is up 23.6% YTD.** That's a good year without a doubt.

We retained a bullish view all year, being "pound the table" bullish early in February, and moderating our bullishness slightly in the Fall, as we highlighted challenges around inflation ahead, but choosing to stay invested**.**

4. Our CALIBER PMS Strategy is Up +43.2%, Outperforming the Nifty 50 TRI by +26.4%

In our second hat, as Equity PMS fund manager for CALIBER, we generated meaningful alpha. As of this writing, we've outperformed the Nifty 50 TRI by 26.4% in our Caliber Strategy with a return of 43.2% since inception

** Please refer to disclosures at the end of the document.*

5. The Opportunity Cost of Timing the Market…

Some investors remained on the sidelines, awaiting a correction and ultimately appear to have lost out on meaningful returns. As we have often noted, more money has been lost in trying to time a market correction than in the correction itself.

6. Every Cycle is Different

Every market cycle is different. The enterprising, intelligent fund manager's role is to recognize the changing dynamics, and position portfolios appropriately. That's what we spend much of our time focusing upon.

In our commentaries, we laid out the case for what was different in this cycle. To wit, IT leadership, earnings, work from home, rising ecommerce contribution, domestic financialization, and mid and small outperformance were a few of the factors we focused on.

7. The High Valuation Conundrum in 2022

Ultra expensive equities – mostly in the large cap space – have delivered strong returns in recent years, prompting many investors to hide in this space since 2018. Some professional managers have waxed incessantly about the unassailable business advantages these names enjoy.

However, many of these stocks have delivered gains on the back of dramatic multiple expansion. Further multiple expansion is unlikely for most of these names. Further gains for these stocks are likely to be driven by earnings growth. Should growth disappoint, some multiple contraction will lead to muted returns. With all things that are over-hyped, ultimately rationality prevails. Prudent investing principles suggest **alpha is better sourced outside this space**.

8. Evolving Asset Allocation Strategy

The search for real yield in fixed income evolved, or maybe devolved. Debt transitioned to being an inflation hedge and diversifier, rather than real income generating asset. New yield generating vehicles have emerged, whether it be REITs, InvITs or specialized long short funds. The enterprising asset allocator will do well to recognize which of these deserve a place in optimal portfolio structuring.

9. The Fed and Inflation Will Dominate H1CY2022

The Fed will be at the front and center next year, as U.S. inflation continues to come in hotter. Based on company commentaries, we suspect inflation is fairly rampant in our markets as well. With Fed hikes and taper on the cards next year, volatility is likely. Navigating these cycles will be a primary challenge for asset allocators next year.

10. The Next Trillion Dollar Company?

We finally witnessed a handful of unicorn IPO exits this year. In our opinion, private equity insiders utilized scarcity, urgency and hype to offload overpriced investments on buyers that were willing to speculate and buy at any price. It certainly wouldn't be the first time this has happened, or the last.

11. Investment Outlook – a Non Consensus View

It is expected practice in our industry for Investment Strategists and CIOs to offer an investment outlook for next year at year end. We are humble enough to know that we probably don't know. What we prefer to do, therefore, is to position, react and adapt in real-time rather than predict and be tied to a view.

Should covid peter out, we can expect a consumption upsurge in India. We take comfort in the **underlying health of the Indian economy** and the ability of company managements to manage cost inflation.

India's **strong demographic trends** are driving its growth, as is a regime that has made strong moves to position the economy as a global exporter rising up the value chain, alongside strong domestic demand.

Every prognosticator is pointing towards the Fed and inflation, and rate hikes. However, covid appears to be trending towards lesser severity, supply chains challenges will begin to ease and demand will be strong.

Our somewhat **non-consensus view therefore, remains tilted positive** for 2022. We expect a market therefore that will require agile positioning. Returns are likely to be widely distributed. As usual, stock selection, and sectoral, style and cap allocations will remain the primary determinants of returns.

Proven, agile and experienced fund managers, and appropriate asset allocation remain – as always - the best opportunity for healthy returns and index outperformance.

12. Sayonara 2021 … Happy Holidays

We look forward to better days ahead, where one can enjoy a carefree, warm brandy near a fireplace in the mountains, or a cool colourful cocktail by the beach, or dinner parties with friends and loved ones.

We wish you a joyful holiday season and look forward to continuing our journey next year and beyond. Thank you for being a valued client of Ambit GPC. Happy Holidays and a Wonderful Year Ahead!

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Sources: All sources unless otherwise noted are Bloomberg, NSE. Returns for PMS are as on 23rd Dec 2021 and are calculated from first fund deployment date (4-Feb-21). Returns are post expenses except for custody charges. Returns are composite returns of all the portfolios aligned to the investment approach. Client wise portfolio returns may vary as compared to strategy aggregate returns. Returns are absolute and calculated on TWRR basis as prescribed by SEBI; The performance related information is not verified by SEBI. Past performance may or may not be sustained in future.