

**KNOW THE NOW**  
**FINALLY, EARNINGS.**

September 9, 2021

## PREFACE

Indian Equity markets are the best performing markets globally!

The Nifty's YTD performance at 23.9% and Midcap and Smallcap performance at 39.4% and 47.4% has edged out global indices be it S&P 500 (+20.7%), NASDAQ composite (+19.2%) and other emerging markets. The last one year out-performance is even more stark Nifty 50 (+50.28%), DJIA (+25.01%), NASDAQ (+34.08%).

What's causing this meteoric rise? Is it sustainable? Are the valuations too high? What about the impact of inflation? Tapering, what happens when the liquidity is sucked out? Are we headed for a correction? In this edition of **Know the Now: Finally, Earnings** we address these questions that are probably top of your mind.

But before we get into that, let's think about the last few months. The devastating second wave was just a few months ago, the loss of life and the indignity of struggling for basic healthcare is fresh in all our minds (and it will serve us well not to forget that). The India shining story took a battering in the global media as the lack of health infrastructure lay exposed in a most painful and some would say humiliating manner - but clearly it did not stop the foreign money coming into our markets. And it certainly did not stop the domestic investors from continuing their new found love affair with the markets. The data around domestic flows, FII flows, new demat accounts opened, new trading accounts tells its own story.

The road to recovery is never a straight line, and the upside may not be as synchronised to the downside. The Jun'21 quarter end clocked a 20.4% growth in GDP year-on-year, on account of the base effect of the Jun'20 quarter's negative growth of 24.4%. While the recovery signals are good, the GDP remains below the pre-pandemic trends and the stock markets continue to decouple from the real economy, which causes investors to worry whether this trend is sustainable. We'd like you to note that the stock markets are not a complete reflection of the overall economy. Large parts of the Indian GDP whether it is agriculture, MSME & SME are not represented in the stock markets. Additionally over the last 7 years there has been a huge shift from the unorganised to the organised sector driven through key policy changes such as demonetization, GST etc. and the pandemic has (inadvertently) further accelerated that shift.

The markets reflect the companies that are listed and **finally, earnings** have jumped meaningfully after years in waiting. Sunil objectively goes through all key factors - earnings, multiples, GDP constituents, PMI and IIP data, inflation, Global economy, Central Bank stance, commodities and the China impact and in conclusion we continue to stay overweight Equities.

We have been urging our clients since Oct'20 to be overweight on equities and are pleased with the impact on the portfolios. It is critical to get the asset allocation calls right and then select the right strategies to invest through, and we are extremely pleased with the performance of **Ambit Select** managers in comparison to benchmark and peers. Our exclusive PMS strategies **CALIBER** and **Alpha Growth** continue to outperform significantly since inception in Feb'21.

We will keep a watch on all risk factors and will try our best to steer you through what looks like an exciting journey ahead. The waters mind you, will get choppy but as long as the direction is up, everyone will be happy.

**Amrita Farmahan**  
**Chief Executive Officer**

**EQUITIES**

**Finally, Earnings**

Sunil A. Sharma

Chief Investment Strategist

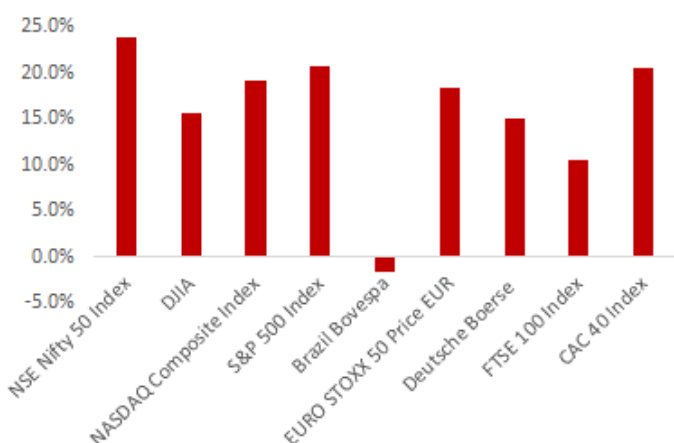
Is the exuberance being displayed by investors rational? This month, we review various macro drivers in formulating our forward view for equities.

**Equity Market Performance**

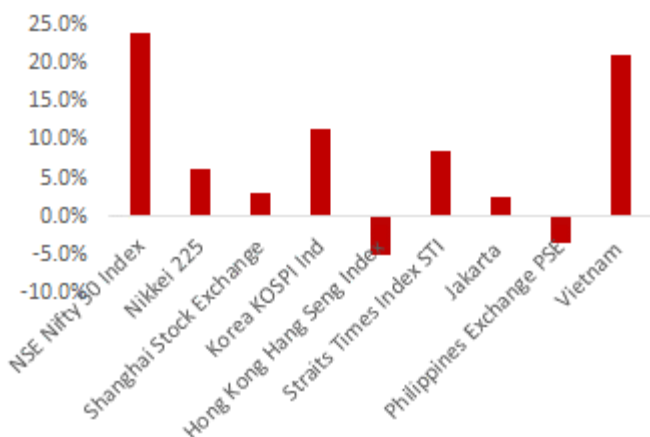
**India's Leading the Global Performance Charts**

The Nifty's YTD performance (+23.9%) is putting in an Usain Bolt like performance, edging out high performing markets such as the Nasdaq Composite (+19.2%) and S&P 500 (+20.7%). Mid and small cap returns are even higher, 39.4% and 47.4% respectively. Amidst the chatter on EM weakness, India is clearly a standout.

**Nifty's +23.9% Return Makes it the Top Performing Major Market Year to Date**



**India and Vietnam Are the Standout Performers YTD in Major Asian Emerging Markets**



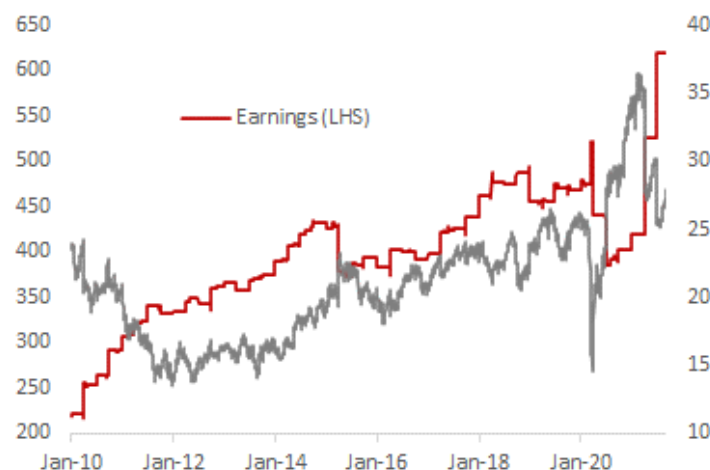
The Nifty's performance is particularly impressive when compared with other Asian peers. Only Vietnam comes a close second (+20.9%). That it is Vietnam, the other clear winner in the global manufacturing sweepstakes, is instructive. Capital is clearly discerning, flowing to markets with growth prospects.

**Earnings**

**Earnings Normalization + Growth = Breakout**

Nifty EPS have finally jumped meaningfully, after what seems like years of waiting. The notable jump in earnings is a combination of a number of factors: i) normalization of the extraordinary sub-normal earnings in Q2CY20 dropping off, replaced by Q2CY21, ii) gains in productivity, iii) gains for the organized sector, iv) changes to index constituents, and v) companies adapting to the new normal.

**The Nifty's Trailing EPS Extends Above Long Term Trend Growth**



Source: Bloomberg, NSE. Grey Line is Nifty Trailing P/E (RHS).

**EPS Estimate Revisions**

Nifty 50 earnings revisions are also holding strong, despite coming through a challenging period, and have ticked up for 2 years forward. Mid Cap earnings revisions data has been surprisingly robust, with forward 1 year earnings growing 8% in the past quarter.

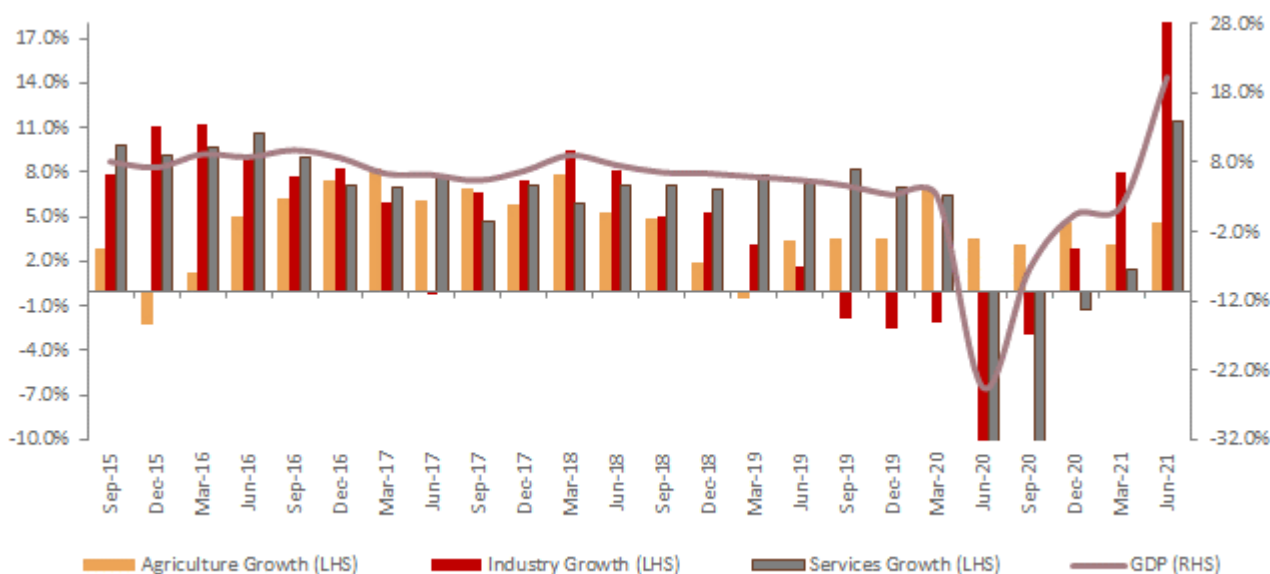
### EPS Revisions for the Nifty 50 Have Remained Resilient Over the Past 3 Months

NIFTY50	EPS - Sep-21	EPS - Jun-21	% Change - Qtr	%Change YoY
Trailing EPS	618.90	526.07		
1yr Forward	729.30	744.66	-2.1%	17.8%
2yr Forward	853.70	837.48	1.9%	17.1%
3yr Forward	964.52	924.09	4.4%	13.0%

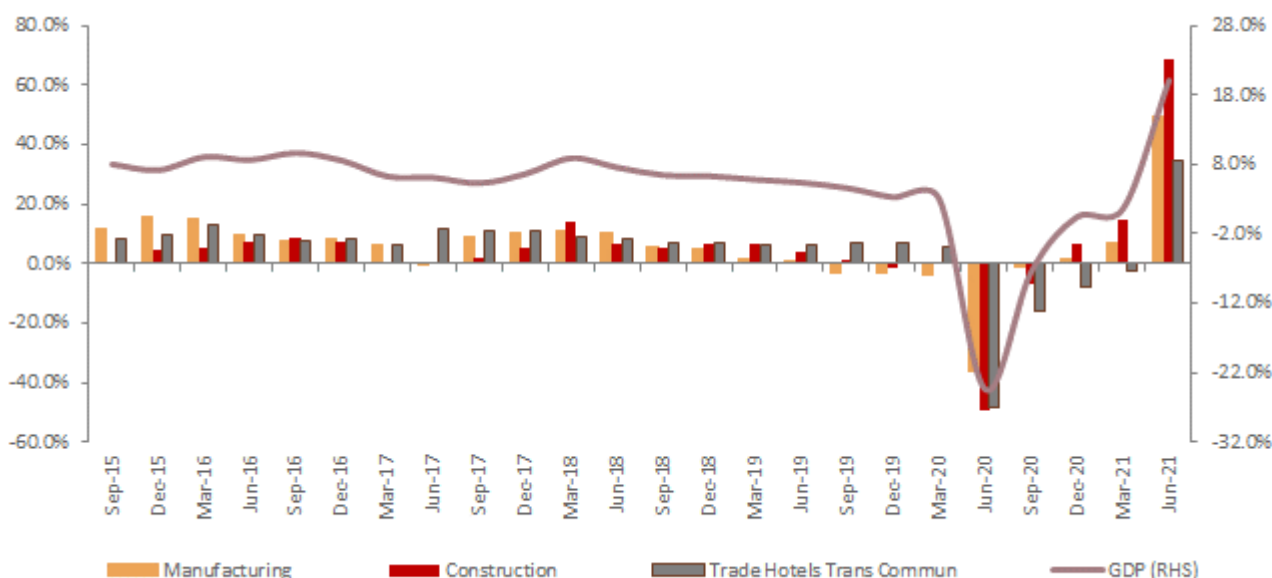
### Midcap EPS Revisions Are Showing Healthy Upward Momentum

Periods	EPS - Sep-21	EPS - Jun-21	% Change - Sep-21	%Change YoY
Trailing EPS	1,117.68	959.82		
1yr Forward	1,288.17	1,190.34	8.2%	15.3%
2yr Forward	1,599.81	1,544.97	3.5%	24.2%
3yr Forward	1,955.13	1,899.33	2.9%	22.2%

### India's GDP is On Its Way to Making a Full Recovery Led by Industry & Services



### Manufacturing, Construction and Trade & Transportation Are Leading



Source: Bloomberg

## The Domestic Economy

### GDP – Industry & Services Lead the Recovery

We define Industry as Mining, Manufacturing, Electricity Generation, and Construction. We define Services as Trade, Communications and Transportation, Finance, Insurance, Real Estate and Services, and General Public Admin. While Agriculture stayed relatively stable, Industry and Services plummeted during 2020, and now are making a strong recovery.

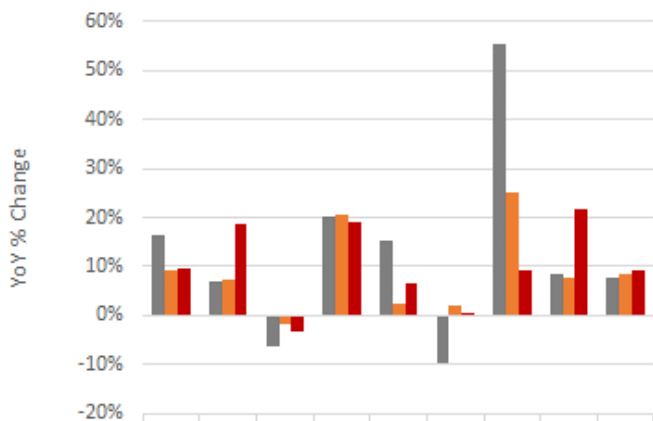
### Eight Core Industries Show Growth

Additionally, the eight core industries data also suggest a recovery is underway, with electricity generation, cement, steel leading the growth.

### PMI Services and IIP Strong Showing

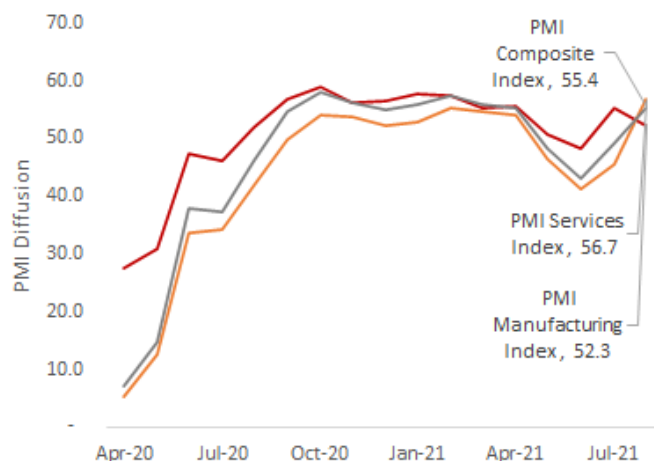
Separately, PMS Services has shown a robust uptick. Finally, the IIP data also confirm healthy growth data, driven by manufacturing and electricity.

### Eight Core Industries - Electricity Generation, Cement, Steel Production are Growing at 9%+ YoY

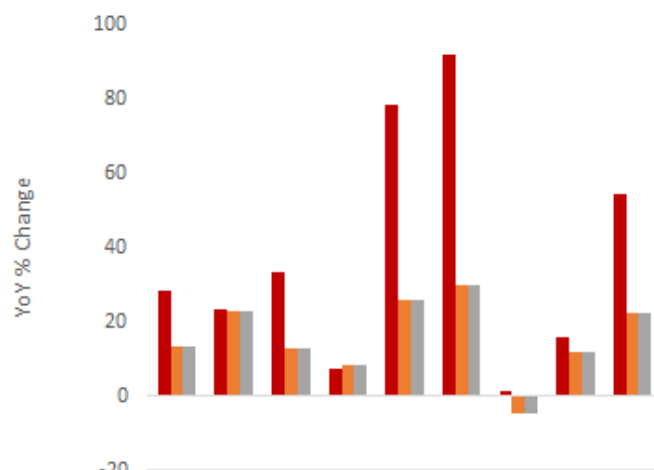


	India Eight Core Composite	Coal Production	Crude Production	Nat Gas	Petroleum Refining	Fertilizer Production	Steel Production	Cement Production	Electricity Generation
■ 31-May-21	16.2%	7.0%	-6.3%	20.1%	15.4%	-9.6%	55.3%	8.4%	7.5%
■ 30-Jun-21	9.3%	7.5%	-1.8%	20.6%	2.4%	2.0%	24.9%	7.5%	8.3%
■ 30-Jul-21	9.4%	18.7%	-3.3%	18.9%	6.7%	0.5%	9.4%	21.8%	9.0%

### Services PMI Has Had a Strong Showing



### Industrial Production – Mining, Manufacturing, Electricity – Also Demonstrating Recovery



	IIP (%YoY)	Mining (%YoY)	Manufacturing (%YoY)	Electricity (%YoY)	Capital goods (%YoY)	Consumer durables prod (%YoY)	Consumer non-durables (%YoY)	Basic Goods (%YoY)	Intermediate Goods (%YoY)
■ 31-May-21	28.6	23.3	33.5	7.50	78.2	91.9	1.40	15.8	54.4
■ 30-Jun-21	13.6	23.1	13.0	8.30	25.7	30.1	-4.5	12.0	22.6
■ 30-Jul-21	13.6	23.1	13.0	8.3	25.7	30.1	-4.5	12.0	22.6

## Valuations

### P/E Valuations Have Improved Meaningfully, Now Down to 27.6 Times from 36.5 Times

With June Quarter 2021 in the books, the P/E has come down meaningfully from levels as high as 36 times to 27 times now for the Nifty 50.

With that, the Nifty 50 valuation is now at the upper end of the range that's held in the past few years, and valuations are not quite as egregious as they have been in the past few months, particularly in light of lower interest rates.

### Pent Up Consumer Demand Will Unlock Gradually to Support Growth

Anecdotally, one would imagine there is sizable pent up consumer demand that has built up over the past 18 months. As consumers reach acceptance that living with Covid is part of the new normal, consumption will rise.

### Relative Valuations Remain Stretched

With the meaningful uptick in trailing 12 month earnings, relative valuation models remain stretched for equities, but aren't at extreme levels.

We'd note that equities reached extreme valuations in 2010 as well, but markets looked past valuation extremes and the rally powered ahead, ultimately being derailed by the European credit crisis.

## Global Economy & Central Bank

### Dovish Jackson Hole Speech

The Fed Chairman's Jackson Hole speech turned out to be surprisingly dovish. What's clearly evident is that parts of the U.S. economy appear to be slowing, particularly the employment sector, which put to bed any talk of tapering in September.

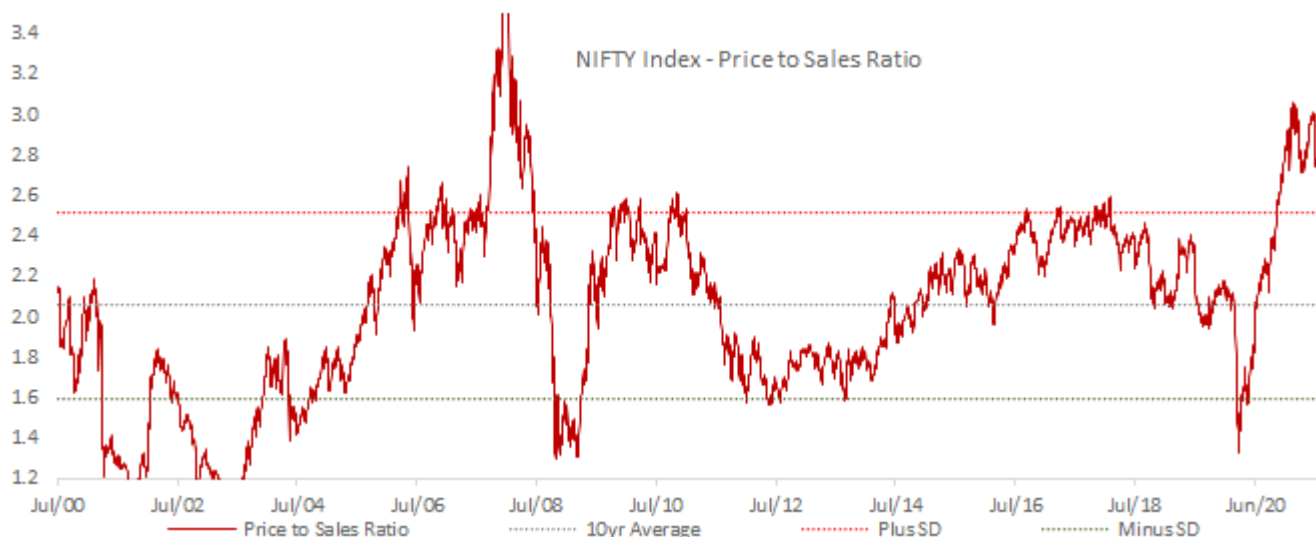
Relative Valuations for the Nifty 50 Remain Stretched But Not Extreme...



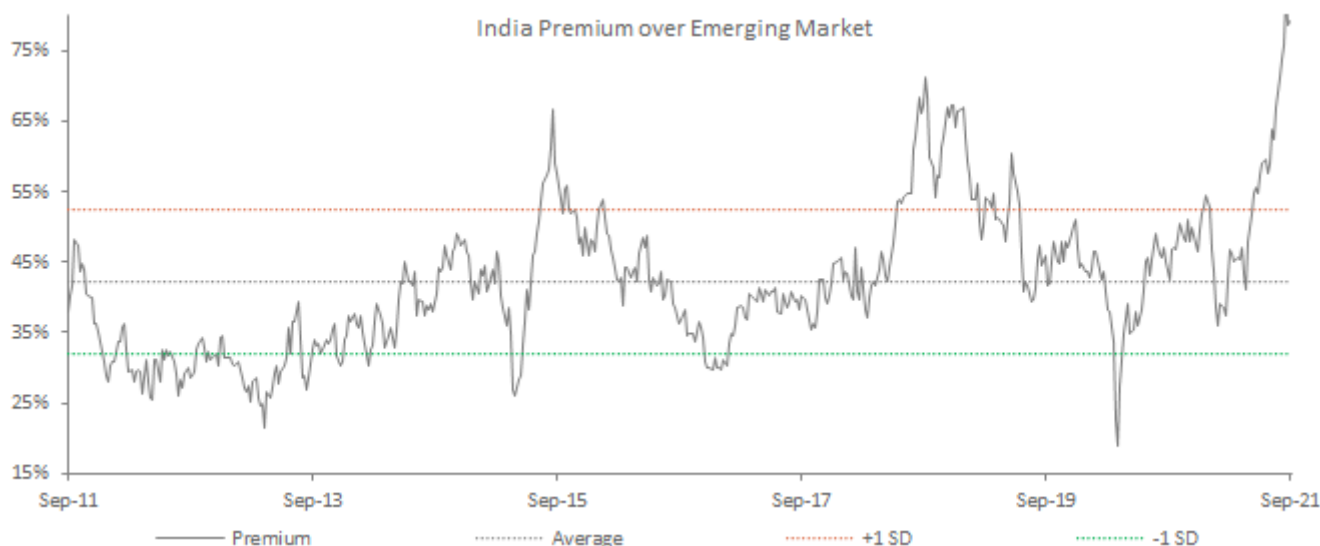
...The Nifty's Trailing P/E Has Declined Meaningfully This Quarter



**It Should be Noted that the Nifty Price to Sales Ratio for the Nifty 50 Has Skyrocketed to Extreme Levels**



**...India's Valuation Premium To Other Emerging Markets is Also an All Time High**



Source: NSE, Bloomberg. Data as of June 30, 2021

**Inflation, Commodities & Crude**

**CPI Remains Within the Glide Path**

One of the key factors that will be watched closely is inflation. For now, inflation remains within the RBI's comfort zone.

**Copper Prices Have Stabilized Due to China...**

LME Copper peaked in USD 10,446 /MT and is now trading at USD 9431, essentially sideways. The downward momentum on Copper can be largely attributed to growth concerns and the Delta cases spreading in China, as well as globally.

**Chatter on a Commodity Supercycle Has Subsided**

Marginal upward pressures remain in some metals and agricultural commodities, which can be attributed largely to supply disruptions and a lack of availability of key raw materials and inputs due to covid related pressures and lockdowns. However, there are tangible signs of global growth momentum waning, and talk of a commodity super-cycle seem overly optimistic at this point.

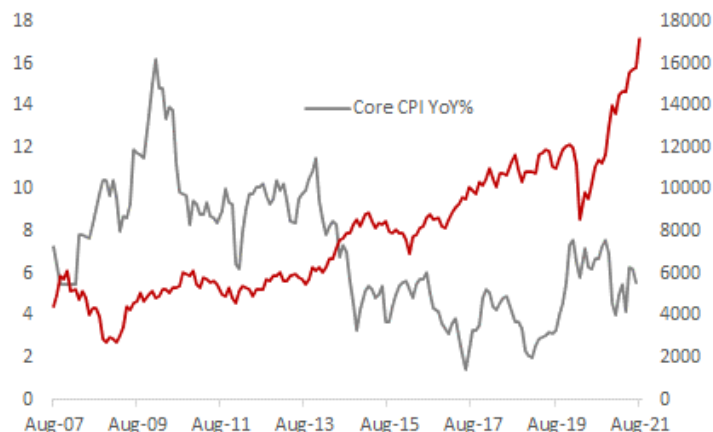
**Supply Chain Unlocking, Productivity, Market Share and Pass Throughs...**

Indian companies have done an admirable job of passing some of the cost increases through to consumers. In coming months, we expect supply chains to unlock and prices to revert further towards normalcy.

Productivity gains appear sustainable, though it could vary from company to company and sectorally.

**For now, the toxic impacts of damaging inflation appear to be manageable.**

### Core CPI Data Remains Benign



## OUTLOOK Portfolio Strategy

### Earnings, Finally

After what appears to be a long stretch spanning years, earnings finally have risen to a new plateau, and this bodes well for the nascent recovery and stock market.

### \$1,200 Per Human in Global QE Since Feb '20

The four largest central banks have grown their balance sheet by more than \$10 trillion since Feb 2020. That's roughly \$1,200 per person globally. Except that the \$10 trillion has found its way into financial assets. Yes, that's a gross over simplification, but not one that's far off the mark.

### August Market Volatility Provides Insights

Large caps won big in August. The Nifty 50 price return was 8.6%, versus 2.2% for mid-caps and -2.4% for small caps. Large versus small had a dispersion of 11% in returns last month.

### August Was a Mini Stress Test on Portfolios

August should provide key insights into your portfolio volatility relative to risk profile, the up capture and down capture of the equity component of your investment portfolio, portfolio beta, and portfolio downside volatility, or semi-variance.

### While Our Investment Strategy Portfolio - Caliber - Delivered 5.1% in August versus the Nifty's 8.6%...

Our Caliber portfolio is the cleanest representation of our investment strategy. Caliber delivered 5.1% in August, underperforming the Nifty 50.

### The Strategy Is Up +37.6% Over 6 Months, Outperforming the Nifty 50 by 18.3%

We remain comfortable underperforming by small margins during volatile months, in order to deliver consistent absolute outperformance over longer time





periods.

### **Worries About a Market Correction**

As those invested in markets reap handsome rewards, others that have stayed on the sidelines waiting for a correction, have underperformed. We've oft and repeatedly stated that trying to time a correction is a task that is difficult to get right, and more money has been lost trying to time a market correction than in the correction itself.

### **The Dearth of Attractive Fixed Income Alternatives**

Further aiding equity inflows, investors are struggling to find capital protected fixed income investments that yield a real yield greater than 1%. Some of that money is finding its way into equities.

### **Focus on Earnings**

In hindsight, the decade has proven fruitful to those that have focused on domestic fundamentals, and stayed aligned with central bank policy.

### **Speculative Pockets of Worry**

Does the market feel speculative? Yes there are pockets of speculation, though we'd note that the IPO market in particular, appears to have lost some of its sizzle of late. Investor bullish sentiment also appears to have abated with the Fed's policy statements in August.

### **Capitalization Exposure**

We think portfolio strategies can be broadly segregated by cap and investment strategy. On cap, we favor diversified multi cap portfolios, that have exposure to large and mid caps and risk appropriate exposure to small caps.

### **China's Fumbles Brighten the Outlook for India**

China as an investment destination has become prone to massive political risk; advantage India. While the U.S. continues to maintain large global MNC, tech and innovation dominance, it carries meaningful risks. India and Vietnam – by contrast – are clearly on the ascendant.

Demographics favor India this decade. Investors that choose to focus on short term worries stand to lose out on longer term gains.

**We continue to remain invested, holding a bullish view on Indian equities, and a moderately overweight positioning.** Equities remain the only asset class in town that provides liquidity and high return potential.

We remain underweight Gold, and underweight Fixed Income. Our asset allocation tactical weights are laid out in the tables below on page 12 and page 10.

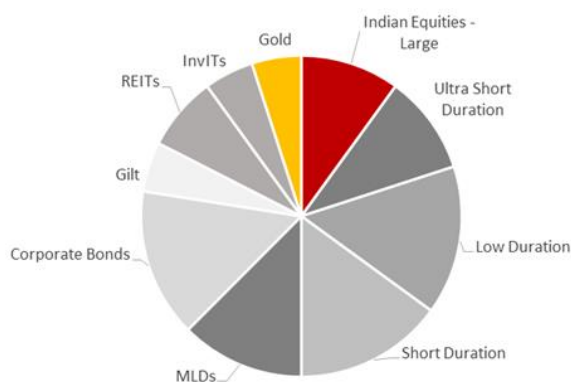
## Tactical Asset Class Rationale

Equities	Weight	Rationale
<b>India Equities</b>	<b>Overweight</b>	India's economy was recovering well before Covid wave 2 struck. We look for a gradual recovery heading in Q3 CY21 as vaccinations gain traction and global demand recovers and global supply chains repair. We expect a stronger global recovery in the short term and an accelerating recovery for India starting Q4 CY21. The recovery will mark the re-instatement of the second year of the bull market that began in March 2020.
<b>India Hedge Funds</b>	<b>Under Weight</b>	The traditional 60/40 portfolio that was expected to deliver reliable 12% returns is weighed down by the weight of low interest rates on the fixed income side. Rising volatility is a constructive environment for hedge fund managers. Hedged portfolios provide the perfect complement to an equity portfolio today, providing a diversifying non-correlated asset class that enhances risk adjusted return, while holding the opportunity to provide equity-like returns with debt-like risk. Marginally Under Weight, due to our view that the economic recovery is gathering pace gradually.
<b>U.S. Equities</b>	<b>Market Weight</b>	Indian HNI portfolios are dramatically underweight global equities. Diversification provides strong benefits. U.S. equities have dramatic barriers to entry and global leadership.
<b>Emerging Market Equities</b>	<b>Market Weight</b>	Given the action in Commodities, and the Dollar, and valuations for emerging markets trading at reasonable levels, most inflationary risks centered in the U.S., exposure to emerging markets will add to portfolio diversification. Most notably, political risk in China has risen, therefore we prefer exposure to non-Japan, non-China emerging markets that are on growth trajectory.
<b>Europe Equities</b>	<b>Under Weight</b>	Growth in India, emerging markets is likely to outpace European growth and therefore find limited triggers to gain exposure to European equities, except selectively at a company specific basis.
Fixed Income	Weight	Rationale
<b>Duration</b>	<b>Under Weight</b>	With risks on the inflation front, and demand supply dynamics eventually getting overwhelmed by supply, the likelihood of interest rates moving higher is tangible.
<b>Accrual Corporate</b>	- <b>Market Weight</b>	Medium maturity corporate bonds, enabling safety, liquidity and steady returns without duration risks and consequent negative MTMs.
<b>Accrual Credit Risk</b>	- <b>Market Weight</b>	With expectations of an improving economy, conditions will improve. Quality credits will enable a positive risk reward equation (especially with well researched and strongly constructed investments) and allocations should be in light of investor's risk appetite.
<b>Long Short (Absolute Return)</b>	<b>Market Weight</b>	While long short sounds good in concept, the track record of funds in this space has been below par. Selectively, long short funds that have consistently delivered post-tax 8% are a worthy addition to portfolios.
<b>REITs</b>	<b>Market Weight</b>	Real estate investment trusts (REITs) have lagged in the past year due to the impact of Covid on retail and urban office space. With rising threat of inflation, REITs offer an attractive inflation hedge that provides exposure to fixed assets.
Alternate	Weight	Rationale
<b>Private Unlisted</b>	<b>Over Weight</b>	We expect significant value and wealth creation in unlisted space in India primarily led by Technology, Financial and New Age Consumption companies. Our Direct Deal Thesis focuses on late stage companies with significant market share & profitability and our Manager Selection in early stage investments focuses on fund managers with established track record across cycles.
Gold	Weight	Rationale
<b>Gold</b>	<b>Under Weight</b>	Gold provides inflation protection, though the relationship isn't highly positively correlated. Gold provides currency debasement protection. It's suffered of late due to a slowdown in India Gold purchases and the rush towards Bitcoin investing in the U.S. Given our view of a growth cycle, we tilt our positioning to a marginal underweight.

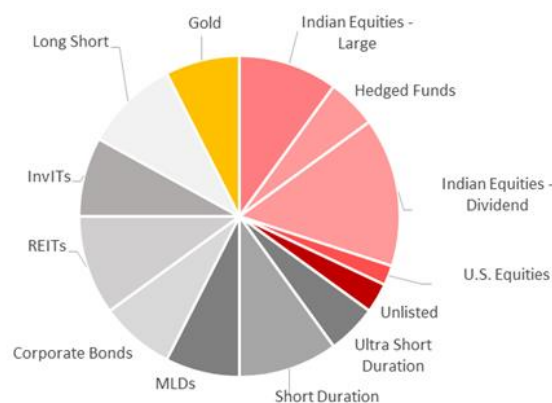
## Ambit GPC Wealth Profiles - Strategic Weights

The Ambit GPC Asset Allocation & Investment Committee (AAIC) provide guidance on asset allocation via our wealth profile models below. The models are listed on a scale of rising return and rising risk and represent the most common investor profiles that we base our portfolio construction around.

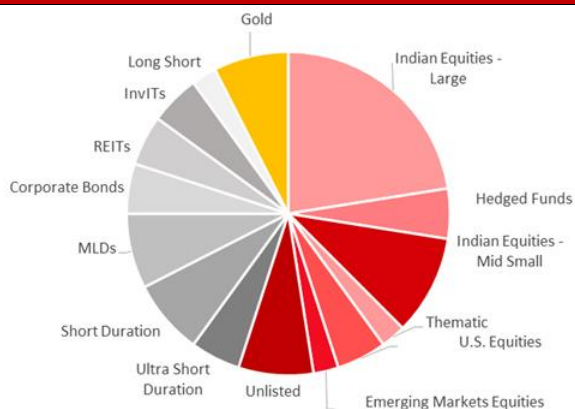
### Wealth Conservation



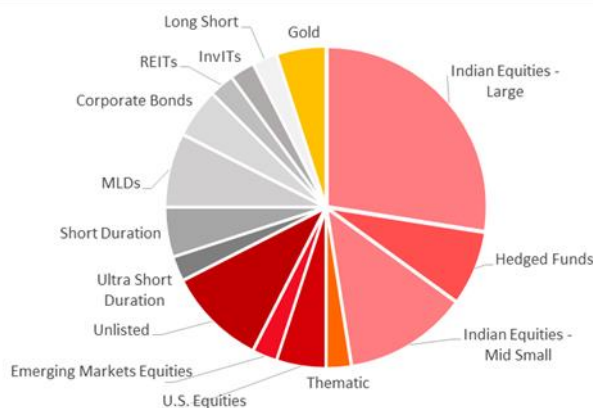
### Income



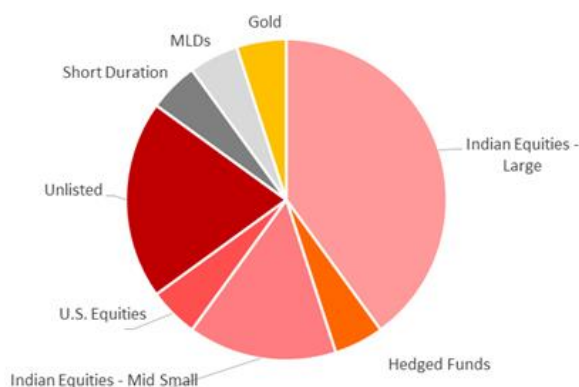
### Balanced Growth



### Moderate Growth



### Aggressive Growth



### Ambit Global Private Client - Asset Allocation & Investment Committee

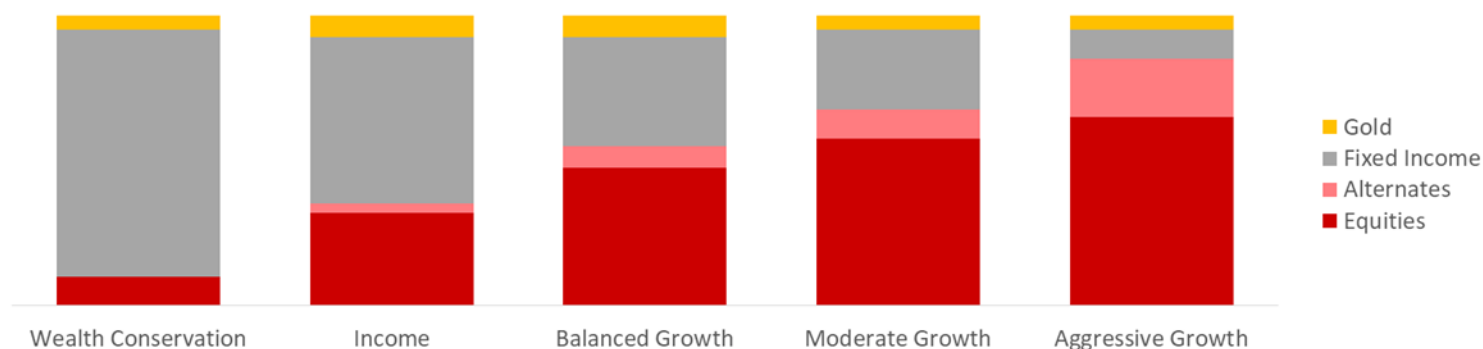
The Ambit GPC Asset Allocation & Investment Committee (AAIC) is a group comprised of the CEO, Head of Products and Alternates, Chief Investment Strategist and Head of Fixed Income (listed below). The team has over 100 years of collective investment experience in markets. The AAIC meets monthly and as necessary during periods of market volatility to discuss the economy and markets. The committee determines the investment outlook that guides our advice to clients. The AAIC continually monitors developing economic and market conditions, reviews tactical outlooks and recommends asset allocation model changes, as well as analysis, investment commentary, portfolio recommendations and reports.

### Tactical Allocation Weights Vs Strategic

Asset Class Pairs	Scale											View
	-5	-4	-3	-2	-1	0	1	2	3	4	5	
Equities								◆				Over-Weight
India Equities – Large								◆				Over-Weight
India Equities – Mid & Small									◆			Over-Weight
International Equities						◆						Market Weight
Long Short					◆							Under-Weight
Hedge Funds					◆							Over-Weight
Fixed Income					◆							Under-Weight
Duration			◆									Under-Weight
Corporate						◆						Market Weight
Credit Risk						◆						Market Weight
REITs						◆						Market Weight
Alternates												Over-Weight
Private Unlisted									◆			Over-Weight
Gold				◆								Under-Weight

### Wealth Profiles - Summary

#### Strategic Asset Class Weights by Profile



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**Ambit Global Private Client – Asset Allocation & Investment Committee**


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**Sources:** All sources unless otherwise noted are Bloomberg, NSE. Returns for PMS are as of Aug '21 end. Returns are post expenses except for custody charges for the month of Aug '21. 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.

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