Sakthi Financial Services

Weekly Update

24th January 2022

Vol: - 21.22.38

SENSEX	NIFTY	USD	GOLD (10 grams)	CRUDE
57491.51	17149.10	74.56	48608.00	6346.00

Market to remain highly volatile on FOMC meet expectations, F&O expiry and earnings

Indian benchmark indices remained under selling pressure for the week ended January 21 in-line with weak global markets. In the past week, the BSE Sensex shed 2,185.85 points (3.57 percent) to end at 59,037.18, while the Nifty50 fell 638.55 points (3.49 percent) to close at 17,617.2 levels. Among sectors, BSE Information Technology index lost 6.5 percent, BSE Telecom index fell 5.8 percent and Nifty Pharma index shed 5.2 percent. However, the BSE Power index added 2.6 percent.

For the coming week, 17500 will now be seen as the important support while a move above 17700 could again lead to a buying interest amongst market participants and take the index towards 17900-18000. In our view, last week's correction is just a short-term corrective phase and our markets should now resume the uptrend to mark a pre-budget rally. The banking index has relatively done better than the Nifty last week and the broader charts of Bank Nifty indicate an impulsive up move. Thus, banking space could dictate and lead the next leg of the up move and hence, traders should keep a close tab on momentum in heavyweights from this sector.

The coming week is a holiday-shortened one and it's going to be critical due to the list of events and data which are lined up. First, markets will react to the earnings of two index heavyweights- Reliance Industries and ICICI Bank. Currently, the uncertainty around the quantum of a rate hike by the US Fed is spooking markets the world over and participants expect clarity in the scheduled FOMC meeting outcome on January 26. Amid all, the monthly expiry of the January month derivatives contract would keep the traders on their toes. In the run-up to the budget, sector-specific expectations would further add to the choppiness. Markets are facing global headwinds and expect choppiness to remain high in the coming week as well. On the index front, the 17600-17350 zone would be critical to hold for any meaningful recovery. Since the selling pressure is widespread and volatility is further adding to the difficulties, it's prudent to restrict naked leveraged positions and prefer hedged trades.

In the coming week, the domestic market is expected to remain highly volatile with investors awaiting the outcome of the upcoming budget announcement. As the recent earnings failed to excite the market, the earnings outcomes in the coming week will be a key factor in determining investor confidence.

Investors are advised to keep strict stop loss to their position and trade with small quantities as market continues to remain volatile in pre-budget days. Important events for next week – Finance sector will be in focus as US will be conducting its 52-week bill auction on Tuesday. Manufacturing industry will be in focus as US will be declaring its Goods trade Balance on Thursday. For Nifty 17570 will act as very strong support post which next support is at 17500 levels. On upper side 17700 will act as very strong resistance, post which 17805 will be next hurdle rate. Once this level is broken, then the next resistance will be around 17920 levels.

Edelweiss mutual fund to restrict flows into recently listed IPO fund

Edelweiss Recently Listed IPO Fund, a scheme that invests in newly-listed companies or those that plan to hit the capital markets soon, will limit investments to a maximum of ₹1 lakh per day per investor from February 1.

The scheme, launched as a closed-end scheme in February 2018 with a maturity of 1,222 days, went open-ended in May 2021 when it had assets of ₹522 crore. With the assets doubling to ₹1,091 crore as of December 2021, the fund house has decided to put restrictions on flows.

The scheme has 75% of its portfolio in mid- and small-cap stocks with the balance in large-cap names. The top holdings of the fund are Sona BLW, Gland Pharma and MTAR Technologies. Given the sharp run in the markets, many fund managers believe valuations are rich, especially in the mid and small cap space where there is not enough liquidity.

The scheme beat its benchmark over 1- and 3-year periods, returning 57.69% and 36.94% as compared to S&P BSE 500 TRI, which returned 33.45% and 21.49%, respectively.

"After quick growth in the fund AUM since launch, we want to take this opportunity to review portfolio liquidity and also look at the IPO pipeline in coming months," said Radhika Gupta, CEO, Edelweiss Mutual Fund.

Motilal Oswal AMC halts lump sum investments in 3 international funds

Motilal Oswal Asset Management Company will not accept lump sum investments and switch-in of money into three of its international mutual funds - Motilal Oswal S&P 500 Index Fund, Motilal Oswal Nasdaq Fund of Fund (FoF) and Motilal Oswal MSCI EAFE Top 100 Select Index Fund - beginning Monday. However, investors can still make fresh investments through systematic investment plans or systematic transfer plans.

"The aforesaid suspension is temporary in nature and will continue only till further enhancement of limit by regulators in this regard," the AMC said in a notice to investors.

The fund house has taken this step as its international investments are believed to have reached close to the market regulator's overall $1 billion investment limit in foreign stocks.

The investment limit in foreign stocks for a fund house was $600 million till June last year, when it was increased to $1 billion. The Securities and Exchange Board of India has a cap of $7 billion on the mutual fund industry's investment in overseas stocks.

Motilal Oswal S&P 500 is the only fund offering for Indian investors to mimic the performance of the S&P 500 index. For Nasdaq 100, investors have options from Kotak, ICICI and Aditya Birla.

The Nasdaq 100 fund and the S&P 500 fund have been among the best performing international funds over the last one year, returning 21.25% and 24.01%, respectively.

Cash holdings of mutual funds on a rise amid higher market volatility

The cash holdings of mutual funds are on a rise amid expensive equity valuations and higher stock market volatility.

According to the data from Motilal Oswal Financial Services, the average cash holding as a percentage of total equity assets of top 20 mutual fund houses increased to 4.3% in December 2021 from 3.1% a year ago.

Mutual fund distributors cite elevated valuations as one of the reasons for the higher cash holding. The benchmark Nifty 50 index trades at one-year forward price-earnings (P/E) multiple of 21, which is 40% higher than its 10-year average valuation.

According to some of the distributors, fund managers are in the profit-booking phase to take advantage of the recent rally in the stock market. There is also a possibility of a weakness in the market in the run up to the Union Budget.

In addition, if companies fail to meet analysts' expectations regarding the third quarter financial numbers, selling pressure on equities cannot be ruled out. These factors have prompted fund managers to increase cash holdings.

Rising Cash Levels

Fund House	Cash Holding (%)	
	Dec '20	Dec '21
SBI Mutual Fund	4.5	8.1
ICICI Prudential Mutual Fund	4.3	8.6
HDFC Mutual Fund	4.5	3.6
Nippon India Mutual Fund	1.9	2.6
UTI Mutual Fund	1.9	2.1
AXIS Mutual Fund	5.4	9.8
Kotak Mahindra Mutual Fund	3	4.1
Aditya Birla Sun Life Mutual Fund	2.7	3.2

SOURCE: Motilal Oswal

This apart, high collections from new fund offers (NFOs) in 2021 also resulted in increased cash levels. In 2021, NFOs collected an estimated Rs 46,752.3 crore. This was the highest in a decade according to Value Research data.

Franklin Templeton approaches global asset buyers to sell Vi papers

Franklin Templeton Mutual Fund has approached at least three global distressed asset buyers - SSG Capital, Varde Partners and Farallon Capital - offering to sell (Vi) outstanding bonds, people familiar with the matter told ET.

The fund house is said to have already written down the full value of an estimated portfolio of about Rs 1,250 crore of Vi papers before any redemption. The value to those securities became nil after being separated from other financially stable portfolios.

Those papers have been downgraded to the 'junk' category but not 'default'.

To be sure, Vi has been serving interest payments or repayments on those bonds on time without any delay. About five months ago, local credit rating company CARE cut Vi's rating to B-, deeper into the junk or high-yield category. It placed it under "credit watch with negative implications".

Improvement of the overall financial risk profile of the company on a sustained basis could lead to a positive rating action/upgrade, CARE Ratings said.

Franklin Templeton, SSG and Farallon did not respond to ET's queries. Varde Partners declined to comment.

MF Bulletin: MF Industry adds 23 lakh new investors

The MF industry's AAUM has risen by 22% to reach Rs.38 lakh crore in December 2021. Also, the investor count has remarkably crossed the 3-crore mark in Dec 2021.

Here are other key numbers that shaped the MF industry in Dec 2021.

Number of folios and investors

- With the addition of 32.16 lakh folios in Dec 2021, the aggregate folio count stands at 12.02 crore, as against 11.70 crore in Nov 21
- Over the last one year, the folio count has increased by 27%
- The number of unique investors has achieved a new milestone and now stands at 3.06 crore as against 2.83 crore in Nov 21

Retail investors' average AUM per folio

- Compared to Nov 21, the average AUM per folio size has more or less remained the same
- The combined average retail AUM per folio is Rs. 1.78 lakh
- B-30 location has an average AUM per folio of Rs.1.04 lakh while such a number is Rs. 2.34 lakh in T30 locations

SIPs

- 22.05 lakh new SIPs have been registered in Dec 21, which is lesser than 23.19 lakh SIPs in Nov 21
- Aggregate SIP count stands at 4.91 crore - 85% (4.15 crore) in growth/equity-oriented schemes, 4% (17.32 lakh) in income/debt-oriented schemes (including liquid & overnight funds), 6% (31.23 lakh) in hybrid schemes
- 9.51 lakh SIPs have been discounted in Dec 21. The number is slightly higher than Nov 21 where 9.25 lakh SIPs were discontinued.

India to see solid growth in 2022 but expect moderate returns, says Prashant Jain

India's growth outlook is one of the best in a long time, said Prashant Jain of HDFC AMC while unveiling the fund house's Yearbook for the current year.

The Executive Director and Chief Investment Officer of the AMC believes that the Indian economy is firing on multiple cylinders due to conducive macro-economic environment and various reforms like Aatmanirbhar Bharat, national monetization pipeline, creation of 'bad bank' and various sector specific measures.

'Markets are fairly valued'

The fund house cited past Nifty50 returns and market cap/GDP data to justify the present valuations.

"Despite the sharp rally in 2020 and 2021, Nifty50 returns over the past 10 years and 15 years are 15.4% and 11.6% CAGR respectively, largely in line with nominal GDP growth. Market cap/GDP is also in line with the past range. Markets are thus fairly valued and the long term returns should be in line with the nominal GDP growth," HDFC MF noted in the Yearbook.

'Time to lower expectations'

The fund house feels that investors need to moderate their return expectations in 2022. "Markets have played the catch-up with post-covid normalisation and are trading at above average multiples," the yearbook noted.

"Given the likely normalisation of liquidity and growth, strong past returns, likely increase in capital, etc., one should moderate returns expectations over the near to medium term," it added.

What will drive growth in 2022?

The mutual fund expects growth to be driven by three factors:

- Reopening, easing restrictions and high vaccination coverage
- Higher accumulated savings
- Investments as percentage of GDP to be higher as compared to pre-covid era

Cyclicals are back on mutual fund radar as pandemic risk to GDP growth ebbs

The domestic mutual funds increased exposure to cyclical sectors including banking, capital goods, retail, and automobiles in December amid ebbing risk of the third wave of the pandemic to the GDP growth. Cyclical sectors tend to benefit the most from an economic recovery. According to the data from Motilal Oswal Financial Services the domestic funds raised the weight of cyclicals in their portfolio by 160 basis points year-on-year to 58.8% in December.

The capital goods sector reported the highest traction among the domestic cyclicals amid the capital expenditure recovery theme followed by the public sector banks, and retail.

The domestic funds extended the capex theme to the PSU Banks, which tend to have a greater share of corporate lending. The total bank credit growth was at a 26-month high of 9.2% in December. This brought back the PSU banks segment in the top 10 sectors by weight in the domestic funds' portfolio.

Scheme Name	Nippon India Silver ETF FOF	ICICI PRUDENTIAL SILVER ETF FUND OF FUND
Objective of Scheme	The investment objective of the Scheme is to seek to provide returns that closely correspond to returns provided by Nippon India Silver ETF by investing in units of Nippon India Silver ETF. However, there can be no assurance or guarantee that the investment objective of the Scheme will be achieved.	ICICI Prudential Silver ETF Fund of Fund (the Scheme) is a fund of fund scheme with the primary objective to generate returns by investing in units of ICICI Prudential Silver ETF.
Scheme Type	Open Ended	Open Ended
Scheme Category	Other Scheme - FoF Domestic	Other Scheme - FoF Domestic
NFO Period	13-Jan-2022 - 27-Jan-2022	13-Jan-2022 - 27-Jan-2022
Minimum Subscription Amount	Rs.100/- & in multiples of Re. 1 thereafter	Rs.100/- & in multiples of Re. 1 thereafter

Scheme Name	DSP Global Innovation Fund of Fund	ICICI Prudential Strategic Metal and Energy Equity Fund of Fund
Objective of Scheme	The primary investment objective of the scheme is to seek capital appreciation by investing in global mutual funds schemes and ETFs that primarily invest in companies with innovation theme having potential for higher revenue and earnings growth.	ICICI Prudential Strategic Metal and Energy Equity Fund of Fund (the Scheme) is an open-ended fund of fund scheme that invests in the units/shares of First Trust Strategic Metal and Energy Equity UCITS Fund.
Scheme Type	Open Ended	Open Ended
Scheme Category	Other Scheme - FoF Overseas	Other Scheme - FoF Domestic
NFO Period	24-Jan-2022 - 07-Feb-2022	17-Jan-2022 - 31-Jan-2022
Minimum Subscription Amount	Rs. 500/- and any amount thereafter	Rs.1000

Scheme Name	Invesco India Flexi Cap Fund	Motilal Oswal Nifty 200 Momentum 30 Index Fund
Objective of Scheme	To generate capital appreciation by dynamically investing in a mix of equity and equity related instruments across market capitalization i.e., large, mid and small cap stocks.	The investment objective of the scheme is to provide returns that, before expenses, closely correspond to the performance of Nifty 200 Momentum 30 Total Return Index, subject to tracking error.
Scheme Type	Open Ended	Open Ended
Scheme Category	Equity Scheme - Flexi Cap Fund	Other Scheme - Index Funds
NFO Period	24-Jan-2022 - 07-Feb-2022	21-Jan-2022 - 04-Feb-2022
Minimum Subscription Amount	Rs. 1,000/- per app and in multiples of Re. 1	Rs. 500/- and in multiples of Re. 1/- thereafter.

(**Source: -** AMFIindia, Moneycontrol, Economictimes, Livemint, Cafemutual, IBJArates, etc.)