Sakthi Financial Services

Weekly Update

14th March 2022

Vol: - 21.22.45

SENSEX	NIFTY	USD	GOLD (10 grams)	CRUDE
56486.02	16871.30	76.56	52462.00	8060.00

Key global and domestic triggers this week as analysts expect market volatility

Ahead of the US Federal Reserve's interest rate decision and the release of domestic inflation data, analysts believe that stock markets are likely to stay volatile until the existing headwinds subside. On March 14, the S&P BSE Sensex gained 0.92 percent to 56,059.62 and the NSE Nifty 50 Index rose 0.68 percent to 16,743 points as markets surged for the fifth consecutive session. Last week, the Sensex jumped 1,216.49 points or 2.23 percent, while the Nifty advanced 385.10 points or 2.37 percent.

Global factors

The Federal Open Market Committee (FOMC) meeting outcome on March 16 and the ongoing Russia-Ukraine geopolitical conflict will be the key global factors this week.

1. US inflation at 40-year high: In the United States, consumer price inflation jumped to a 40-year high, as consumer prices surged 7.9 percent year-over-year in February 2022, culminating in the largest annual increase since January 1982.

2. Fed rate hike: The market expects the US central bank to raise the Fed funds target rate by 25 basis points at the conclusion of the monetary policy meeting. With inflation nearly four times the US central bank's two percent target, economists are expecting as many as seven rate hikes this year.

3. Russia-Ukraine crisis impact: The Russia-Ukraine war has driven up prices of crude oil and other commodities. The high rates have also resulted in supply shortages as global inflation is set to accelerate further in the months ahead. The war could push inflation higher as Russia is the world's biggest exporter of crude and oil products combined.

4. Crude oil prices: Last week, US President Joe Biden announced a ban of Russian oil imports to the US - a move that could drive up US energy prices. The Brent crude futures and US West Texas Intermediate (WTI) have surged since Russia's invasion to Ukraine and are up roughly 40 percent for the year to date.

Domestic triggers

On the domestic front, retail inflation data, wholesale inflation numbers, crude oil prices, and FII's behaviour will be key triggers for stock markets in the current holiday-shortened week. Equity markets would remain closed on March 18 for Holi.

1. WPI inflation: India's inflation based on the Wholesale Price Index (WPI) rose to 13.11 percent in February 2022 from 12.96 percent in January, according to government data. High WPI inflation is seen as a precursor to higher consumer prices as producers pass on rising costs to customers. This is the 11th consecutive month in which WPI has been in double digits.

2. Retail inflation data: The consumer price index-based inflation data for February 2022 is expected to be released later on March 14. In January, India's headline inflation rate based on CPI jumped to a seven-month high of 6.01 percent and marginally surpassed the Reserve Bank of India's comfort zone of four-to-six percent.

(Cont.)

3. Oil prices: As India imports about 85 percent of its oil needs, foreigners are selling stocks at a record pace and the exodus has sent the rupee to a record low. The benchmark S&P BSE Sensex is down 2.9 percent since February 23 shows that the country is likely the most vulnerable to surge in Brent crude. Investors are watchful of a hike in domestic fuel prices, as per analysts.

4. FPI selling: Continuing the selling spree for the sixth straight month, foreign portfolio investors (FPI) have pulled out a net Rs 45,608 crore from the Indian markets in March so far. Overseas investors fear that India would be impacted more by commodity price hikes, particularly in crude oil.

5. **FII and DII data:** Foreign institutional investors (FIIs) continue selling in India. They net sold shares worth Rs 2,263.90 crore on March 11, while domestic institutional investors (DIIs) bought equities worth Rs 1,686.85 crore, as per provisional data available on the NSE.

What analysts say

Investor sentiments were boosted on the back of BJP's historic win in Uttar Pradesh during the state polls last week, as per analysts.

Siddhartha Khemka, Head of Retail Research, Motilal Oswal Financial Services expects markets to stay volatile until existing headwinds subside.

"With election results over, equity markets will move on to more important aspects in the near-term Russia-Ukraine geopolitical conflict, US Fed rate hikes, elevated crude oil prices, and RBI's response to rising inflationary pressure in the economy,'' said Khemka.

Paytm nosedives after payments bank barred from taking on customers

Shares of Paytm parent One 97 Communications nosedived 13 percent on March 14 to Rs 675 on the National Stock Exchange after the central bank on March 11 barred Paytm's payments bank from onboarding new customers and asked the company to undertake an IT audit.

Shares of One 97 Communications have given away two-thirds of their IPO price of Rs 2,150.

Macquarie said that the impact on overall business of Paytm Payments Bank will not be substantial as it has already onboarded a very large customer base. That said, Macquarie believes that the RBI's action against the company would lead to a significant impact on brand and customer loyalty.

The payments bank is one of the better functioning businesses of Paytm. The company had shown 98 percent year-on-year growth in revenues of payments and financial services vertical in the quarter ended December.

Payments services to consumers saw a 60 percent jump in revenues while payments services to merchants grew by 117 percent driven by MDR-instruments. The lending operations of the company had also seen significant growth in the December quarter with loan disbursed rising 401 percent on year.

For the IPO investors of Paytm, the increase in regulatory risk premia on the stock further reduces the chances of a spectacular bounce back in the scrip that could cut their losses.

12:20:80: Formula to boost your financial immunity

Protecting your financial health is key to a happy and successful life. Just as good physical health cannot be achieved in a day, financial immunity takes time to build. Increasing exposure in equity when the markets are witnessing an uptrend and untimely redemptions at the time of a downside can damage your portfolio returns.

How can you make sure your investments are protected from short term volatility and market fluctuations? While investors can't always time the market, there are some ways that can help them boost their financial immunity. Having an emergency fund or money set aside for emergencies, adequate health insurance and a strategically diversified portfolio can be some of them.

Splitting up your assets in the right proportion among different asset classes plays a crucial role in building the desired financial immunity for investors. Overexposure to a single asset (like equity) or zero allocation to another asset (like gold) can both have negative implications on your financial planning and derail your investment plans.

To build financial immunity, investors need to follow an effective strategy and diversify their portfolio across different asset classes like equity, debt and gold. While equity is best for the long term and should have a significant chunk of your investments, gold may act as a hedge against a falling economy and inflationary pressures. Generally gold prices go up when interest rates are falling, which is directly proportional to the strength of the economy.

Right asset allocation strategy helps investors mitigate downside risks and take advantage of market movements. Three simple steps of asset allocation can help you tide over any challenge that might keep you away from achieving your financial goals.

These 3 steps are based on the **12:20:80** fundamental of Asset Allocation which stands for: 12 months of expenses; 20 percent investment in gold and 80 percent in equity.

Step 1: The safe money

The first step in any investment journey begins with a contingency plan and 12 months of emergency funds constitutes for the first criteria for the rule. You can park this money in an open-ended liquid mutual fund which might give you returns similar to your friendly neighbourhood bank. Liquid Funds typically invest in government securities, certificate of deposits, debt and fixed income securities. liquid fund that offers you the Insta Redemption facility to liquidate (up to Rs.50K) whenever you need it. Since this fund takes minimal credit and interest rate risk and has a portfolio of AAA/A1+ rated PFI/PSU bonds and quality government securities with a duration not exceeding 91 days, it qualifies as a Safety or the Foundation block of your portfolio.

Step 2: Don't ignore Gold

Second step constitutes 20 percent strategic investment in gold funds. After setting aside an emergency corpus, you need to make some provisions to lower downside risks for your investment against volatility and inflation. Gold not only helps investors get the much-needed diversification but is also beneficial due to gold's risk-reducing, return-enhancing characteristics. **(Cont.)**

Investors can consider Gold ETFs or Gold Fund of Fund for a cost effective and liquid investment. Gold Fund ETF is backed by pure Gold of 99.5% finesse. As a step ahead, the fund also undertakes regular independent purity tests of all gold bars. Investors also have the option of investing without a demat account with the Gold Savings Fund.

Step 3: Equity is must

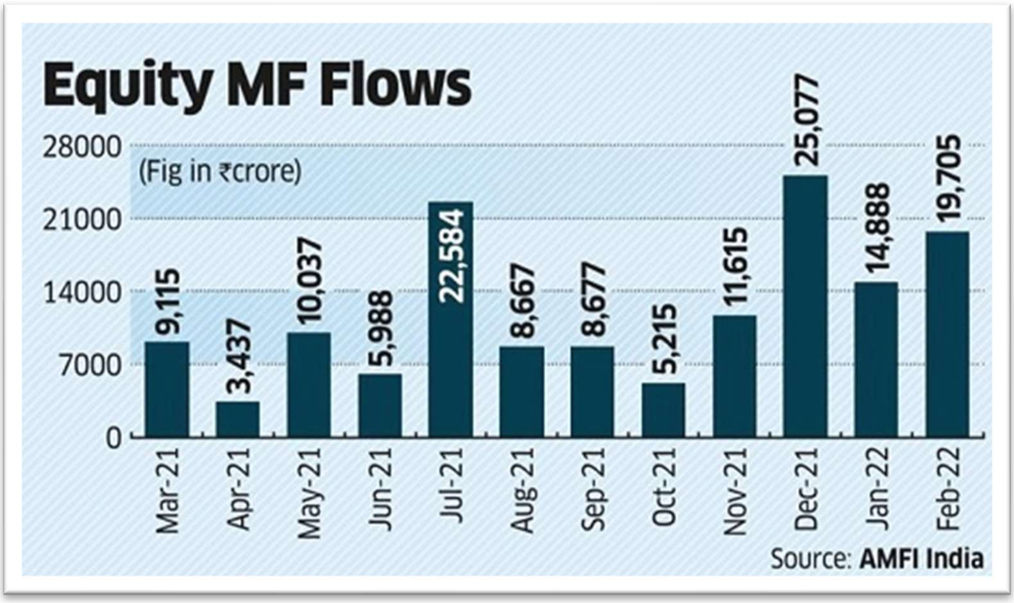
Third and the final step stands for 80 percent investment in a diversified equity portfolio that has the potential to help you reach your financial goals over the long term. Within equity, investors need to make sure their portfolio doesn't have bias towards a sector or style. Some portion of the equity portfolio (15%) can be in Value Funds which allows you to reduce downside risk with a portfolio that is at a discount to its intrinsic value based on the historical average. And another 15% can be allocated to alternate funds like ESG. ESG Funds focus on non-financial parameters like Environmental, Social & Governance of a stock.

12:20:80 Rule for Asset Allocation not only helps in diversifying but also helps to boost investor's financial health.

Investors shrug off volatility, sustain flows into equity MFs

Individual investors pumped money into equity schemes in February for the 12th straight month, undeterred by the stock market volatility due to uncertainties around monetary policy tightening by the US Federal Reserve and geopolitical tensions. Equity mutual funds logged in flows to the tune of ₹19,705 crore in February, higher than January's ₹14,888 crore, data from industry body AMFI showed. Collections through systematic investment plans (SIPs) fell to ₹11,438 crore, compared with ₹11,517 crore in the previous month. The mutual fund industry's Assets Under Management (AUM) declined to ₹38.56 lakh crore from the previous month's ₹38.89 lakh crore on account of the market decline and outflows from debt mutual funds to the tune of ₹8,274 crore.

"Investors are buying the dip and used the correction as entry point," said Raghav Iyengar, chief business officer, Axis Mutual Fund.



(Cont.)

All categories of equity funds got inflows, with the flexi-cap category getting the highest flows of ₹3,874 crore. With two months remaining in the current financial year, tax saving funds or ELSS (Equity Linked Savings Schemes) saw inflows of ₹1,077 crore. Low-cost passive funds saw inflows of ₹5,748 crore due to new fund offerings.

Wealth managers have been recommending flexi cap and large cap funds as these funds invest primarily in larger companies. Blue chips are considered more resilient than mid- and small-cap shares in uncertain times.

Many investors with a lower appetite for risk allocated money to hybrid funds. Dynamic asset allocation funds saw inflows of ₹ 2,118 crore while aggressive hybrid funds, which allocate 65-75% of their portfolio to equities, saw inflows of ₹ 910 crore.

Continued lower returns in the past one year saw investors move away from debt funds. The likelihood of a further rise in bond yields (or fall in bond prices) also led to outflows from some bond fund categories that invest in longer-term papers. Short duration funds witnessed the maximum outflow of ₹12,092 crore, followed by corporate bond funds of ₹10,219 crore and floater funds of ₹10,322.89 crore. Liquid and overnight funds witnessed inflows of ₹40,273 crore and ₹1,296 crore, respectively.

"A possible reason for the net outflows from most of the categories could also be attributed to investors preferring to redeem their debt investments in favour of investing in the equity markets, which after a strong rally, witnessed some correction since November 2021," said Kavitha Krishnan, senior analyst at Morningstar India.

Parag Parikh Flexi Cap Fund to reopen for lumpsum investments from March 15

Parag Parikh Flexi Cap Fund will reopen for transactions from next week, informed Rajeev Thakkar, CIO & Director of PPFAS Mutual Fund. PPFAS Mutual Fund stopped accepting lumpsum money after Sebi asked fund houses investing in overseas stocks to stop accepting money after the industry breached the overall limit of $7 billion set by RBI.

Parag Parikh Flexi Cap Fund invests around 30% in overseas stocks, according to Value Research.

“As of now, we have no visibility on if / when and by how much the limit for overseas investments will be revised. As I write today, there is a conflict going on between Russia and Ukraine, Crude Oil prices have risen and the Indian Rupee has fallen somewhat. If and when the limits are increased, and if it is of a relatively small amount, the same will get exhausted soon. In such a scenario, having funds readily available will be advantageous rather than opening the scheme after the limit increase only to see the industry wide cap get breached again,” said Thakkar. “While we wish for an early increase in the overseas investment limit, considering the current scenario, an early increase may not come by. We have been getting feedback from investors that they would like to benefit from lower stock prices and invest in Parag Parikh Flexi Cap Fund. Also, various investors have registered their SIPs through different platforms where the back-end for each differs. This has caused confusion among investors and partners regarding the status of their investments in in Parag Parikh Flexi Cap Fund,” added Thakkar.

Govt said to plan LIC's IPO by May after markets calm down

India is looking at a mid-May timeline for launching the mega initial public offering of its largest insurer with hopes that the market volatility triggered by Russia's invasion of Ukraine will subside, according to people familiar with the matter.

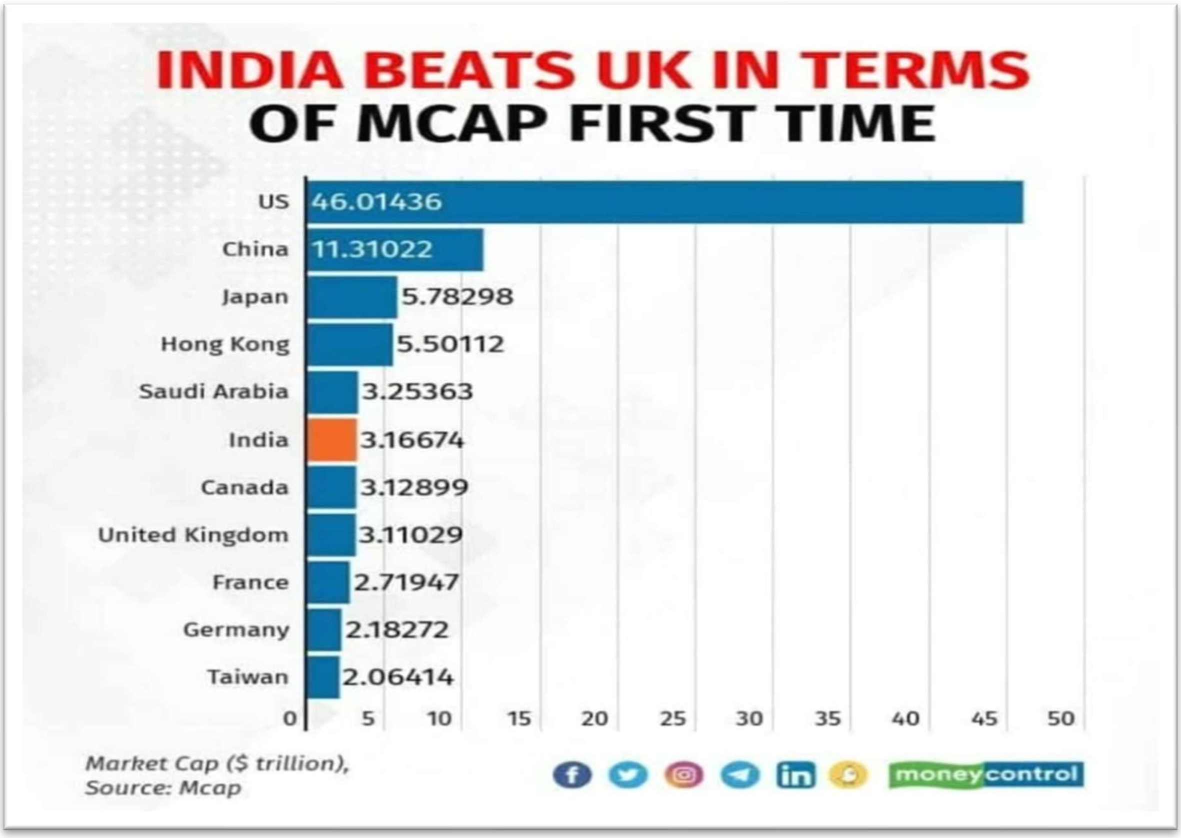
Life Insurance Corp's published embedded value will be valid for the IPO until May as per rules, said the people, who declined to be named as the information is not public yet. A delay beyond that would mean LIC would have to re-calculate the embedded value, a key valuation gauge for insurance firms, based on the latest financials, they said.

The IPO, which was set to launch before end of March, forms a key part of Prime Minister Narendra Modi government's plan to divest state assets to fund a yawning budget deficit. With market swings triggered by the war, what could be the country's biggest **IPO** was delayed into the next financial year, Bloomberg News reported earlier this month.

A market volatility index for India around 15 will be a comfortable level for the government to launch the IPO, one of the people said. India NSE Volatility Index was at about 26 in Mumbai on Monday, higher than an average of 17.9 in the past year. It touched the highest level this fiscal year at 31.98 on February 24.

A Finance Ministry spokesman couldn't be immediately reached for a comment.

The government had sought to raise as much as Rs 65,400 crore ($8.5 billion) from selling a 5% stake in the insurer. Plans for the **IPO** were first announced by Finance Minister **Nirmala Sitharaman** in February 2020, but was deferred due to the pandemic.



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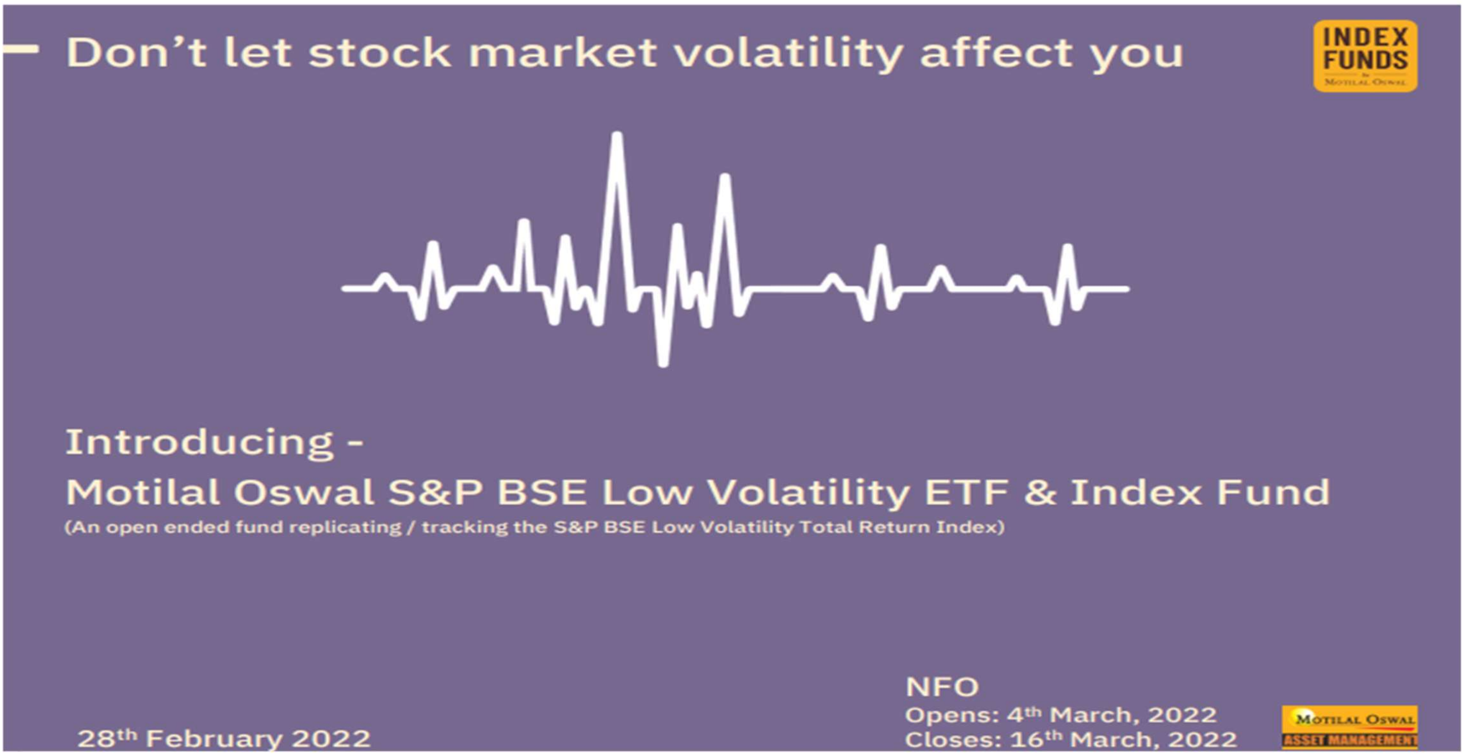
New Fund Offer(NFO)



Mutual Fund investments are subject to market risks, read all scheme related documents carefully.