Sakthi Financial Services

Weekly Update

31st May 2022 Vol: - 22.23.08

SENSEX	NIFTY	USD	GOLD	CRUDEOIL
55925.74	16661.40	79.14	51204.00	8897.00

Pullback likely to continue amid macro data, auto sales, monsoon updates: Experts

Indian markets ended higher for the second consecutive week ended May 27 amid volatility. In the last week, the BSE Sensex rose 558.27 points (1.02 percent) to close at 54,884.66, while the Nifty50 gained 86.35 points (0.53 percent) to end at 16,352.5 levels.

The coming week marks the beginning of the new month also and participants will be closely eyeing important high-frequency data like auto sales, manufacturing and services PMI data during the week. Before that, quarterly GDP data, which is scheduled on May 31, will be in focus. Apart from these important data, updates on monsoon progression will remain on their radar. In the last leg of earnings, companies like Aurobindo Pharma, Jindal Steel and Sun pharma will announce their numbers along with several others. The recent rebound in the US markets has eased some pressure however sustainability is critical for forming a base and attempting a reversal. And since we're closely aligned at present, it could help the Nifty to surpass the hurdle at 16,400 and march towards the 16,700-16,800 zone. In case of a failure, traders should brace themselves for a volatile week.

The manufacturing PMI figures for China and the consumer confidence index for the USA will impact global markets next week. In India, amid global recessionary worries, data on Indian GDP growth for the fourth quarter of FY22 is eagerly awaited. Due to commodity price increases, a fall in wheat yields, and pressure last quarter on contact-intensive services, GDP growth is largely predicted to be lower than in the previous quarter. Sentiments may worsen if growth falls short of predictions. Apart from the GDP print, the monthly sales of the auto companies will also be in the limelight. Given the series of data releases, the coming week will undoubtedly be eventful, and investors are recommended to exercise caution in their trading decisions.

The Nifty needs to move above 16400 if the rally has to continue. The sideways action in last two weeks has resulted in Nifty showing an ascending triangle. A break out from 16400 will mean a significant development for the market; opening a gateway to 16800-16900. We are possibly looking at a major low in Nifty.

Nifty has seen good recovery from lows of 15,800 levels. However, it needs to surpass previous hurdles at around 16,400 zones, above which we can see a fresh rally in markets, says Siddhartha Khemka, Head - Retail Research, Motilal Oswal Financial Services.
Investors will take cues monthly macro data that will be released next week globally as well as domestically.

Markets surge for third session on easing China Covid curbs and dovish US Fed

Indian markets rose for the third session tracking gains in Asian equities after China eased Covid curbs as Sensex rose 1.90 percent or 1041 points to 55925 while Nifty advanced 1.89 percent or 309 points to 16661.
Investors took inspiration from China easing Covid curbs and the US Fed's minutes from the early May meeting released on Wednesday which drove speculation over a potential pause in interest rate hikes later this year after further monetary action in June and July, analysts said.

Here are the factors behind the market rising:

China relaxes Covid curbs: Asian equities traded higher after China eased Covid restrictions in Shanghai and Beijing and offered a slew of economic support measures. Shanghai will loosen Covid test requirements for people who enter public places and Beijing will loosen mobility curbs in several districts from Sunday after authorities said its outbreak is under control. Nikkei rose two percent, Hang Seng gained 1.9 percent, CSI 300 0.5 percent, Taiwan and Kospi were up 1.7 and 1.4 percent respectively.
US Fed minutes: Minutes from the Federal Reserve's latest monetary policy meeting showed policymakers unanimously felt the US economy was very strong even as they grappled with inflation without triggering a recession. The minutes also showed most of the committee's members saw further rate hikes would "likely be appropriate" at upcoming June and July meetings.
Early arrival of monsoon: The monsoon arrived earlier than usual in India raising hopes that output of crops like rice and oilseeds will get a boost after a brutal heat wave hit winter-sown wheat and prompted the nation to restrict exports. The southwest monsoon has set in over Kerala three days ahead of usual, the India Meteorological Department said on Sunday. Timely and normal rains are set to boost production outlook for monsoon-sown crops such as rice, soya beans and pulses and help curb soaring inflation.
India GDP: Investors also await GDP data for the March quarter which is due for release on May 31. Analysts have a wide range of growth forecasts from 2.7 to 4.5 per cent for the quarter. State Bank of India expects growth at 2.7 per cent for the quarter, rating agency ICRA sees 3.5 per cent growth, and CRISIL 4.5 per cent.
US payroll data: Investors will be watching out for the latest non-farm payroll report that will be released on Friday. Employers are expected to have added 350,000 jobs in May, according to a consensus compiled by Refinitiv, which would be the weakest reading since January.

Arbitrage Funds

The type of funds that take opposite positions in different markets such that a return is earned, simultaneously/meanwhile neutralizing the risk. They are classified as equity funds that take contrary positions between the equity and the futures and options market.

Flexi-cap funds see Rs 35,877 cr inflow in FY22; best among equity categories

The newly-created flexi-cap category -- which requires mutual funds to invest at least 65 per cent of the corpus in equity without any restrictions on investing in large, mid or small-cap stock -- registered a net inflow of Rs 35,877 crore in 2021-22.

This was the highest net inflow among the equity categories, data from the Association of Mutual Funds in India (AMFI) showed.

Since the creation of the flexi-cap category by capital markets regulator Sebi in November 2020, many Asset management companies (AMCs) that had realigned their existing funds into the flexi-cap category have launched multi-cap funds, while those AMCs that had retained their funds in the multi-cap category have started flexi-cap funds, according to Morningstar India.

Of the Rs 35,877 crore, flexi-cap funds saw a net inflow of Rs 2,478 crore in the three months ended June 2021, Rs 18,258 crore for the quarter ended September 2021, Rs 6,191 crore for the quarter ended December 2021 and Rs 8,950 crore for three months ended March 2022.

While large-cap funds experienced a net inflow of Rs 13,569 crore for the entire 2021-22, inflow for mid-cap funds stood at Rs 16,308 crore and the same for small-cap funds was at Rs 10,145 crore.

Apart from these, the multi-cap fund category witnessed a net inflow of Rs 28,095 crore and sectoral segment saw a net inflow of Rs 27,182 crore during the period under review.

On the AUM front, the flexi-cap category has amassed assets of Rs 2,25,430 crore at the end of March 2022 through new realignment of funds and new fund launches.

"The flexi-cap category now has 17 per cent of the overall assets of open-end equity funds," Morningstar India noted.

In the last quarter, it had managed to surpass the assets in the large-cap category and take the first spot in terms of highest assets under management (AUM), but in the quarter ended March 2022, its rank fell back to second.

AMFI suspends 400 ARNs for using names like advisor, wealth managers

AMFI has suspended ARNs of 392 MFDs for not removing terms like adviser, financial adviser, investment adviser and so on from the name of their business.

In a circular issued in 2020, SEBI had directed MFDs not to name their business in a such a manner which can give the wrong impression to clients. Post the SEBI order, AMFI came out with a list of terms which can and cannot be used by MFDs.

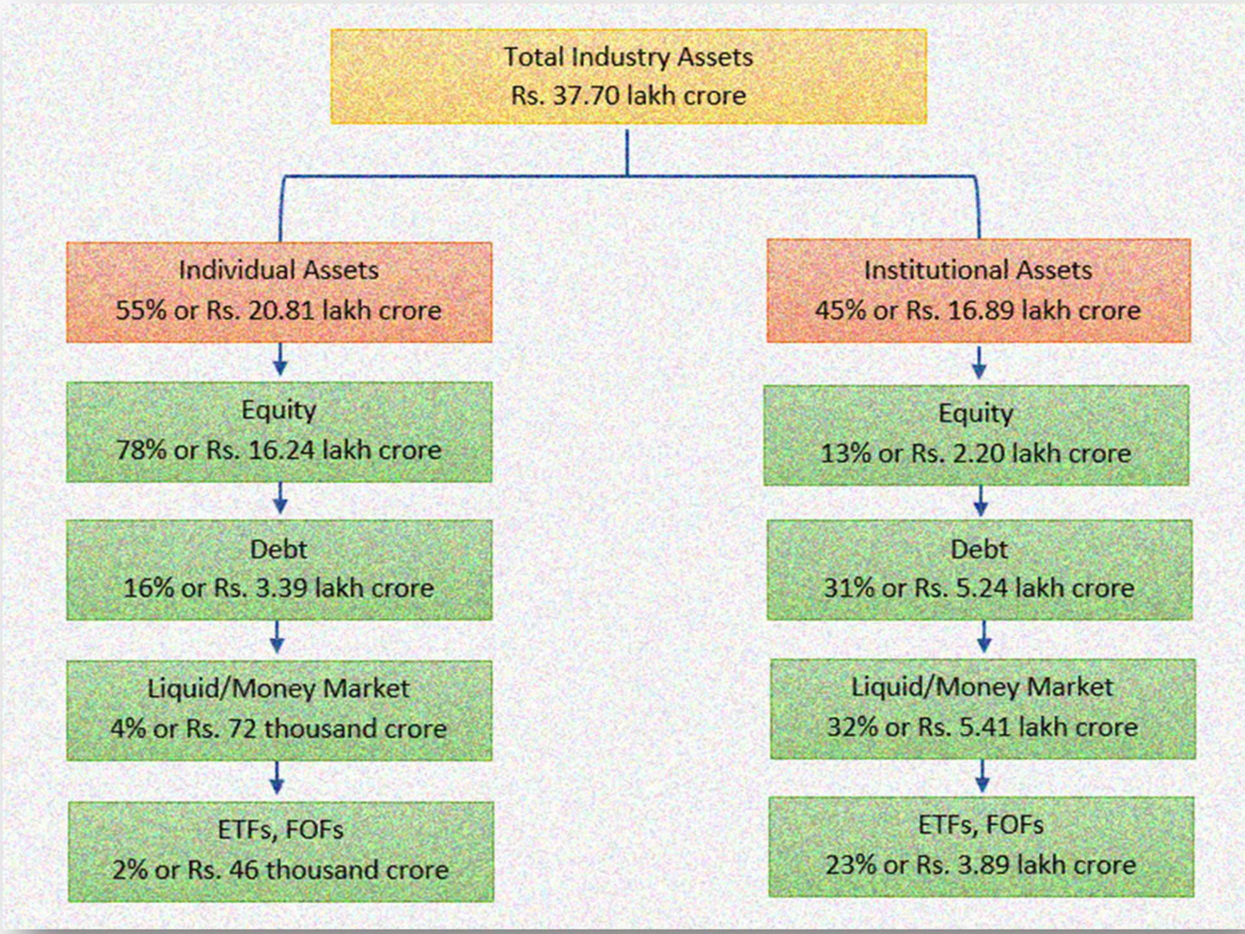
The terms which cannot be used were advisors, advisory, consultant, consulting, consultancy, financial solutions, finplan, finserv, fin solutions, investment managers, planners, investments, wealth creator, wealth express, etc.

Post the release of AMFI's guidelines, MFDs were asked to make necessary changes within a stipulated period of time. The ARNs which failed to comply were suspended by AMFI.

"It has been therefore decided that the AMCs shall stop dealing with / accepting any business from such MFDs w.e.f. July 1, 2021 treating their ARN as INVALID till they complete the name change as required," the MF body said in a release.

Individual investors pick equity-oriented schemes, prefer MFDs

Individual investors accounted for 55% of the total MF industry AUM. Of the total AUM of Rs.38 lakh crore as on March 2022, individual investors which include both retail and HNIs held Rs.21 lakh crore, shows the latest AMFI data. Individual investors largely preferred equity-oriented schemes (equity and balanced funds) and held 78% of their assets in these schemes. On the other hand, institutional investors parked 32% in liquid/money market schemes and 31% in debt funds.



T30 Vs B30

Of the total Rs.21 lakh crore of individual assets in the MF industry, 74% or Rs.15.54 lakh crore came from T30 cities. In terms of asset composition, 43% of T30 assets were parked in equity-oriented schemes and the balance 57% in non-equity-oriented schemes.

Regular Vs Direct

MFDs continued to be investors' favourite as 81% of retail assets and 76% of HNIs assets were in regular plans. Further, individual investors accounted for 81% of the total equity assets in the MF industry. Likewise, 70% of the total debt assets held by individuals through MFDs.

SEBI searches 16 'suspected entities' in Axis MF front-running case

The Securities and Exchange Board of India (Sebi) has conducted searches at multiple premises associated with 16 “suspected entities”, in connection with an ongoing probe in the front-running case at Axis Mutual Fund.

The search operations were carried out this week, covering over 30 locations in multiple cities, including those in Maharashtra and Gujarat, said a regulatory official. Those searched included executives at the fund house, stockbrokers, authorised persons of stockbrokers, and traders.

Front-running, which involves dealing in stocks based on insider knowledge of a future transaction, is considered one of the most serious offences by Sebi.

The market regulator widens the scope of the investigation following information it received on alleged irregularities at the fund house from its surveillance systems, along with inputs from the National Stock Exchange (NSE) over the past few weeks.

Sebi has initiated a full-fledged investigation into the suspected front-running of trades by certain entities, an official said.

The regulator's investigation focuses on the modus operandi, involving fund managers and brokers, besides the quantum of the "ill-gotten" gains.

During the search operations, the regulator has seized various sets of digital and physical evidence, such as records and documents extracted from mobile phones, laptops, desktops, tablets, and hard drive disks found in the custody of these entities, it has been learnt.

The matter came under the regulatory lens after Axis Mutual Fund suspended its two fund managers, Deepak Agrawal and Viresh Joshi, on May 19, amid allegations of irregularities in managing their funds. Later both were sacked for alleged misconduct.

In response to this, Joshi has sent a legal notice to the fund house over wrongful termination. Meanwhile, Axis MF learnt to have appointed a second forensic auditor to conduct the audit.

According to sources, the two fund managers allegedly made illicit gains worth Rs 150 crore to Rs 200 crore through front-running.

Joshi has been associated with Axis AMC since 2009 and was its chief trader and fund manager. His core responsibilities included managing arbitrage funds & derivatives trading strategies. He used to oversee Axis Arbitrage Fund, Axis Technology ETF, and Axis Consumption ETF.

Agarwal joined Axis AMC in 2015 as a research analyst, equity. He was promoted to assistant fund manager (equity) in 2020. Since 2021, he has been managing the Axis Quant Fund and the Axis Consumption ETF.

Axis Mutual Fund hires Deloitte to investigate front-running case

Axis Mutual Fund has hired Deloitte as a second investigator in the front-running case after the fund widened the scope of the probe, two people familiar with the development said. Alvarez and Marsal (A&M) is already investigating the matter for Axis Mutual Fund.

The fund house has widened the scope of the investigation to include the investment patterns or fund deployment and if more people were involved in the front-running.

‘In high inflation and low-interest regime, keeping money idle is the riskiest bet’

India is gradually coming out of the pandemic. However, the scars of the pandemic are expected to stay with us for quite some time. Retail investors need to relook at the investment strategy to fight the after-effect of the pandemic.

What has been the after-effect of the pandemic?

Today, if there is one common variable that central banks across the world are focusing upon, is the rising Inflation. Pandemic resulted in nationwide lockdown, economic activity got impacted, growth slowed down, demand halted, movement of goods & services got restricted. Thus, RBI had to reduce the interest rates in order to boost consumption. Bringing the interest rates down is the preferred way for central banks to boost economic growth. As rates fall, access to loans gets easier. Businesses and individuals borrow at cheaper rates to deploy the funds in their business. That’s how the ball starts rolling.

Fast-forwarding to today, India is gradually crawling out of the pandemic and interest rates continue to remain low. The resultant impact of this has been that money in circulation is at its historic peak. As you read, system liquidity crossed Rs 8.5 lakh crore (Source: RBI). Cheaper availability of funds resulted in more money in the hands of public. This has resulted in higher inflation at above 7%, (a level above the RBI comfort zone) (Source: Press Information Bureau).

What is the impact of higher inflation on retail investors?

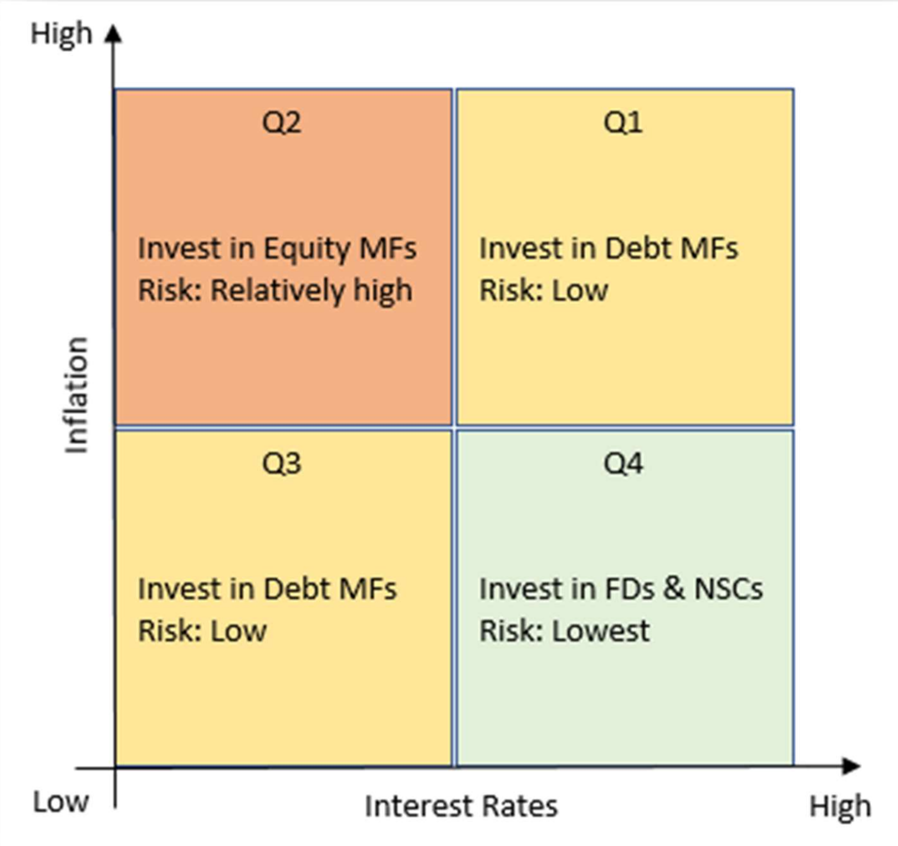
High inflation is expected to remain here and may continue to make RBI uncomfortable for months to come. More so retail investors have been investing in fixed deposits and various government and national saving schemes so far. On one hand, rising inflation percolating into higher prices of food, beverages and essentials are increasing the household expenses. On the other hand, fixed deposits and popular government schemes are fetching interest rates (in the range of 5% to 6%) lesser than current inflation (of above 7%). Thus, rising inflation is causing a double whammy impact on common people.

Why is there a need to recalibrate on investment strategy in rising inflation regime?

Gone are the hay days when India’s interest rates were hovering in double digits. Those were the days when it made sense to invest in fixed deposits and government saving schemes. Inflation was high then too, but the economic growth was also exponential. A lot has changed in the last two decades. India has emerged as one of the largest economic powers. Back then India was growing on a smaller base. Today, India is already the fastest growing economy in the world with a GDP of over $2.5 trillion (Source: International Monetary Fund). One cannot expect India to grow consistently in double-digit on a large base.

Below matrices may give you investment options to adapt with changing economic dynamics.

(Cont.)



We are currently in quadrant 2 where inflation is already high and interest rates are yet to keep pace with it. In such a scenario, money loses its value faster. In high inflation and low-interest regime keeping money idle is the riskiest bet. As money starts losing its value, investors need to find avenues to grow their wealth faster than the deterioration (rising inflation may cause). Thus, investing in equities through mutual funds could be a wiser option. Equities have historically proven to consistently beat inflation. However, we advise retail investors not to directly invest in equities given the risks involved and the knowledge required. One may consult his/her financial advisor and invest through mutual funds and aim to beat inflation and generate long term wealth.

To conclude, retail investors need to be cognizant of rising inflation and its resultant impact on their income and wealth. Investors should be equipped with an investment strategy to combat the ghost of the past i.e., the rising inflation caused by the pandemic. An option could be to invest in an equity mutual fund which has a track record of generating returns higher than inflation. One may invest in large cap and large & midcap categories. For conservative investors, a balanced advantage fund could be a category of investment.

Ultimately retail investors' sole objective should be to invest money in assets that increase the value of their money faster than the devaluation caused by the rising inflation. Accordingly, investors shall be able to manage equity investment risks by investing in SIP mode for a minimum of 3 to 5 years.

MINT 20 MUTUAL FUND SCHEMES TO INVEST IN

mint 20 BEST FUNDS

We have hand-picked 20 mutual funds for your portfolio that have jumped through hoops of good returns, low risk, good portfolio hygiene and our own qualitative research. We have restricted the choice universe to 10 categories out of the total 37 and given you at least two options to pick from each.

EQUITY	3-years return (%)	5-years return (%)	Corpus (₹ cr)
LARGE-CAP			
UTI Nifty Index Fund - Growth	12.50	12.57	6,852
HDFC Index Fund - Nifty 50 Plan	12.24	12.36	5,721
Category average	12.04	12.00	
EQUITY FLEXICAP			
Canara Robeco Flexi Cap	14.95	13.49	7,285
Parag Parikh Flexi Cap	22.01	17.75	21,907
Category average	13.55	11.24	
EQUITY SMALL AND MIDCAP			
Axis Midcap	19.44	17.12	17,679
SBI Small Cap	25.60	18.89	12,098
Category average Midcap	18.62	12.20	
Category average Smallcap	22.32	14.02	
EQUITY (TAXSAVER)			
Canara Robeco Equity Tax Saver	16.75	14.43	3,629
Mirae Asset Tax Saver	17.74	15.42	11,963
Category average	13.07	10.72	
HYBRID			
BALANCED ADVANTAGE			
Edelweiss Balanced Advantage	13.03	10.67	8,008
ICICI Prudential Balanced Advantage	11.09	9.80	39,761
Category average	9.20	8.32	
ARBITRAGE			
Kotak Equity Arbitrage	4.48	5.19	24,648
Tata Arbitrage	4.55	NA	10,059
Category average	4.25	4.95	

(Equity and Hybrid Schemes only)

(Source:- Economictimes, Moneycontrol, Livemint, Cafemutual, IBJArates, AMFI Etc.)