EMPOWER

Monthly Factsheet | September 2022

(Data as on 31st August 2022)

MUTUAL FUNDS Sahi Hai

INVEST IN A PORTFOLIO THAT IS READY FOR EVERY MARKET MOOD

PRO INVESTING

For more details, refer to page no.31.

Aditya Birla Sun Life Mutual Fund

ADITYA BIRLA CAPITAL

INDEX

Micro SIP available @ ₹ 100 per month

Foreword

September 2022

Mr. Sidharth Damani
Head - Business Enablement
& Marketing

Dear Reader,

As I write this article, I see joyous celebrations all-around for this year's Ganesh Utsav with massive fanfare and enthusiasm. Reverberations of hope seem to have filled the skies and enveloped the atmosphere with optimism. It isn't surprising to see that the fervour is this elevated now, considering that in the past two years, we've all been forced into having muted expressions for every occasion. The air that was polluted by fear and the spirit that was dampened by pessimism, are finally showing signs of emerging beyond the shadows of doubt.

This, in some ways, is what being liberated must feel like. What an interesting coincidence that this also comes at a time when we have just celebrated 'Azaadi ka Amrit Mahotsav' - 75 years of being an independent nation. Every Indian, no matter who they were, where they came from, irrespective of their social status, notwithstanding their individual affiliations, became One and proudly adorned the Tricolour through the 'Har Ghar Tiranga' campaign. And to embellish this celebratory mood, came the additional good news that we have just surpassed the United Kingdom to become the 5th largest economy in the world! It is indeed just the beginning of a memorable festive season in more ways than one!

Having said that, one must also remember that we have a long way to go before we also grow comparably in terms of per capital GDP or wealth as we march forward with more than a billion dreams for the next 25 years towards the centenary celebrations of our Independence. In the nearly 3 decades of its existence, the Indian Mutual Fund industry has earned the trust of millions of investors and helped create wealth for them. However, if we're to realize this dream of improving the per capita wealth of all Indians, we must encourage each and every one to participate in this investment journey and Mutual Funds can play an important role in fulfilling it.

The year 2022 has presented a situation contrasting the preceding couple of years. While we saw loose monetary policies like rapid reduction in interest rates by central banks world over to tackle the pandemic, resulting in easy money percolating economies and chasing risky assets; since the dawn of this year, we've been witnessing a reversal of those rate cuts globally to curb runaway inflation. Though we too are experiencing inflation in prices, our RBI has been proactive and is once again playing a leading role in ensuring financial stability for our country. This augurs well for our Equity investors as reflected in the large quantum of returning foreign investors into our stock markets who are reposing their faith in our long-term story.

We understand that our investors look for convenience when investing in our schemes and with the intent of making their journey simplified, we've introduced a new online transaction solution called PRO INVESTING. Through this, in a single transaction, one can invest in 3 of our flagship funds viz. *Aditya Birla Sun Life Frontline Equity Fund, *Aditya Birla Sun Life Flexi Cap Fund and *Aditya Birla Sun Life Balanced Advantage Fund. So, not only is the transaction experience convenient for lumpsum investments or SIPs, the combination of the chosen 3 funds too makes it an investor-friendly initiative. While Aditya Birla Sun Life Flexi Cap Fund just turned 24 years young last month, Aditya Birla Sun Life Frontline Equity Fund became 2 decades wise and Aditya Birla Sun Life Balanced Advantage Fund almost there. All the 3 funds in this combination have overcome multiple market cycles and delivered long term performance for their investors which can help investors create wealth in the long term. To begin PRO INVESTING - Click Here

When it comes to adding value to our investors, we are always at the forefront with innovative solutions that help them get the best investing experience. With that spirit, we have introduced yet another facility from our fund house – Turbo Systematic Transfer Plan ('Turbo STP'). As equity markets tend to be volatile by nature, it helps to have a readymade solution which makes it possible to apply the time-tested strategy of 'Buy More when markets are cheap and buy lesser when markets are expensive'. With RBI increasing interest rates, Turbo STP could be the right solution for those looking to make the best of both worlds - earn more from their lumpsum investments in Debt Funds and gain from opportunistic investments in Equity Funds.

Let's make the most of this festive season by making smarter investment choices and planning for a better future.

For More details refer to page no - 38, 40 & 42

Equity Outlook

September 2022

Mr. Vishal Gajwani
Fund Manager - Equity

Having tracked the equity markets and corporate performance over the last 16 years, I always come across this question "Market kya lagta hai!" to which my counter question is "over what time frame?". As the legendary investor Benjamin Graham said, 'In the short run, the market is a voting machine, but in the long run, it is a weighing machine.' Only a fraction of a company's shares trade each day, but the value of the whole company gets decided by that, however, in the long run, it's the underlying fundamentals of the business that decide the worth of the company. Similarly, the overall market levels in the short term get influenced by factors like: 1. the near-term earnings growth outlook, 2. inflation/interest rates outlook, 3. liquidity and fund flows.

Let's look at each of these in detail:

First Quarter FY23 performance was largely in-line both in terms of growth for the NIFTY50 index (19% YoY) as well as expectations (beats and misses equally poised). However, profit growth was impacted by input cost pressures across the board driven by higher commodity prices and treasury losses for banks. Overall demand environment was strong with sales growth for the NIFTY50 index being strong at 37% yoy driven not only by a low base but better than expected volume and demand trends. Credit cycle too has been expanding (mid-teens growth) with NPAs under control and corporate balance sheets largely deleveraged.

Manufacturing sector's share in the Indian economy reached pre-covid level of around 18% of GVA (Gross value added) in FY22 and is poised to grow in the medium term helped by real-estate cycle recovery, government policy initiatives such as the PLI schemes, continued FDI inflows and China+1 related export opportunities amongst others. Also, the Russia-Ukraine conflict has increased the urgency to become self-sufficient in terms of energy and defence requirements, which are large opportunities for manufacturing in India.

Recent inflation print for India is showing signs of peaking with CPI easing to 6.71% in July 22 and also gives hope that bulk of the rate hikes are behind. Moderation in bond yields from 7.6% to 7.2% also provides some cushion to equity valuations. However, the recent hawkish commentary from the US Fed chair at the Jackson Hole event underscores that the inflation fight may take longer than what is priced in.

FPI flows have turned positive from July 22 after a period of 10 months of continuous selling. The month of August 22 has seen more than $6bn of FPI inflows, which is complementing the strong domestic flows led by the SIP book.

The above trinity of decent quarterly earnings growth, moderation in inflation expectations and positive fund flows explains the almost 15% appreciation in Nifty Index over the last 2 months. However, this has led to Nifty valuations reaching 19.8x for FY23 which is 10% higher than the last 10 years average. Also, global macros still remain volatile and thus we think it is important to keep risk equation in mind while evaluating stock ideas especially in sectors where valuations don't provide margin of safety.

Having looked at the drivers of near term market outlook, lets look at the all important question of "what drives the markets in the long term?". John C. Bogle has summarized it well with the following quote "The market is often stupid, but you can't focus on that. Focus on the underlying value of dividends and earnings"

Over the last two decades, Nifty Index has appreciated by 18 times with 15.6% annualized returns, closely tracking the earnings growth during the same period. This corroborates the fact that over the long term, share prices are guided by earnings. Thus, to benefit from the magic of compounding, time in the market is more important than timing the market.

Source- Bloomberg, Internal Research and ICICI securities.

Global Macro

Globally central banks are facing a conundrum of slowing growth momentum v/s persistent inflation; they are currently front-loading rate hikes to prevent the elevated levels of inflation from becoming entrenched. While inflation prints continue to come in at near high levels, the momentum has come off given that commodity/energy prices have corrected sharply coupled with declining supply chain constraints which can have a rub-off effect on inflation in the coming months. On the growth front, there is increasing evidence of a slowing global growth momentum where consensus estimates of 2022 GDP Growth have been consistently downgraded since the start of the year, and PMIs were sub-50 in most DMs. Forward-looking components such as new orders and new export orders fell further in August. Recent trade data from China points toward a broad-based weakening in export demand emanating from developed markets, particularly in electronics, and the imports data shows weak crude demand on the back of continued covid-related lockdowns, which have a more significant impact on transport and travel. Although US growth is slowing, the labor market has remained resilient, and the upside surprise on recent ISM services, which came in at 56.9 v/s 55.1 (exp), also showed that the economy's largest sector remains relatively robust and in an expansionary mode. We expect the Fed to continue front-loading policy action for a couple of policies and then steer their attention to growth if required as inflation remains at elevated levels. They would want to be able to clearly see the momentum slowing down and the headline inflation print inching towards 2% in the foreseeable future. The ECB also hiked by 75 bps in September while remaining hawkish and pointing towards raising interest rates further to dampen demand.

India Macro

Most domestic indicators suggest that our economic recovery is ongoing - PMIs continue to expand, GST collections continue to be robust, with capacity utilization and industrial production levels continue to inch upwards and are now above pre-pandemic levels. Credit growth is at a near nine-year high, clocking 15.5% as per the latest data published by RBI, strength can also be seen strong across various sub-segments (Industrial credit growth is at ~7-year highs, and personal loans also saw a meaningful uptick), and incremental credit-deposit ratio has inched above 1.1 pushing up bulk deposit rates and keeping pressure on short-end of the curve as banks / PFIs have become more frequent issuers in the CD market. However, some high-frequency indicators, such as domestic airline passenger traffic or visitor arrivals to the country, are still not fully recovered.

India's current account deficit and trade balance have sharply deteriorated and been impacted primarily by elevated commodity prices. However, current FX reserves held by RBI are being used to remove excess volatilities in INR, and the current import cover stands at ~nine months, even at the current elevated price levels. Indian economy is well placed as various external indicators are favorable when we compare them versus 2013 levels when the taper tantrum impacted a sharp depreciation of the INR, however, FX reserves have been depleting at a fast pace off late because of RBIs continued intervention in the FX market. Continued selling of dollars due to BoP deficit and other liquidity sapping measures continue to drain the surplus liquidity out of the system much faster than the expected multi-year normalization as indicated by RBI.

Inflation print for August came in at 7% v/s market expectation of 6.90% and 6.71% print of the earlier month. The increase and slight upside surprise is primarily because of higher cereal prices (rice, and wheat prices showed sharpest MoM jump since 2014). Even after factoring in an elevated September CPI print as reflected by high-frequency data, we should be below RBIs forecast of 7.1% for Q2 FY 23.

Outlook

India rates have decoupled over the last month from global yields after the news of India's possible inclusion in the JP Morgan EM bond indices with a 10% weightage which can lead to a potential USD 30 bn demand for Indian Government Bonds. Our sensitivity to crude oil price direction and US terminal rates remains high. Crude prices have retraced from the highs and are now hovering around USD 90 – 95 per barrel (brent). Heading into this winter, given the energy situation in Europe and OPEC's willingness to cut supply in response to a global growth slowdown/return of Iranian oil, crude oil prices are unlikely to correct very meaningfully from here, and the above conditions open a good possibility for them to inch a bit higher from here. The longer end of the curve is already factoring in our addition to the JP Morgan Global EM bond index in September, however, flows on account of this will only be visible in early 2023.

Considering the above, our ultra–short term, *Aditya Birla Sun Life Low Duration Fund, *Aditya Birla Sun Life Floating Rate Fund, and *Aditya Birla Sun Life Short Term Fund tend to remain the best risk-adjusted places for fixed income investors over other fixed income assets. Yield curves remain steep around the 4-year point coupled with attractive absolute levels and offer an opportunity for investors with an investment horizon of 3 years+, albeit with some volatility. Investors can participate in this through any of our passive strategies in our Debt Index funds or Aditya Birla Sun Life Government Securities Fund matching their investment horizons.

Source: ABSLAMC Research, CEIC, RBI and Bloomberg

For More details refer to page no - 96, 98 & 101