Perspective

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Dear Investors,

The world economy was on the path to recovery with normalcy returning to many parts from the impact of the Covid 19 pandemic. Economic participants such as policymakers, corporates, businesses, and citizens had factored in the new normal and were moving forward. This momentum was disrupted by the unexpected geopolitical tensions between Russia and Ukraine, which has resulted in the uncertainty of markets and global economic recovery. These tensions have led to disruption in global supply chains which has led to supply constraints and therefore a rise in prices mainly in commodities. While we have a rise in prices on one side, the need to support economic growth on the other side makes it a tough job for the regulator. With the overall demand being muted, companies will be forced to absorb the rising costs which may impact their profitability as we move forward.

The Indian economy continues to remain resilient in comparison to other emerging economies including China. India's imports mainly consist of energy, which will have some impact on the current account which in turn will have varying impacts on the profitability of various sectors. The recent market volatility is in fact the reflection of these dynamics. The market has punished those whose valuation was not supported by earnings. All new-age businesses, which hit the IPO markets in the last year have also faced some selling pressure from all investors including FIIs. As a matter of fact, In the last 12 months, FIIs have been the net sellers in the Indian market and will continue to remain net sellers.

Domestic investors continue to hold faith in the Indian market through mutual funds as well as direct equity. This is a great comforting factor toward market stability. While the ongoing geopolitical situation continues to cause uncertainty, it cannot sustain for too long. Any resolution that is arrived at will sharply change the economic outlook and result in the normalizing of commodity prices and growth expectations. Investors have to keep long-term investing as a guiding principle while building their equity portfolio. We strongly advocate having a good mix of large-cap funds, flexi-cap funds and balanced advantage funds in the portfolio.

The fixed income market will be driven by monetary policy action this year. On the back of the recent hike in US Federal rates, one must be prepared for a series of rate hikes. However, I believe this will be done in a calibrated manner and therefore have the least possible impact on the market and its growth. On the contrary, under the assumption of consequent rate hikes, we might see a significant pick up in credit demand, which will result in boosting the economic revival. In addition, higher tax collection of both direct taxes and GST on the back of better compliance should help the fiscal as we move forward. For an investor in this context, fixed income offerings that target returns combined with an asset allocation fund could be an ideal choice to look at from the investor's point of view.

I wish you all a Happy Gudi Padwa, Baisakhi and Ugadi and a prosperous new year.

Regards,
A. Balasubramanian