

Relationship between Bond yields and Equity markets

Inflation is on rise across the world and as a result interest rates are also expected to go up and there are different narratives going around on how equity markets would behave if yields move up from here and if we look to analyse relationship between bond yields and equities, it shows that historically, while equities have experienced volatility when bond yields have risen significantly, rising yields have also been accompanied by rising equity markets. This is essentially because if better growth is driving inflation upwards and if that results in a rise in yields, then it reflects optimism on the economy and equities are likely to do well under such a scenario. However, since the launch of monetary stimulus last year globally by central banks and the crash in bond yields and deposit rates, the narrative that was used to justify a bull case for equities was that there is no alternative to equities. Hence, when bond yields actually start moving up as they have since early part of this year, an alternative for equities that is fixed income or debt is actually emerging. So how should one look at it? So theoretically, increase in bond yields is negative for equities. This is for four reasons- One, increase in yields will make borrowing costs more expensive and will negatively impact the profits of corporates and the savings of individuals who have taken debt. Second is increase in bond yields is on expectations of inflation and inflation erodes the value of savings. So lower value of savings, implies lower purchasing power, which will affect demand for companies. Third is, increase in bond yields makes them relatively more attractive as an investment option; and fourth, higher yields reduce the value of the net present value of future expected earnings of companies. The NPV is used to determine the fundamental value of a stock. The discounting rate increases when bond yields increase, and this lowers the NPV and the fundamental value of the stock. So, what does reality and data

indicate to us? And how should we look at rising yields when approaching markets? so, it depends on the period used for the comparison. For example, if you restrict the analysis to 2004-2007, the correlation between the 10-year GSec yield and Nifty 50 was strong. However, if you extend the horizon and compare for the 20-year period from beginning of 2001 till now, the correlation is negative. And we have done this analysis using various periods and there is no co-relation. What this implies is that the data is not conclusive and **claims that bond yields and equities are positively correlated cannot be used as basis for investment decisions.** Hence, the basic thing that is important in markets more than bond yields and more than anything else is to invest in stocks that have path for better profitability when interest rates go up. For example, a company having a stronger balance sheet can gain market share versus debt-laden competitors; market leaders with good pricing power can gain even when inflation is on the rise. Another important parameter is starting point of valuations, if one starts when valuations are expensive, returns would come out mediocre, while if one begins when there is too much pessimism or negativity, returns would come out extraordinary. For instance, if one were investing in fall of March-April of last year or between crash of 2008; when equity markets were extremely cheap, returns would have been extraordinary.

Market Outlook:

On economic recovery, we believe that economic recovery although it is delayed a bit, it continues to remain on track as the domestically, both the Govt. and RBI measures are to spur growth through structural reforms and globally, economies continue to support Growth with various fiscal and monetary stimulus measures. With developed economies reporting strong set of activity numbers, demand recovery is expected which may benefit Indian exports. The current macro-economic scenario is much more conducive for a business cycle recovery as we are at nascent stage of economic cycle and sentiments too are not euphoric. We continue to remain positive on sectors which are closely linked to the economic recovery like corporate banks, capital goods, power, infrastructure, manufacturing etc. We continue to remain positive from long term perspective and we suggest investors to keep surplus ready for investments and use the same whenever there is correction!

Source of information:

- Bloomberg | Media Reports

- Broker Research Reports | Government Websites | Company Press Release

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WEALTH
MANAGEMENT

Factsheet

July 2021

ALPHA GROWTH STRATEGY

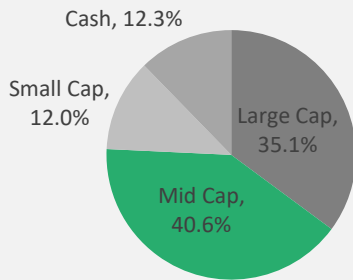
July 2021 Factsheet



WEALTH
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A multi-cap aggressive investment option, which focuses more on the future growth potential of companies rather than only low valuation of stocks. The strategy is well balanced with LargeCap, MidCap & SmallCap allocation.

PORTFOLIO CLASSIFICATION



Large Cap: Top 100 companies by market cap (sorted in descending order)

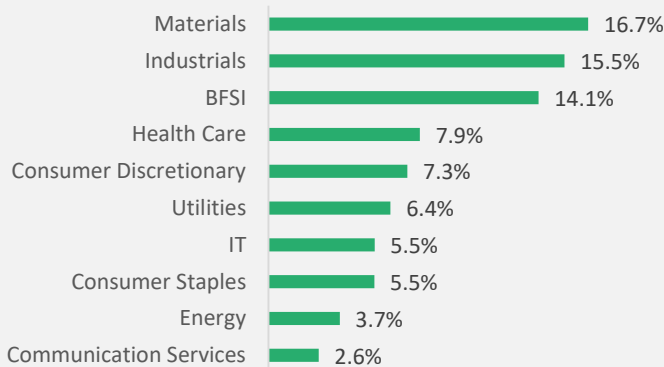
Mid Cap: Companies with market cap beyond top 100 till 250th company

Small Cap: Companies with market cap beyond top 250 companies

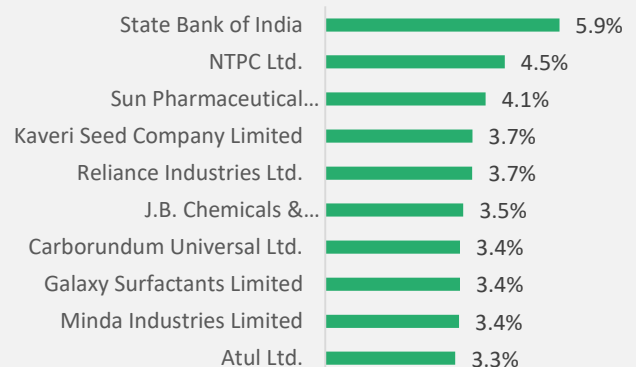
PORTFOLIO METRICS

Parameters	Strategy	Benchmark
5Y Average ROE	14.0%	10.7%
TTM P/E	26.0x	31.3x
1Y Forward P/E	21.1x	26.0x
TTM P/BV	4.2x	3.3x
Dividend Yield	0.9%	1.1%
Beta	0.8	1.0

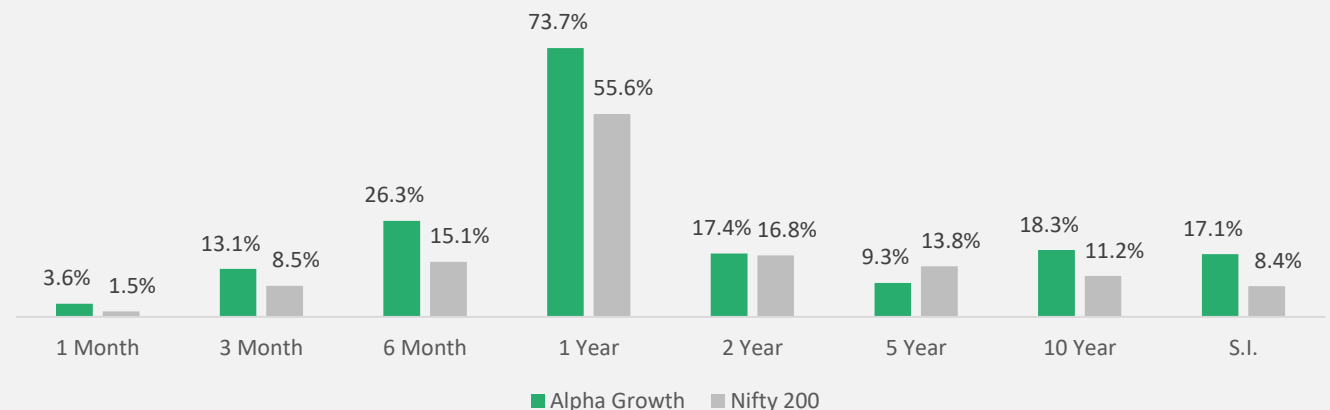
TOP SECTOR CONCENTRATION[^] (85%)



TOP 10 STOCKS EXPOSURES[^] (39%)



PORTFOLIO PERFORMANCE



Nifty 200 is the benchmark .

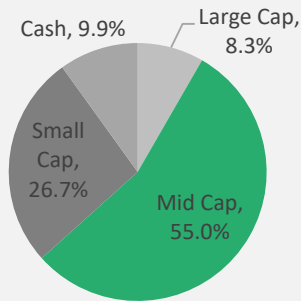
(Performance is computed using the TWRR method. Performance is net of transaction costs and post management fees. Past performance may or may not be sustained in future. Returns of individual clients may vary depending on time of entry.)

Performance are not validated or verified by SEBI. The equity-oriented portfolios use S&P Nifty Index as the benchmark.

Returns on equity-oriented portfolios are calculated on time weighted average rate of return basis, considering all inflows and outflows into the consolidated portfolios during the period in terms of Regulation 14 of the SEBI (Portfolio Managers) Regulations, 1993.

Strategy focuses on providing long term capital appreciation by investing predominantly in Small & Micro Cap companies. The bottom up approach employed in the strategy endeavours to select and invest in good quality, high growth companies at a reasonable price.

PORTFOLIO CLASSIFICATION



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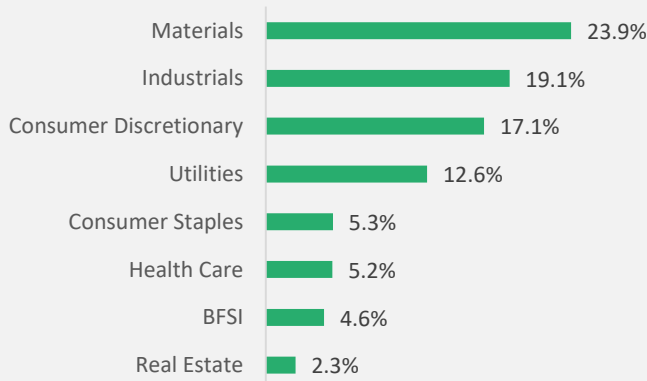
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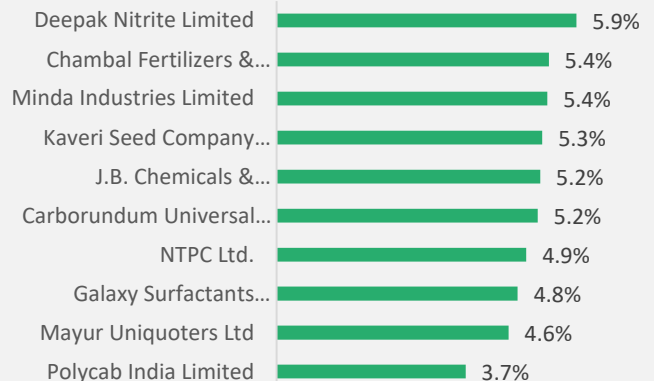
PORTFOLIO METRICS

Parameters	Strategy	Benchmark
5Y Average ROE	16.3%	-0.4%
TTM P/E	24.0x	41.8x
1Y Forward P/E	17.5x	23.7x
TTM P/BV	4.2x	3.2x
Dividend Yield	1.0%	1.0%
Beta	0.8	1.0

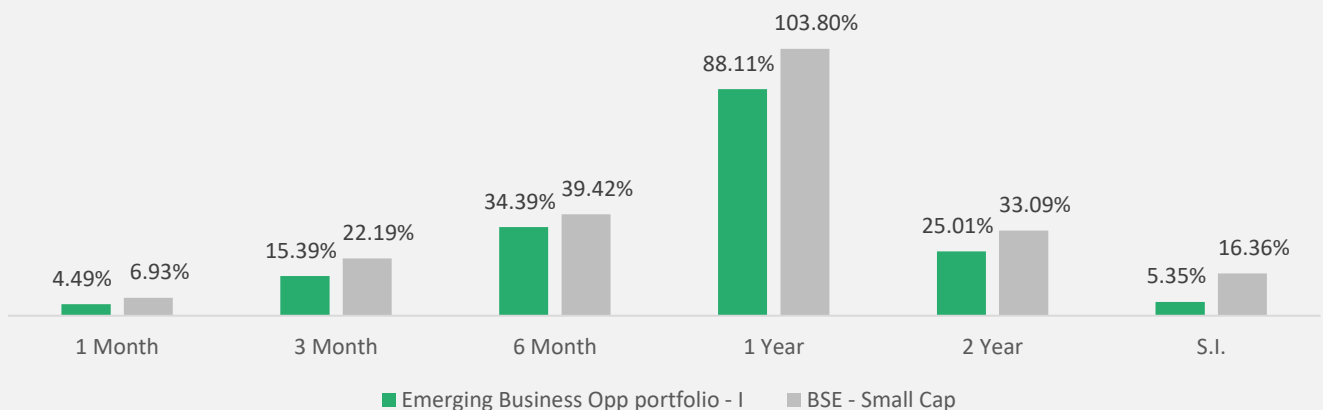
TOP SECTOR CONCENTRATION^ (90%)



TOP 10 STOCKS EXPOSURES^ (50%)



PORTFOLIO PERFORMANCE



BSE SmallCap is the benchmark .

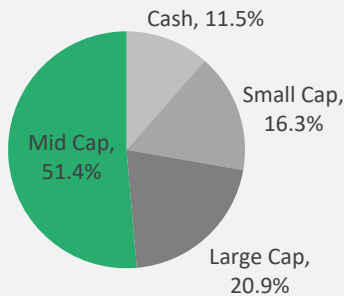
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Objective of the strategy is to generate superior returns over long term with a focused multi-cap portfolio. Portfolio Manager may take active cash & profit booking calls on the portfolio.

PORTFOLIO CLASSIFICATION



Large Cap: Top 100 companies by market cap (sorted in descending order)

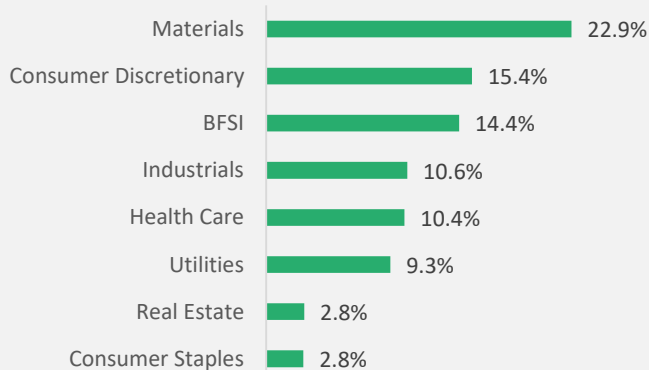
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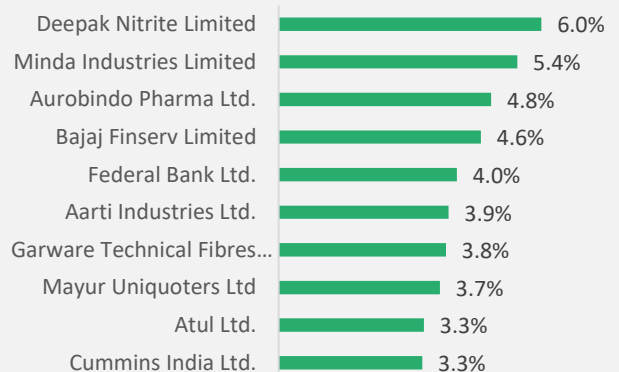
PORTFOLIO METRICS

Parameters	Strategy	Benchmark
5Y Average ROE	16.4%	5.9%
TTM P/E	28.0x	45.0x
1Y Forward P/E	21.7x	36.0x
TTM P/BV	4.6x	2.8x
Dividend Yield	0.7%	1.1%
Beta	0.8	1.0

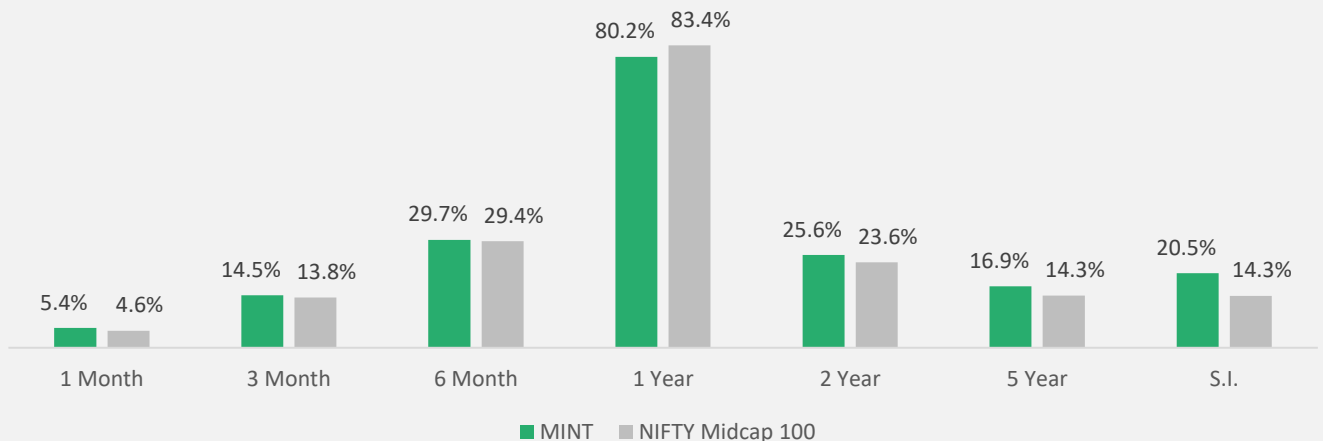
TOP SECTOR CONCENTRATION[^] (88%)



TOP 10 STOCKS EXPOSURES[^] (43%)



PORTFOLIO PERFORMANCE



Nifty MIDCAP 100 is the benchmark .

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ALPHA LARGE CAP STRATEGY

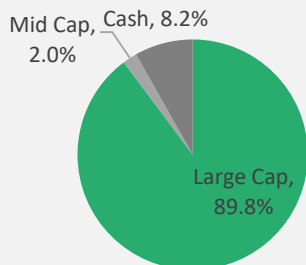
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An strategy with an objective to generate consistent and superior returns over a medium to long term by capitalizing on investment opportunities in the large cap space. Strategy is to generate consistent and superior returns by adopting a blend of bottom up and top down approach.

PORTFOLIO CLASSIFICATION



Large Cap: Top 100 companies by market cap (sorted in descending order)

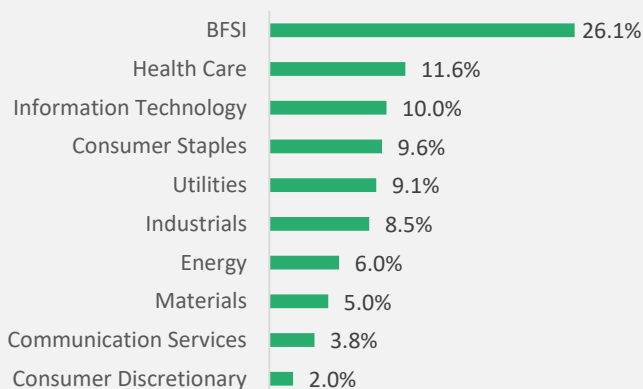
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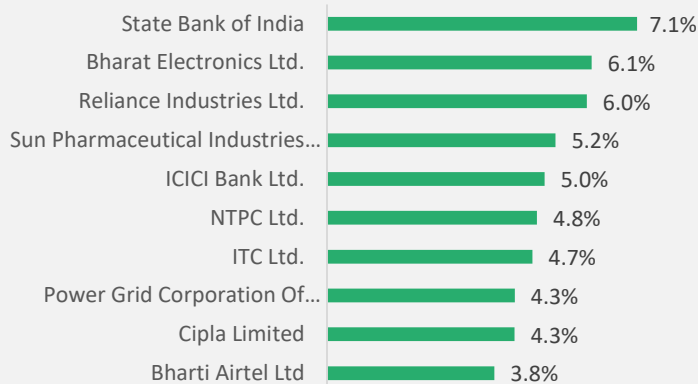
PORTFOLIO METRICS

Parameters	Strategy	Benchmark
5Y Average ROE	14.4%	12.5%
TTM P/E	30.4x	30.2x
1Y Forward P/E	24.6x	24.4x
TTM P/BV	5.3x	3.3x
Dividend Yield	1.0%	1.1%
Beta	0.8	1.0

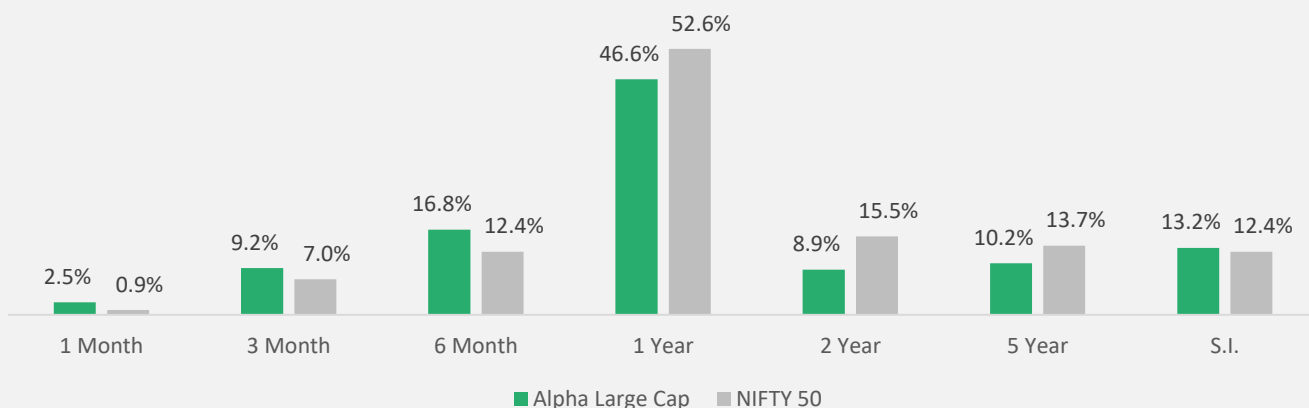
TOP SECTOR CONCENTRATION^ (92%)



TOP 10 STOCKS EXPOSURES^ (51%)



PORTFOLIO PERFORMANCE



Nifty 50 is the benchmark .

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