

# Executive Summary of the 64<sup>th</sup> Global Investment Advisory Committee (GIAC) Meeting

September 2023

## Current stance

The committee decided to maintain its slightly overweight stance on equity allocation, across its conservative, balanced, and growth portfolios. There was a consensus regarding future portfolio allocation to small- and mid-cap stocks, which would depend on the momentum witnessed in the market. Further, the committee debated increasing the underlying allocation to gold, across its portfolios and concluded that, given the strength being depicted by the yellow metal, allocation should increase from the current 3.9% to 5% in the balanced portfolio, 2.64% to 4% in the conservative portfolio, and from 5% to 6% in the growth portfolio. This increase in allocation to gold would be linked to a corresponding reduction in allocation to fixed income. Additionally, the committee is unified in its decision to undertake a strategic exit from its remaining InvIT holdings.

## Key variables to monitor:



Movement in  
gold prices



Hardening in  
oil prices



US 10-year  
Treasury yield

## What's changed since our last meeting

The US Federal Open Market Committee maintained the benchmark interest rates at 5.25 – 5.50%, indicating a skip in its rate hike trajectory even as surging energy costs prompted inflation to rise above August forecasts and settle at 3.7%. On the other hand, India's retail inflation moderated to 6.83% in August, from July's 15-month high of 7.44%. Further, the country's current account deficit contracted to USD 9.2 billion in the first quarter of financial year 2024, from USD 17.9 billion in the year ago period.

## Viewpoints

### Equity

Over the last three months, we have increased our equity allocation in the balanced portfolio to 55%, wherein the domestic component stands at 50% and international stocks comprise 5% of the portfolio. In the midcap sector, we are currently underweight to neutral and the growth portfolio has witnessed a 10 basis points reduction in returns, owing to the volatility in the market. Going forward, we expect a consolidation in mid-cap stocks. At the same time, we recognise that any new triggers could propel the segment as it is currently poised for maximum growth.

Even as general elections are imminent, corporate earnings remain robust and money continues to flow towards mid caps. We do not foresee a major sell-off in the sector. While markets are showing opposing views on small-caps, we remain neutral and will track the market to identify the right time to add to the portfolio. Also – as we have discussed in the past, the cost of capital is clearly rising across the world and is likely to stay elevated in the foreseeable future. Politicians in the developed world have promised their citizens pensions and other social benefits which their governments cannot afford, especially at a time when higher spending for defence and green energy transition is needed. The bond markets will demand higher interest rates to fund these deficits. As the western world settles down to ‘higher for longer’ on interest rates, steady state fair valuation for a given earnings profile will be structurally lower than the last decade and hence, valuation multiples will drift lower. This correction has already started in developed markets. On the other hand, we believe that Indian domestic equities will remain the better opportunity in the coming quarters and months ahead.

### Debt

Globally, the steady increase in oil prices and the hardening of the 10-year US Treasury yield, above 4.5%, are the two major issues troubling the market. From the technical chart, it is visible that the recent upward move in the 10-year bill is concerning market participants and we aim to observe where it settles, before deciding on corresponding movements in our portfolio. If the T-bill breaches 4.5%, then the next target to keep an eye on would be 5%, even as oil continues to strengthen due to geopolitical factors. We need to remain cautious in terms of long duration calls and observe the market even though the sentiment is currently stable in India. Domestic long-term bonds remain in range but if US yields harden further and oil continues its upward move, we expect a consequent hardening in the yields of Indian bonds.

However, we do not foresee a major move, given that Indian bonds have clearly outperformed regional as well as developed market bonds. Further, the economy’s borrowing in the second half has been in line with market expectations, with net borrowing coming in significantly lower because of the maturity of three trillion rupees worth of securities. Accordingly, the demand-supply dynamic remains in favour of Indian bonds but we need to stay abreast of global market cues. It is advisable to rebalance debt holdings if the 10-year benchmark government security, currently at 7.16% yield, breaches the psychologically important level of 7.25%.

### Gold

Our view on gold’s potential to offer returns has slightly changed, given that the precious metal has depicted resilience despite interest rates peaking out. Over the next six months, gold can be a significant performer and we are keen on capitalising on this potential. Gold allocation will be increased through exchange traded fund investments, even as we maintain a strong eye on its movements going ahead.

### Divergent Views

While there is tremendous noise around over-allocation in mid-caps, there are two big factors that need to be considered – the strong flows coming into the segment, through retail investors, systematic investment plans and mutual funds and the fact that, when markets expect something strongly, it does not necessarily happen. We should not lower our weight in the mid and small-cap space. Rather, we should allocate more to these sectors, after tracking the market, to ensure that we do not miss out on the potential returns.



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Institutional Securities



**Alok Saigal**  
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## Other Committee members

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