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MIRAE ASSET
Mutual Fund

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MARKET OUTLOOK
DEBT

Mr. Mahendra Jajoo
CIO - Fixed Income

Covid-19 spread widened in April and many countries came out with much stronger monetary support to tackle the economic loss, reduce the volatility in the financial markets and prevent rise in poverty. So far, the measures taken by developed market countries are far more severe than compared to emerging markets (lack of fiscal & monetary space). The number of Covid-19 cases increased worldwide to 3.5 mn of which nearly 1/3rd cases are in US (as on 31st March 2020). 10 countries exceeded China's count. With cases still increasing, countries relatively relaxed the lockdown norms as they prioritised economy.

India's Covid cases were also on a rise. This month, RBI announced slew of measures- largely to manage the yields and the credit spreads. Some of the measures were not that effective. After a huge demand for TLTRO 1.0 of Rs 1 tn by the banks, TLTRO 2.0 received a lackluster response of Rs 128.5 bn for the first tranche of Rs 250 bn, indicating high risk aversion. MCLR rates have eased by 25-30 bps after 75 bps rate cut in Repo, indicating lending rates transmission still remains weak.

Bank credit growth rises to 7.2% in mid Apr'20 (highest growth since beginning January both food and non-food credit rose sharply. Food is largely from higher borrowing from FCI- this would be high on rise in the food subsidy bill of the government. Also, non-food credit grew by 7.0% YoY- this indicates that post the lockdown the credit growth might shoot up even higher.

Amidst all this Rs 10 Y benchmark dropped marginally by 3 bps to close the month at 6.11% levels. In spite of RBI's continuous effort to provide enough liquidity, the corporate bond segment faced redemption pressure from various AMC's following which the yields for the corporate bonds witnessed an uptick of 10-20 bps across the segments and tenures. Due to lower issuances and stable demand, the Money Market segment witnessed yields falling by 20-30 bps.

While the focus still remains on how to tackle this pandemic, the roles of Central Bankers and Governments have become largely clear. RBI is already making a continuous effort to support the financial system; market is now waiting for a new set of measures that needs to be announced by government on fiscal front. With this, we expect yields to remain volatile as announcements are expected to be rolled out soon.

Source: Bloomberg, as on 30th April, 2020.

MARKET OUTLOOK

EQUITY

Mr. Harshad Borawake
Head – Equity Research

- RBI's intervention to ease liquidity and give regulatory relief for the system is positive. Also government measures to help economically weak section is constructive. Now, we expect government to soon announce some measures to support the MSME's and corporates to tide over the current economic stress. Given the revenue constraints, fiscal deficit may widen in the interim though.
- Amid all the gloom, the 70% crash in oil prices is a boon for India. At current levels, India will be current account surplus after 17 years, and the gain to the system is about Rs 2.5t (~ 1% of GDP) which can be shared between government and consumers. The Indian economy, even prior to the COVID was on the slow track, however some recovery was seen in some sectors in Jan/Feb. How soon can the economy be back on the recovery track will be function of the extent and severity of the lockdown. Nevertheless, the forecast of normal monsoon is positive for the rural economy.
- FY21 earnings will certainly be erratic, but we believe assuming recovery in 2HFY21, that FY22 earnings numbers should be relatively unaffected. We find market valuations to be attractive on a historical basis, considering: (a) Market Cap-to-GDP is at ~55% currently, the level it was during GFC, (b) The bond and earnings yield gap is currently the most favourable in a decade. At the current Index levels, even if we assume a 15% cut to the consensus earnings, the NIFTY will still be at reasonable valuation of 14x on FY22 basis.
- **Portfolio Strategy:** As a house, we have been following a two-pronged approach – it is a sort of barbell strategy. The first priority is to buy high quality businesses, which have now corrected. One the other spectrum we are also participating in "deep in value" businesses. Please note that the second bucket was attractive even before the virus issue. Today, it's not about which sector is attractive - we are getting favourable value across sectors.
- **Recommendations for Investors**
  - **Asset allocation:** Whenever there is a crisis or not, it is extremely important to revisit and maintain asset allocation discipline. We recommend investors to balance and front-load asset allocation in favour of equities. We would recommend investors to look at equities and allocate capital that is not required for the next 3 years.
  - **Large caps vs Mid caps:** We continue to prefer large caps, and would advise investors to allocate about 70% towards large or multi-caps funds. Our preference for large companies is due to superior risk-adjusted returns, a decent growth profile, and the fact that large franchises are better able to weather challenging times.

Source: Bloomberg, as on 30th April, 2020.

MIRAE TREND SETTER: UNDERSTANDING CREDIT RISKS IN FIXED INCOME INVESTMENTS

Mr. Vaibhav Shah
Head - Product, Marketing & Corporate Communications

There are two main risk factors in fixed income investments – Interest rate risk and Credit risk. Interest rate risk refers to change in prices of fixed income instruments due to change in interest rates. Bond prices move inversely with interest rates – price goes up when interest rate goes down and vice versa. Credit risk of fixed instruments refers to the issuers' failure of meeting their interest and / or principal payment obligations, exposing the investor to potential loss of income and / or capital.

INTEREST RATE RISK IS TEMPORARY WHILE CREDIT RISK IS PERMANENT

Price of a fixed income instrument will fall if the interest rate goes up. However, interest rate movements are always in cycles – periods of rising interest rates are followed by periods of falling rates. If you have a long investment horizon, you will be able to ride out the volatility due to interest rate changes.

However, if the issuer defaults on interest and maturity payments, then the price of the instrument will be written down permanently. Some debt funds may create side-pockets to segregate their bad assets (instruments which have defaulted) from good assets. However, the underlying assets in the scheme side-pockets will be illiquid and the timeline / amount of recoveries (if any) from these bad assets will be indefinite. Therefore, credit risk is often permanent and investors should aim to minimize this risk.

UNDERSTANDING CREDIT RISK

Rating agencies evaluate creditworthiness of issuers by assigning credit ratings. The table below describes the credit rating scale used by CRISIL to rate fixed income securities.

Long term Instruments (Maturity > 1 year)		Short Term Instruments (Maturity < 1 year)	
Rating	Risk	Rating	Risk
AAA	Highest Safety	A1	Lowest Risk
AA	High Safety	A2	Low Risk
A	Adequate Safety	A3	Moderate Risk
BBB	Moderate Safety	A4	High Risk
BB	Moderate Risk	D	Expected to default
B	High Risk	CRISIL may apply '+' (plus) sign for ratings from 'CRISIL A1' to 'CRISIL A4' to reflect comparative standing within the category.	
C	Very High Risk		
D	Expected to default		

CREDIT RATINGS AND YIELDS

Lower rated instruments usually give higher yields than higher rated instruments. For example, an "A" rated paper can give 200 bps higher yields than "AAA" rated papers. Some fund managers may invest in lower rated papers to capture higher yields but the risk also goes up accordingly. You should understand risks very clearly and invest according to your risk appetite.

CREDIT RATINGS CAN CHANGE

Credit ratings can change during the maturity term of an instrument, e.g. an AAA rated paper may get downgraded to A or BBB, a BBB rated paper can get upgraded to A etc. The price of the instrument will go down if its rating gets downgraded and vice versa. You need not monitor credit ratings of individual instruments because it is the job of your fund managers to monitor credit risk on an ongoing basis and take appropriate action.

However, from time to time (e.g. monthly, quarterly, half – yearly, yearly etc), you should check if the credit quality of the scheme is improving or worsening, e.g. the percentage of Sovereign (Government securities), AAA/A1 and AA rated assets in the scheme. If you see significant deterioration in the credit quality of your scheme, you should take appropriate actions in consultation with your financial advisor.

HOW WILL YOU KNOW THE CREDIT QUALITY OF YOUR SCHEME?

AMCs disclose the credit rating profile of assets for all their fixed income funds in their monthly factsheets. You should refer to these factsheets to understand the credit quality of the fund before making investment decisions. You should also refer to these factsheets on a regular basis (e.g. monthly, quarterly, half-yearly etc.) to monitor the credit quality profile of your investments. Fund factsheets are available on the AMC websites.

SUMMARY

Historically, Indian fixed income investors did not pay as much attention to credit risk as it deserved. However, the stress in banking system and NBFCs has caused credit risk to be a major concern over the last 2 years or so. Economic downturns such as the one we are facing now, usually aggravate credit risks. It is, therefore, important for investors to understand credit risk and make informed investment decisions. If you are concerned about credit risks in your existing investments or new investments, you should consult with your financial advisor.

WALL OF FAME:
WE AT MIDAS STRONGLY BELIEVE – “WE MUST OPEN THE DOORS OF OPPORTUNITY. BUT WE MUST ALSO EQUIP OUR PEOPLE TO WALK THROUGH THOSE DOORS”

Mr. Rajesh Bansal
Director - Midas FinServe Pvt. Ltd.

Midas FinServe Pvt. Ltd. is an independent boutique wealth management firm formed by seasoned professional.

I have navigated 26 years in the Indian Financial Services Industry. An effective & committed leader with spotless integrity and passion with deep understanding of financial products. Prior to co-founding Midas FinServe Pvt. Ltd. in April 2015, I had worked with TATA Mutual Fund, ING Optimix Pvt. Ltd. and Master Capital Services Pvt. Ltd. in various Senior Leadership Roles.

Recently we have been recognized by SILICON India Magazine as one of the BEST WEALTH MANAGEMENT STARTUP – 2019. The Annual Recognition represents not only the Commitment of Midas FinServe Pvt. Ltd. to offer High-Quality and Personalized Investment Services, but also recognizes its impact in the Burgeoning Market Place.

An avid reader and Equity Analyst by BIRTH… that’s what my Friends believe...

What drives us through our journey is the desire to excel with our best-in-class research based advisory services. We have an excellent track record for the best customer satisfaction. We have earned accolades from our clients for our quality research, unbiased advise and timely services.

We, at Midas FinServe, aim to bring value to the investment process, not just at the initial stage but through the investment’s time horizon. We focus on adding significant value to the portfolio selection and review process including tax consequences of buying and selling various investment products and also develop strategies to minimize the tax.

We recognize the fact that every investor is different, with different financial goals, different tolerances to risk, different personal situations and different desires. Keeping these factors at the forefront, we design and monitor our clients’ portfolio in the manner that is appropriate to their risk level and allow them to achieve their objectives.

We rely mainly on Mutual Funds which aim to create wealth for clients. We strongly believe that Mutual Funds seek to provide the best in terms of variety, liquidity, flexibility, professional fund management, transparency and tax efficiency. That’s why; it is possible to design a portfolio for a lay investor as well as the most sophisticated one with the help of Mutual Funds alone.

Presently Midas is serving 1700 Families and clients enjoy Midas’ passion for Best in-class services / products, and passion for quality to generate sustainable, profitable returns.

Our Mission is to demystify the World of Finance and relieve clients of stress relating to financial worries and help use resources effectively so that one can get more out of life.

We contribute to the Knowledge of People by continuous Media Presence in TV Channels like ZEE Business, NDTV and Radio Dwarka. We shares our views on Financial Market and Product through articles published in Magazines like Outlook Money and various Newspapers.

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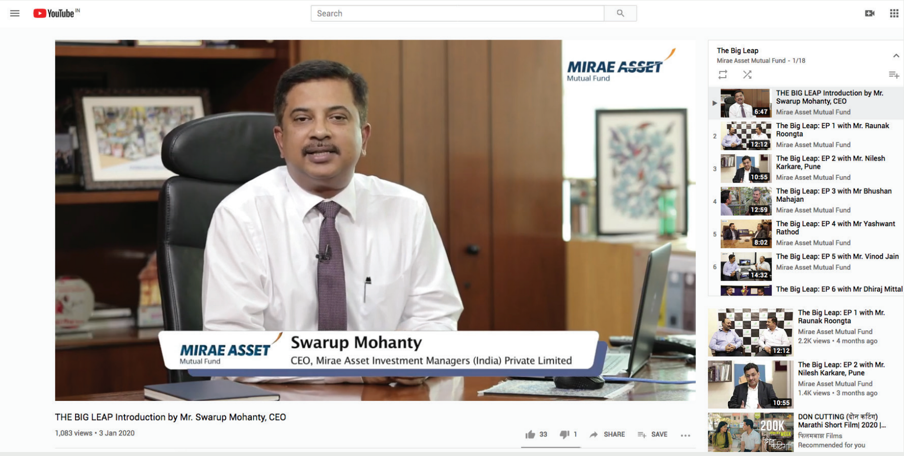

THE BIG LEAP

TIPS THAT MAY HELP YOU GROW YOUR BUSINESS:

- INVEST A % OF TOPLINE IN TRAINING
- TAKE REFERRALS FROM INVESTORS
- HAVE A PREDEFINED PURPOSE
- DELEGATE WORK, FOCUS ON FUNDAMENTALS
- BE TECH-SAVVY
- GIVE COMPLETE INFORMATION
- FOLLOW TO PRACTICE WHAT YOU PREACH
- SELL RIGHT THING, IN RIGHT WAY & AT RIGHT TIME
- ONLINE TECHNOLOGY FOR OPERATIONAL EASE
- ADVICE FOR LONG TERM INVESTMENTS

The growth stories of inspring financial advisors

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Mr. Swarup Mohanty - CEO

Navigating Volatility in Fixed Income Markets
Mr. Mahendra Jajoo - CIO - Fixed income

Merits of Investing in Leading Firms
Mr. Gaurav Misra - Sr. Fund Manager - Equity

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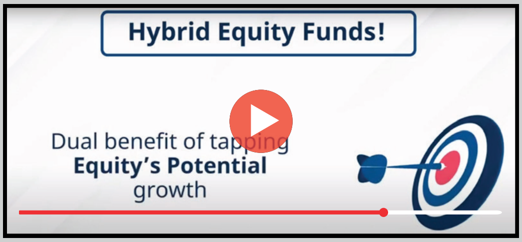


Hybrid Equity Fund

Market volatility worrying you?

CLICK TO VIEW

We are now available on the top social media platforms to be closer and more connected to our smart investors.

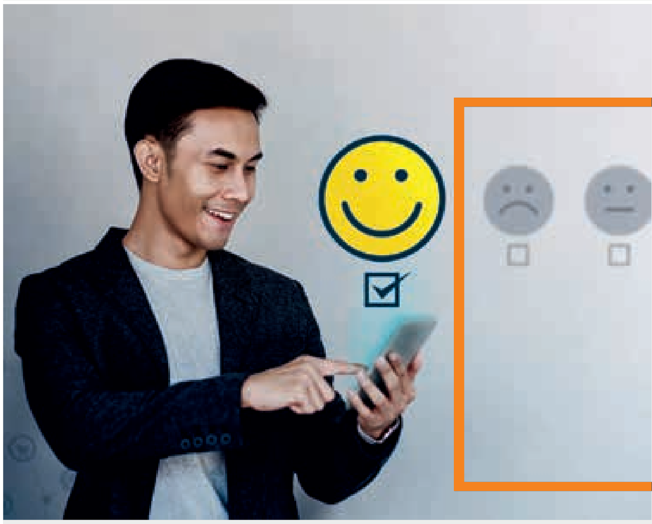
TAKE A BREAK
FLAUNT YOUR SKILLS

CHALLENGE YOURSELF

QUIZ

And get featured in the Wall of Fame!

CLICK TO PARTICIPATE!



HELP US HELP YOU!
SHARE YOUR FEEDBACK

YOUR FEEDBACK MATTERS.

To help us improve, we would like to ask you a few questions about your experience so far.

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