ICICI Investment Management

Investment Strategy

Executive Summary

Global / US

- The view has shifted to a defensive stance vs. a constructive view point earlier
- Rising inflation and economic cycle in US points towards a tightening monetary policy
- At the same time, yield curves & market implied expectations are showing growth worries
- Geopolitics has increased "risk premium" in asset prices but not yet to a 'buying' level, while it also adds to uncertainty w.r.t global growth assumptions

India - Equities

- Economic activity continues to improve but risks are emanating from geo-political issues and higher input cost
- Earnings growth for FY22Q3 have been in line expectations but risks of earnings downgrade are back in reckoning, after earnings upgrade for several quarters now
- Given global situation and monetary tightening cycle, risks remain for further 'P/E derating'
- Waiting for risk premium to rise to average levels for fresh addition

India – Fixed Income

- While being accommodative, RBI has begun the process of monetary policy normalization
- Prefer medium duration portfolios with a four year view

Gold

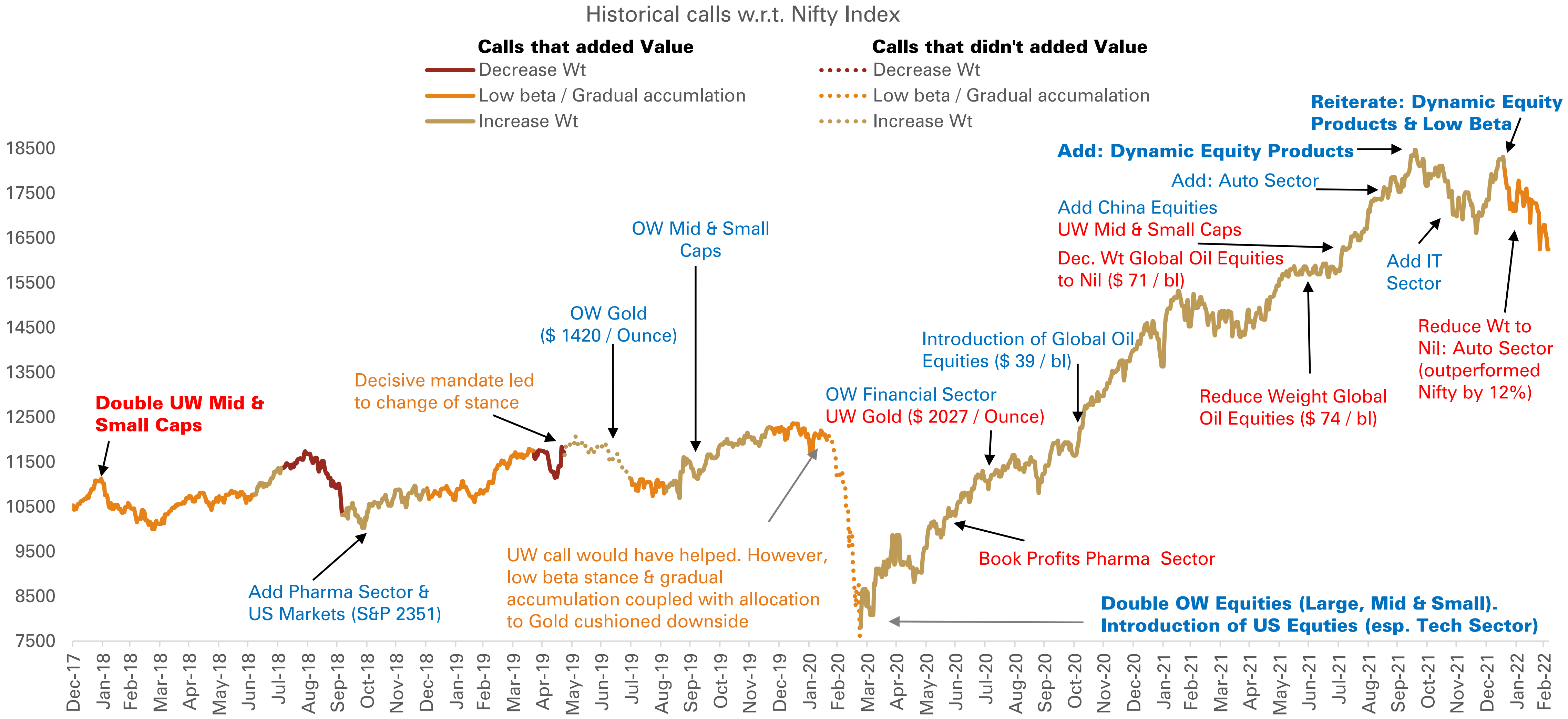
- We had advocated gradually accumulating Gold. Given a sharp spike in Gold post the current geopolitical situation, risks of underperformance in medium term have increased

Asset Allocation Positioning

Asset Class	Short Term					Long Term				
	- -	-	0	+	++	- -	-	0	+	++
Equities		■						■		
Large Cap & Diversified			■					■		
Mid & Small Cap		■					■			
Global Equities			■					■		
Debt			■					■		
Low Duration Debt			■					■		
Short & Medium Term			■						■	
Credit Fund			■					■		
Duration		■					◆	■		
Gold			■				■	◆		

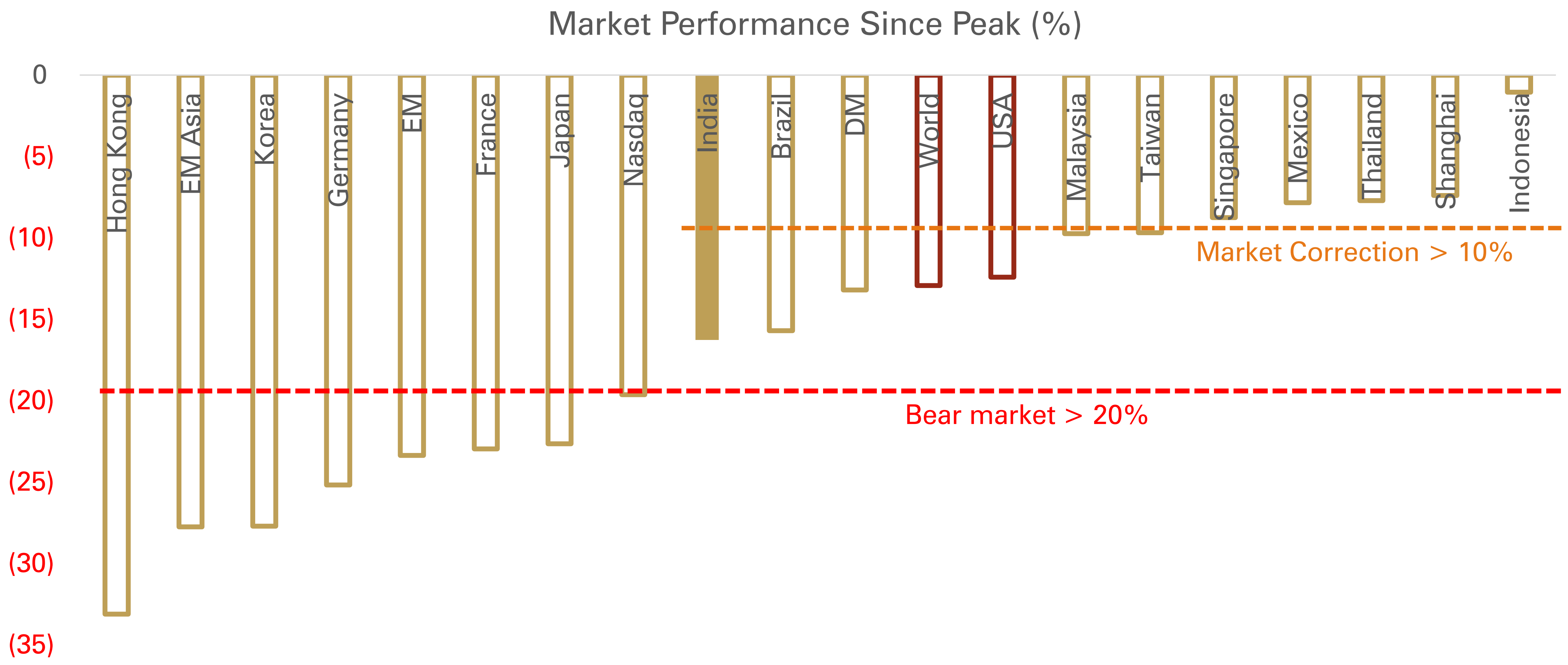
Legend	
++	Strong Overweight
+	Overweight
0	Equal weight
-	Underweight
- -	Strong Underweight
◆	Previous Position

Historical Calls - Equity



UW - Underweight; OW – Overweight; Wt. – Weight; Inc. – Increase; Dec. – Decrease;
Double OW or UW are highlighted in Bold; Increase weight in Blue; Reduce weight in Red; Calls that didn't add value in Orange;

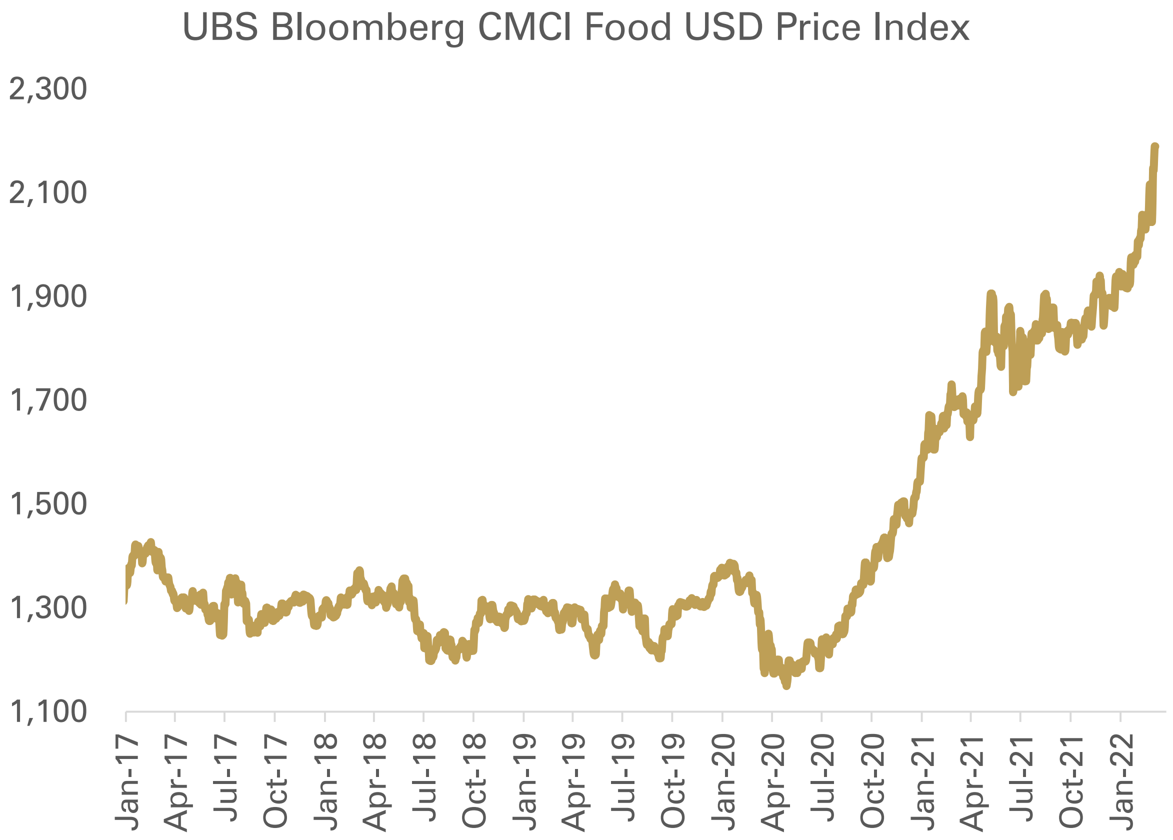
Global Equities: Performance from respective highs

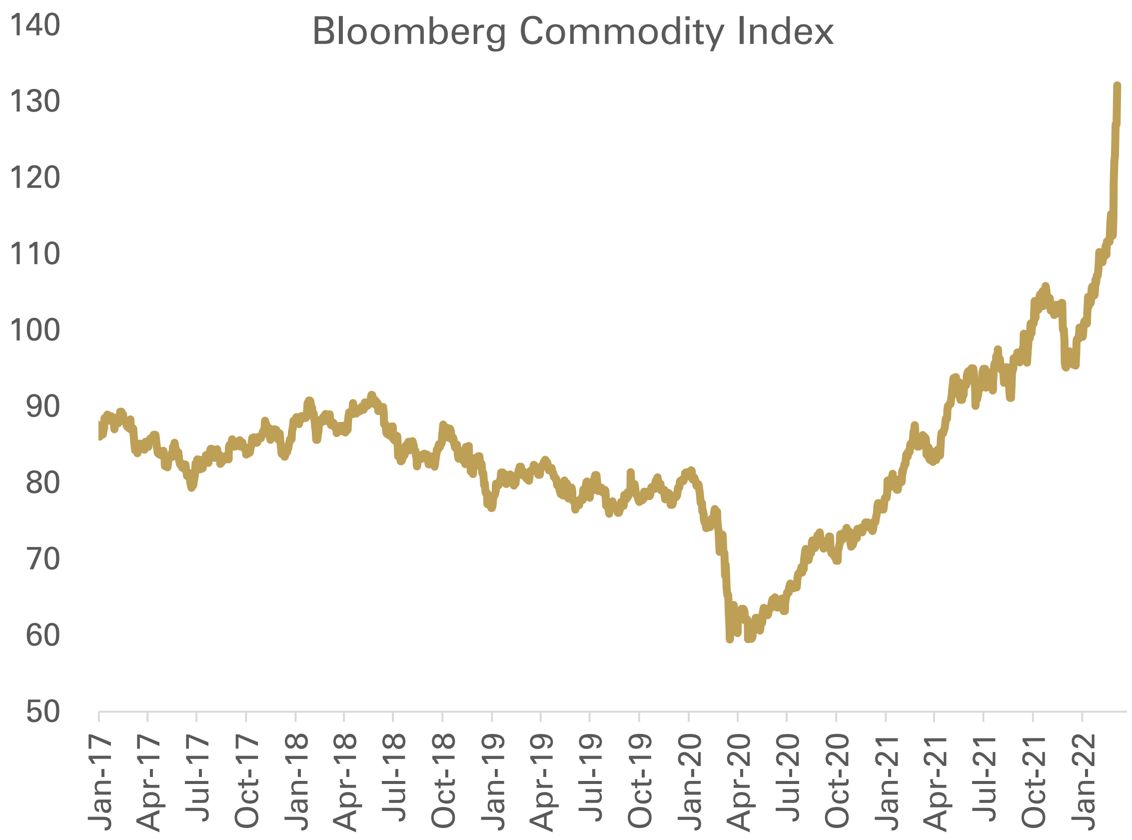


Global Markets have witnessed steep correction in recent times given risk emanating from geo-political scare, sharp rise in commodity price and monetary tightening.

Global Macro – Deteriorating?

Spike in food & commodity prices poses upside risk to inflation



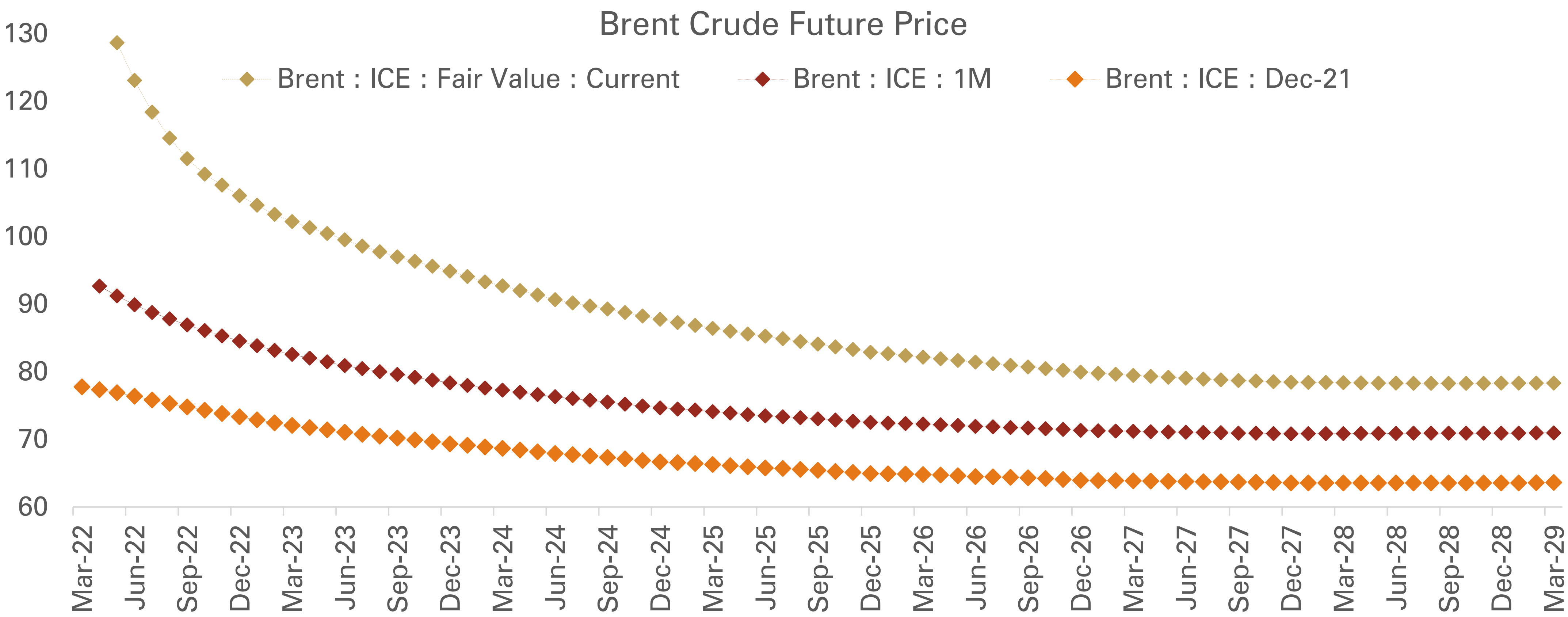


Geopolitical tensions have not only led to flare up in oil prices, but have also sent global food prices soaring. **Despite signs of growth moderation given flattening yield curve, higher commodity & Food prices may firm up inflation expectations and thus higher rates.**

India: Rising global food prices could eventually filter into domestic prices and thus poses significant upside risk to FY23 inflation outlook as food accounts for a much higher weight in CPI than crude oil.

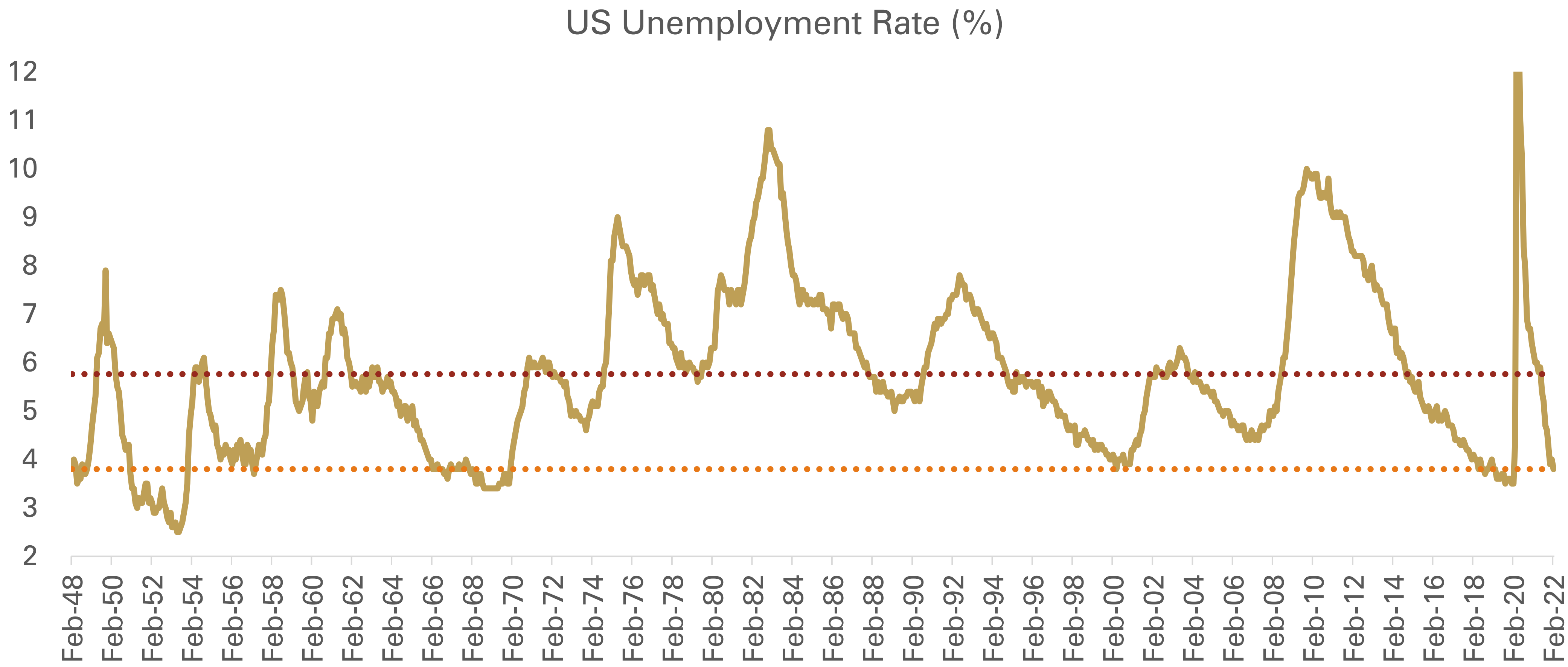
Brent Oil Forward Curve

Extent of backwardation in oil futures has further steepened



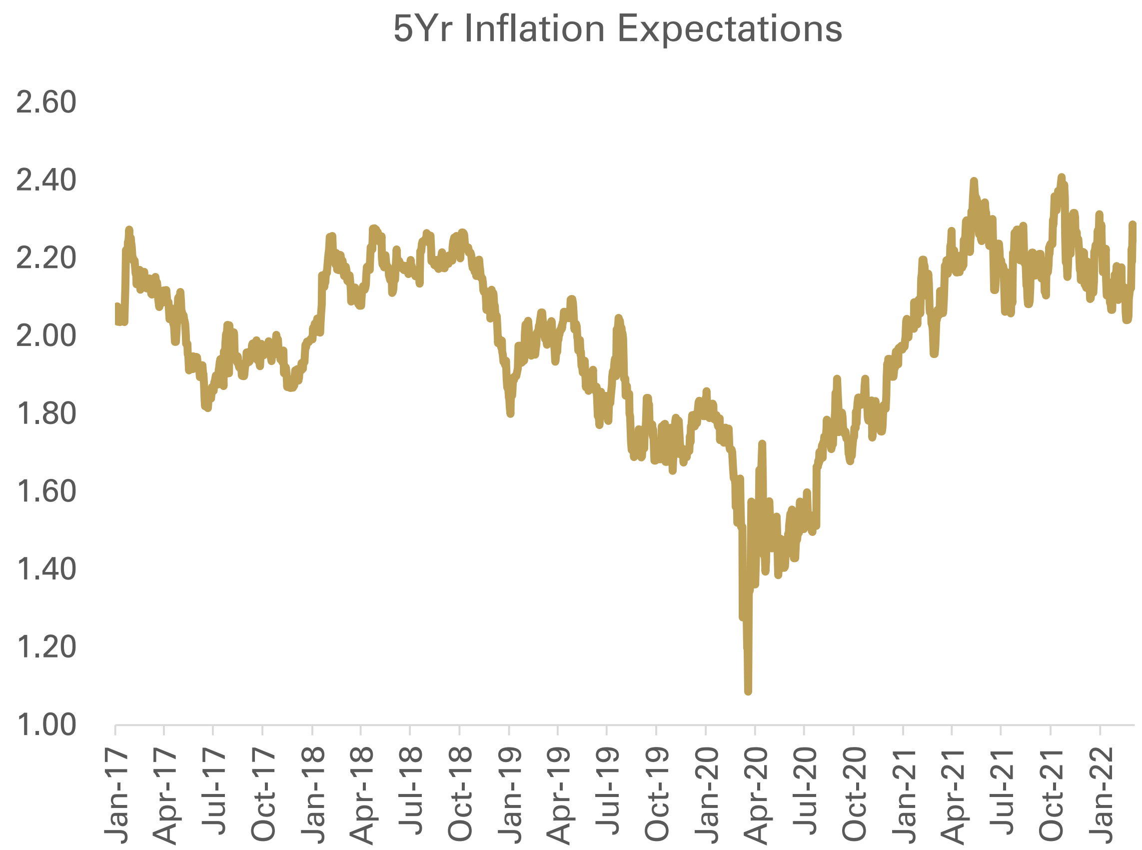
- Oil markets trade in futures. May 22 delivery at $130/bbl while Sep 24 delivery contracts are being traded at ~$89/bbl. This phenomenon is called as Backwardation when the near term delivery prices are higher than the future delivery prices.
- In near term supply pressures may keep the prices elevated. This is what the market prices indicate but may not necessarily turn to be the same.

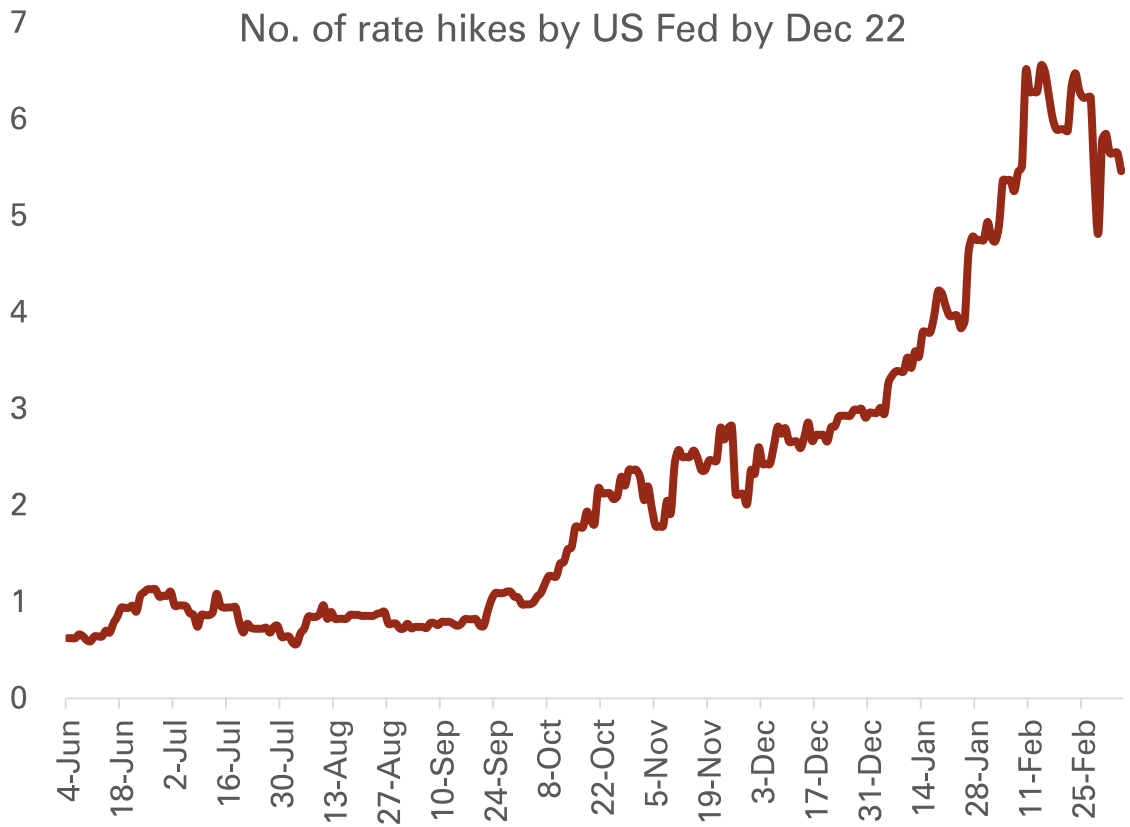
US Unemployment closer to bottom



US unemployment rate dropped significantly and is now closer to its historical lows, prompting the Federal Reserve to move swiftly to raise interest rates and withdraw the stimulus it put in place to support the economy at the start of the pandemic.

Inflation expectations and resultant expectations of Fed hike



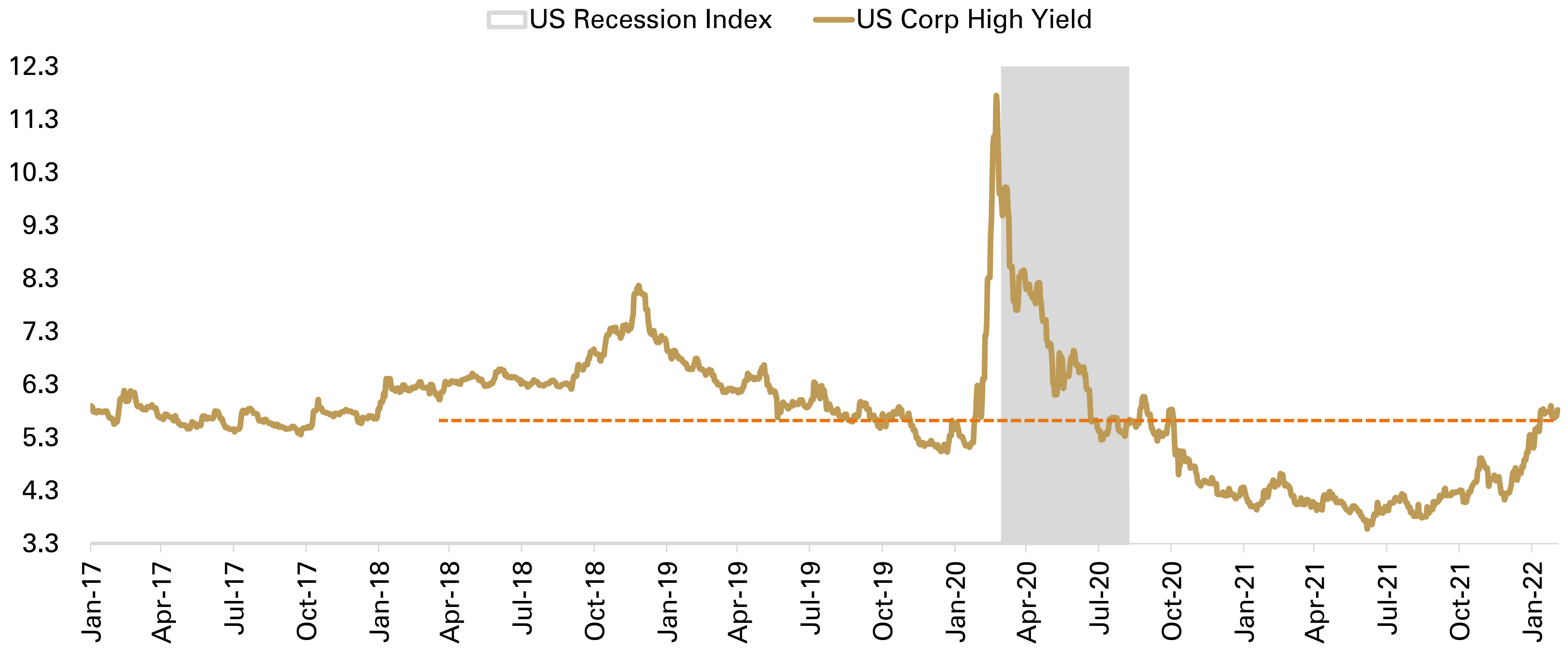


Curiously, though, rising prices haven't yet had any meaningful impact on forward inflation expectations. No. of hikes by Fed have also fallen from a peak of 7 times in 2022, to nearly 5 now

OIS (US) indicating some nervousness on forward basis

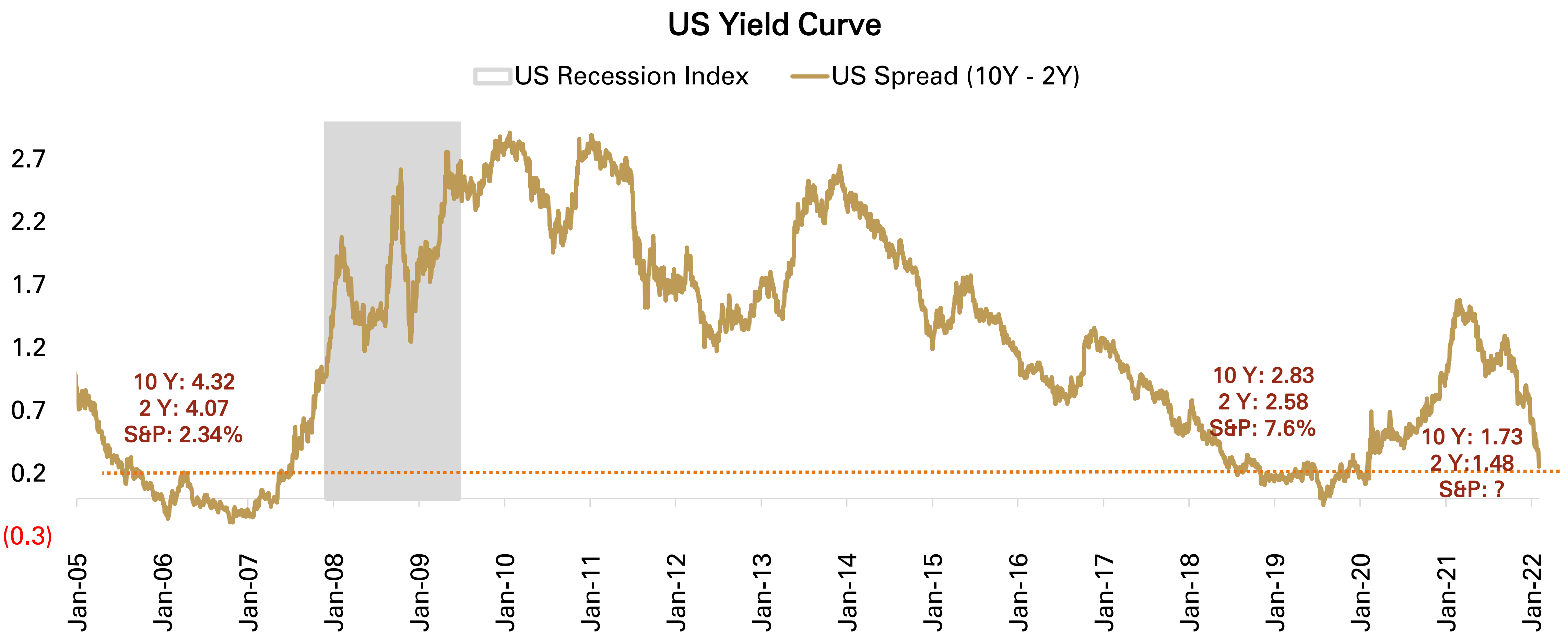
- (1M) Overnight Indexed Swaps (OIS) rate 3 years hence has fallen lower than 2 year forward rate. In fact, 3 year over 2 year curve had already inverted before Ukraine invasion itself. Usually, 3 year forward OIS contract should trade higher than 2 year.
- **An inversion indicates that rates market is getting concerned that US Fed may not be able to raise rates as much as being forecast as growth may moderate**

US High Yield Credit already at 2018 levels



US high yield credit is rising and already at early 2018 level without any rate hike. This implies the credit markets are already pricing in significant amount of tightening, thought not yet at worst levels of Dec - 2018

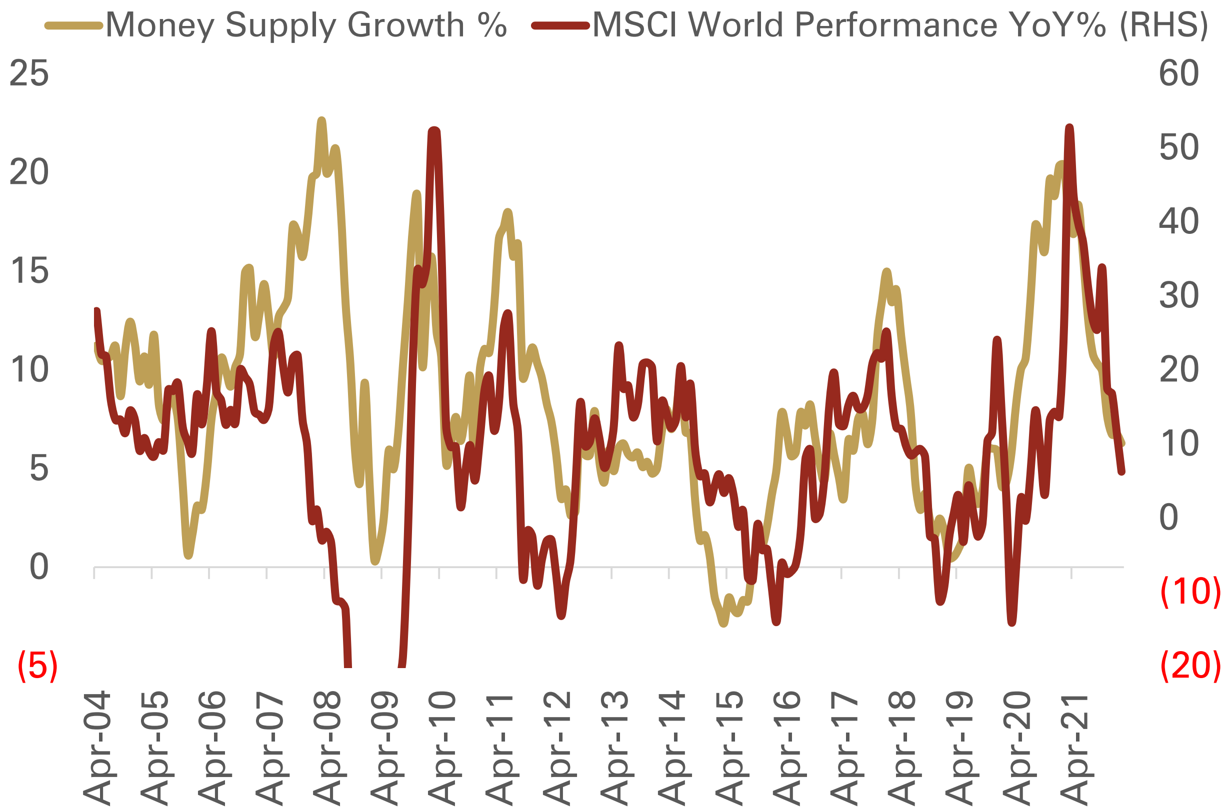
US Yield Curve indicating moderation in growth prospects

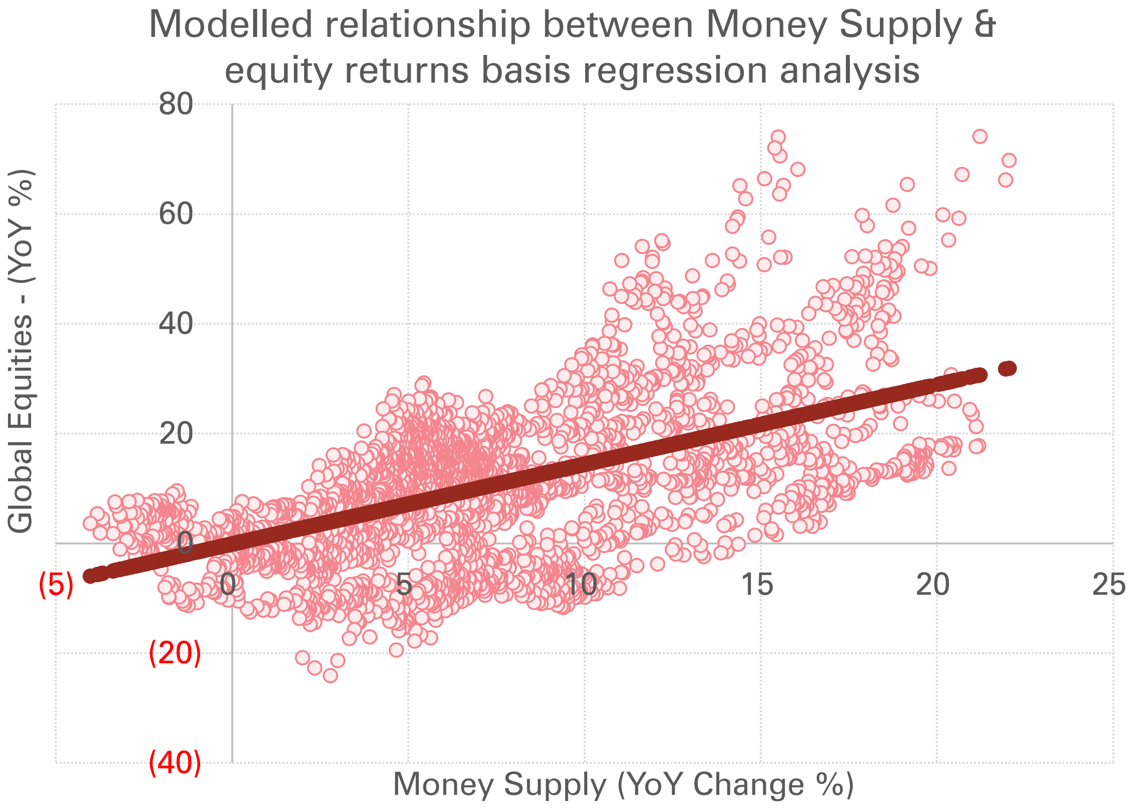


*S&P represents S&P 500 1Yr forward performance (%)

US Yield curve has flattened substantially – consistent with fall in unemployment rate and recovery. This raises the question if the bond market is already moving towards pricing in "economic softness" ahead – a typical late cycle phenomenon

Global M2 money supply growth likely to fall as in 2018-19

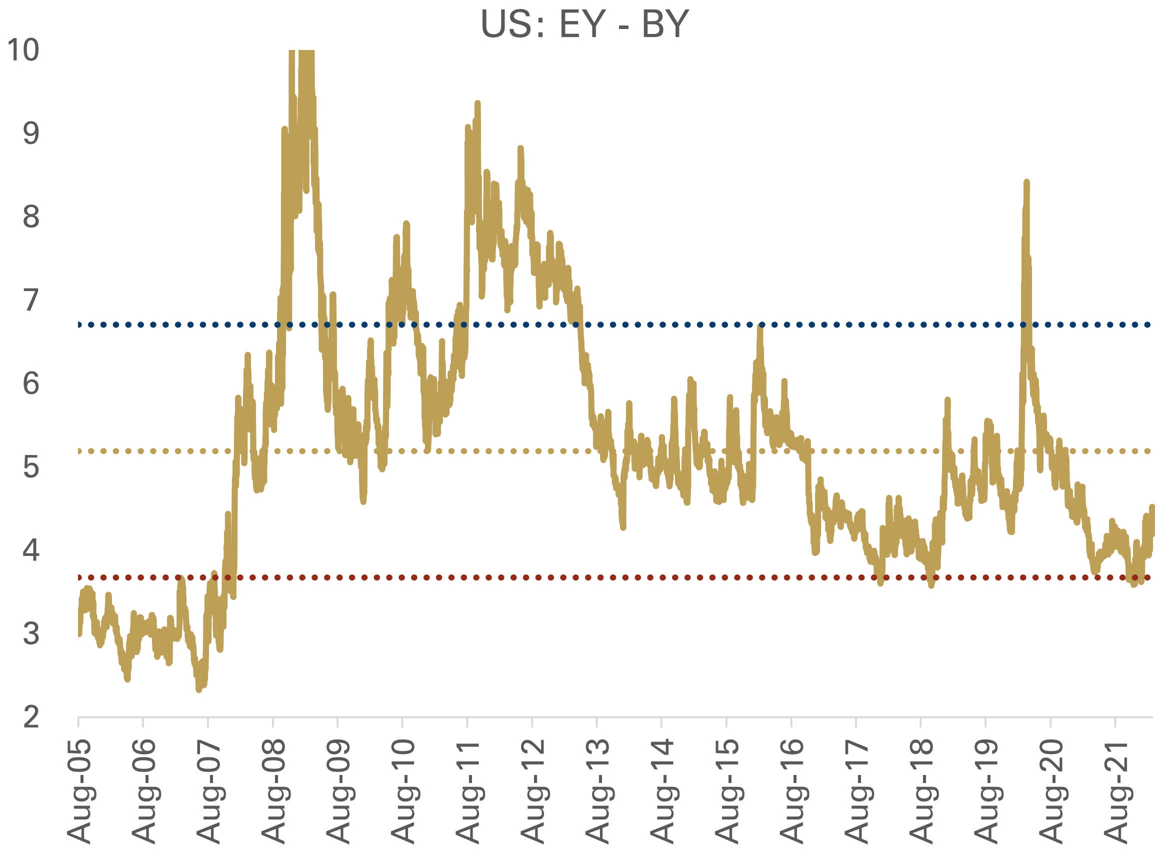


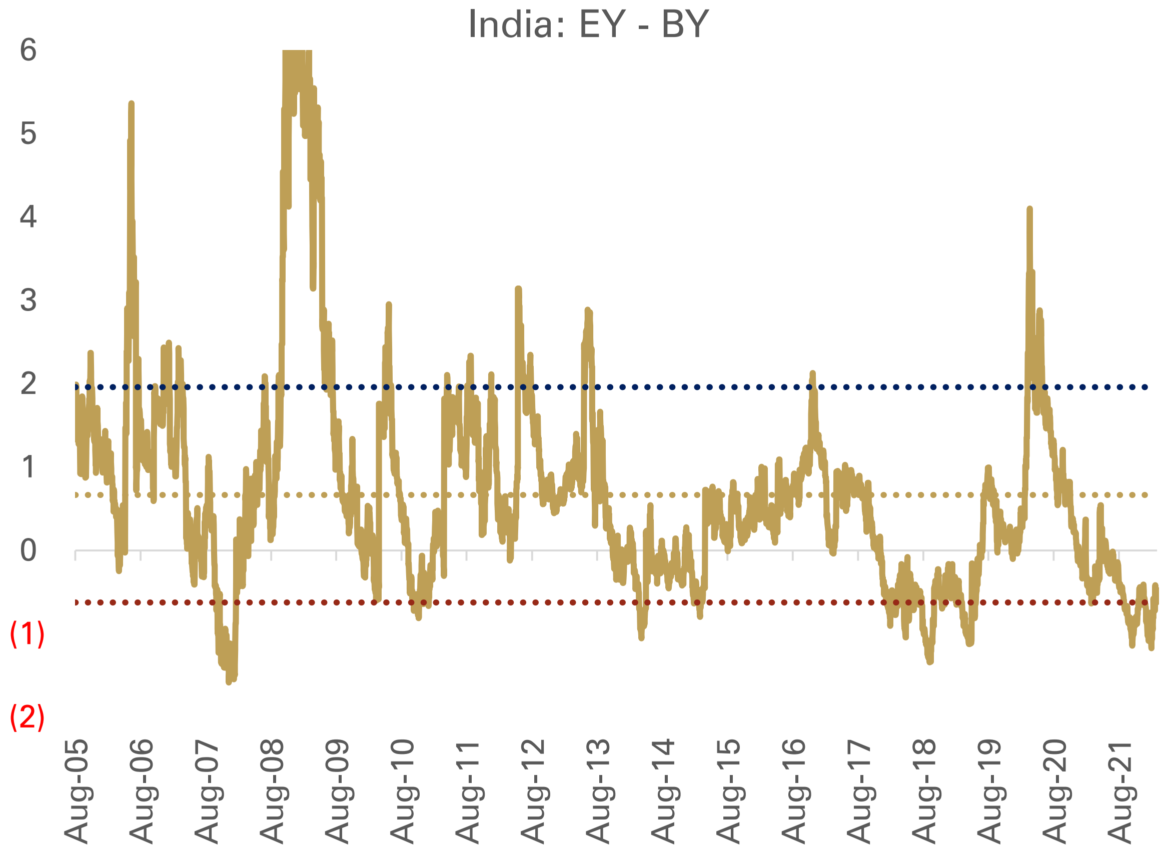


- World Equity markets performance is aligned to global broad money supply growth esp. post Lehman when QE became order of the day globally. Money supply has usually influenced PE expansion / compression
- As Central Banks embark on Quantitative Tightening, the risk of PE de-rating only increases
- Basis historical regression analysis of Money supply growth vs. market returns (over rolling twelve months) for World Equity index esp. since 2008 GFC shows that a for Nil growth in money supply**, World Equities may remain flat**. This is only an illustrative model to depict a very critical market input.

Scenario analysis: Likely valuation derating

Framework to evaluate possible de-rating in valuation (basis interest rate movement)





- Earnings Yield (EY) = 100/PE. Bond Yield = 10 Year Treasury Yield. EY – BY indicate excess earnings yield over bond yields – a simplistic measure of Equity Risk Premium
- **Once excess equity yield touches average levels, the case for fresh equity exposure strengthens (refer slide below)**

Scenario analysis: Likely valuation derating

S&P 500	2Yr Frwd PE	EY - BY	US 10 Yr Yld	Likely Derating
Dec-18	12.5	5.2	2.77	
Current	15.6	4.6	1.79	
Scenario I	14.2	5.2	1.79	(8.7)
Scenario II (Avg.)	13.5	5.2	2.25	(13.2)

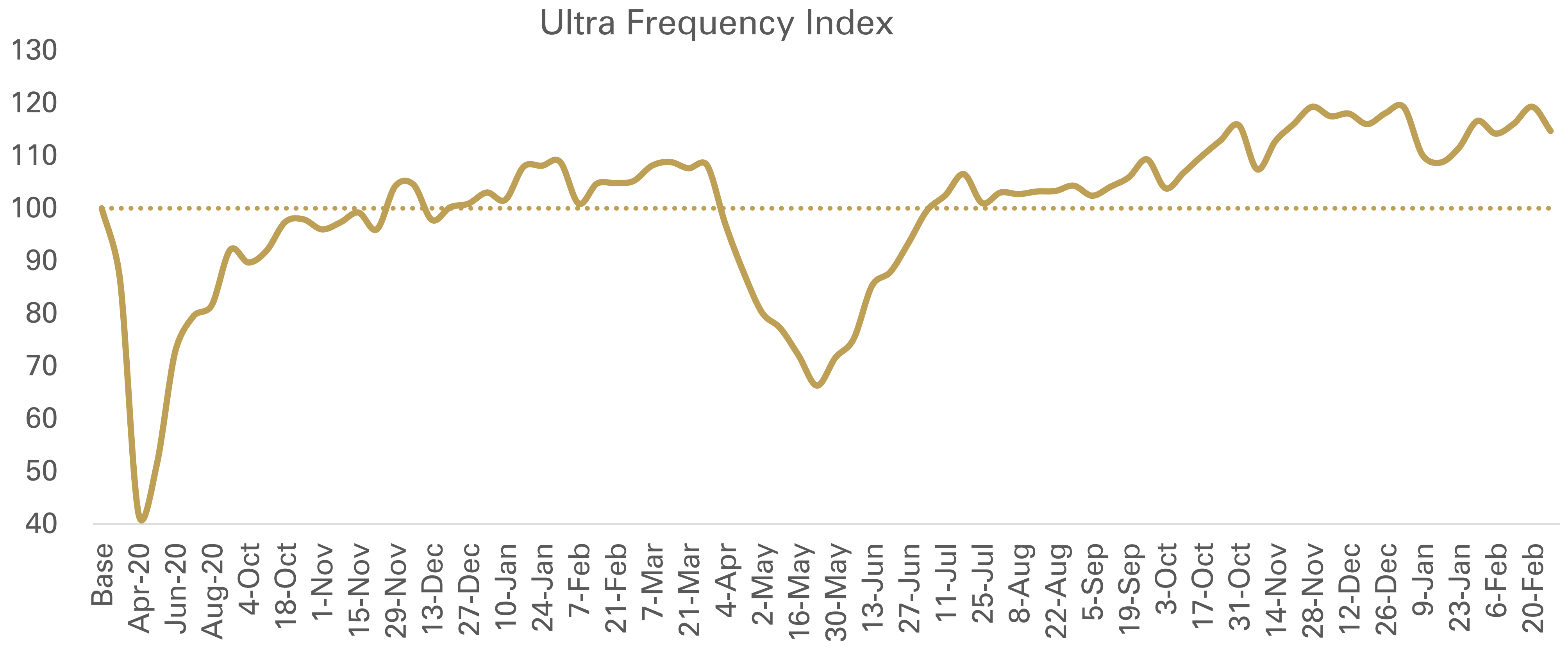
Nifty 50	2Yr Frwd PE	EY - BY	G-Sec 10 Yr Yld	Likely Derating
Dec-18	14.2	(0.2)	7.3	
Current	15.3	(0.3)	6.9	
Scenario I	15.0	(0.2)	6.9	(1.7)
Scenario II (Avg.)	14.2	(0.2)	7.3	(6.6)

- Framework to evaluate possible de-rating in valuation (basis interest rate movement) given the experience of Dec 2018 market lows (in response to monetary policy tightening)
- **This indicates that Forward PE multiples in US need to fall to less than ~14x levels for fresh long positions**

Corporate earnings review

Earnings delivery remain key support for incremental market performance

Higher intensity of price rise pose challenges to Business cycle



ICICI Bank's weekly UFI - Economic activity may face downside risks

While underlying economic activity is expected to improve on the back of easing of restrictions, but rising commodity and energy prices pose a challenge.

Q3 FY22 – Earnings Review

While topline growth momentum is decent, operating margins are seeing pressure

- Q3 FY22 earnings were up 29% YoY for NSE 200. While Top-line growth was strong but EBITDA disappointed as input cost pressures remain high (margins compressed across sectors). Q3 FY22 corporate earnings were healthy; companies largely delivered on earnings front despite the rising cost of input.

- Ex-commodities (i.e. energy and materials) & PSU Banks, Top line & earnings were up ~15% YoY for the universe. Metals, RIL & Banks saw the biggest YoY growth. Cement sector saw sharp fall in profitability.

- EBITDA margin (ex-financials) contracted by 168 bps from 18.8% YoY to 17.1% YoY. Several consumer companies have faced challenges to balance revenue growth and margins as they took price hikes. Margin pressures most visible in Consumer, Autos, cement, healthcare utilities and IT sectors.

- Across the board, input cost pressure has not dented earnings outlook yet indicating the ability to rationalize and pass on cost. Going forward, cost pressures may rise as commodity price intensity remains high and operations resume in full swing and raw material prices continue to see upward pressure.

- **Key near term monitrables**: State election outcomes (UP – early Mar'22); quantum of hikes in fuel prices post elections; Ukraine-related developments - their impact on crude & volatility and US rate hikes – quantum, timing.

Q3FY22 – Earnings review – Financials & Commodities lead

Sector	No.	Sales			EBITDA			PAT		
Rs bn	Co's	Q1 FY22	Q1 FY21	Growth %	Q1 FY22	Q1 FY21	Growth %	Q1 FY22	Q1 FY21	Growth %
Consumer Staples	14	688	590	17	149	133	12	101	92	10
Consumer Discretionary	31	1,595	1,465	9	221	228	(3)	125	133	(6)
Telecommunication Services	3	410	348	18	195	151	29	28	21	31
Cement	7	572	525	9	105	123	(15)	47	52	(10)
Domestic non-cyclicals	**55**	**3,265**	**2,928**	**11**	**669**	**635**	**5**	**300**	**298**	**1**
Health Care	22	629	575	9	152	142	7	95	105	(9)
Information Technology	11	1,488	1,233	21	363	335	8	253	237	7
Exports	**33**	**2,118**	**1,808**	**17**	**515**	**478**	**8**	**349**	**343**	**2**
Sub-Total Non Cyclicals	88	5,382	4,736	14	1,184	1,113	6	649	641	1
PSU Bank	7	1,256	1,198	5	499	495	1	183	112	64
Pvt Bank	12	1,001	936	7	486	445	9	280	210	34
NBFC	19	803	808	(1)	293	240	22	229	186	23
Insurance	5	495	438	13	16	17	(3)	13	13	4
Financials	43	3,555	3,380	5	1,294	1,197	8	706	521	36
Industrials	23	1,038	879	18	194	172	13	105	87	21
Utilities	11	1,273	975	31	381	316	21	182	141	29
Materials	10	2,392	1,639	46	581	442	32	307	200	53
Energy	10	7,851	5,545	42	733	550	33	425	270	58
Others	7	274	94	192	26	3	647	12	(2)	L to P
Sub-Total Cyclicals	61	12,828	9,132	40	1,916	1,483	29	1,032	694	49
Total	**192**	**21,765**	**17,248**	**26**	**4,394**	**3,793**	**16**	**2,386**	**1,856**	**29**
Total (Adjusted)**	**165**	**10,266**	**8,865**	**16**	**2,581**	**2,306**	**12**	**1,471**	**1,275**	**15**

Note: PPOP for Financials used as an 'EBITDA' equivalent measure; **Ex-Energy, PSU Banks & Materials; Methodology: Aggregates are based on a sample of 194 NSE200 companies that have quarterly financial data Dec-21 period. We have excluded few Co's / Sectors from our analysis, as large losses of these companies distort the aggregate earnings.

Outlook: Earnings Upgrades continue

Demand has clearly picked up, but margin pressures remain

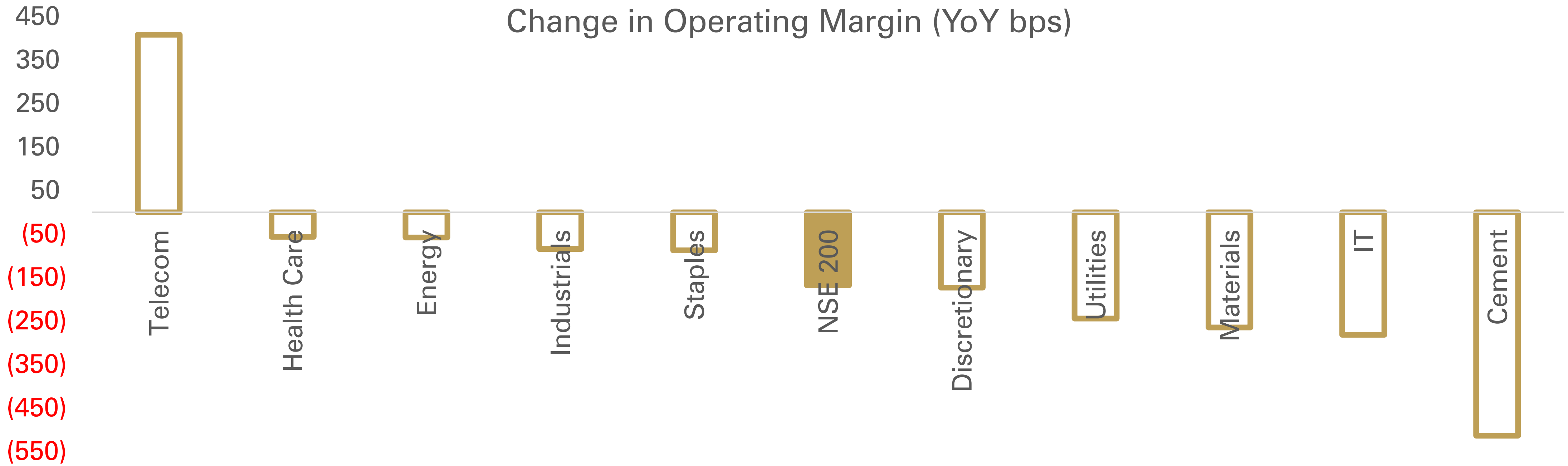
Sectoral update

- **Key positives**: **Banks / lenders** saw strong YoY earnings growth with even PSU banks surprising on upside on improved asset quality. Loan growth picked up for several private banks. **Property cos** reported strong pre-sales trend, maintained positive outlook on both new launches and pricing. **IT** cos saw earnings upgrade on revenues beat. Hiring climbed further QoQ, from what were already record levels. **Auto OEM** results were mostly inline as the margin trajectory improved QoQ led by better ASPs. Production improvement is envisaged QoQ with cos highlighting improved chip supply situation. **Consumer discretionary** results were decent on strong volume performance.

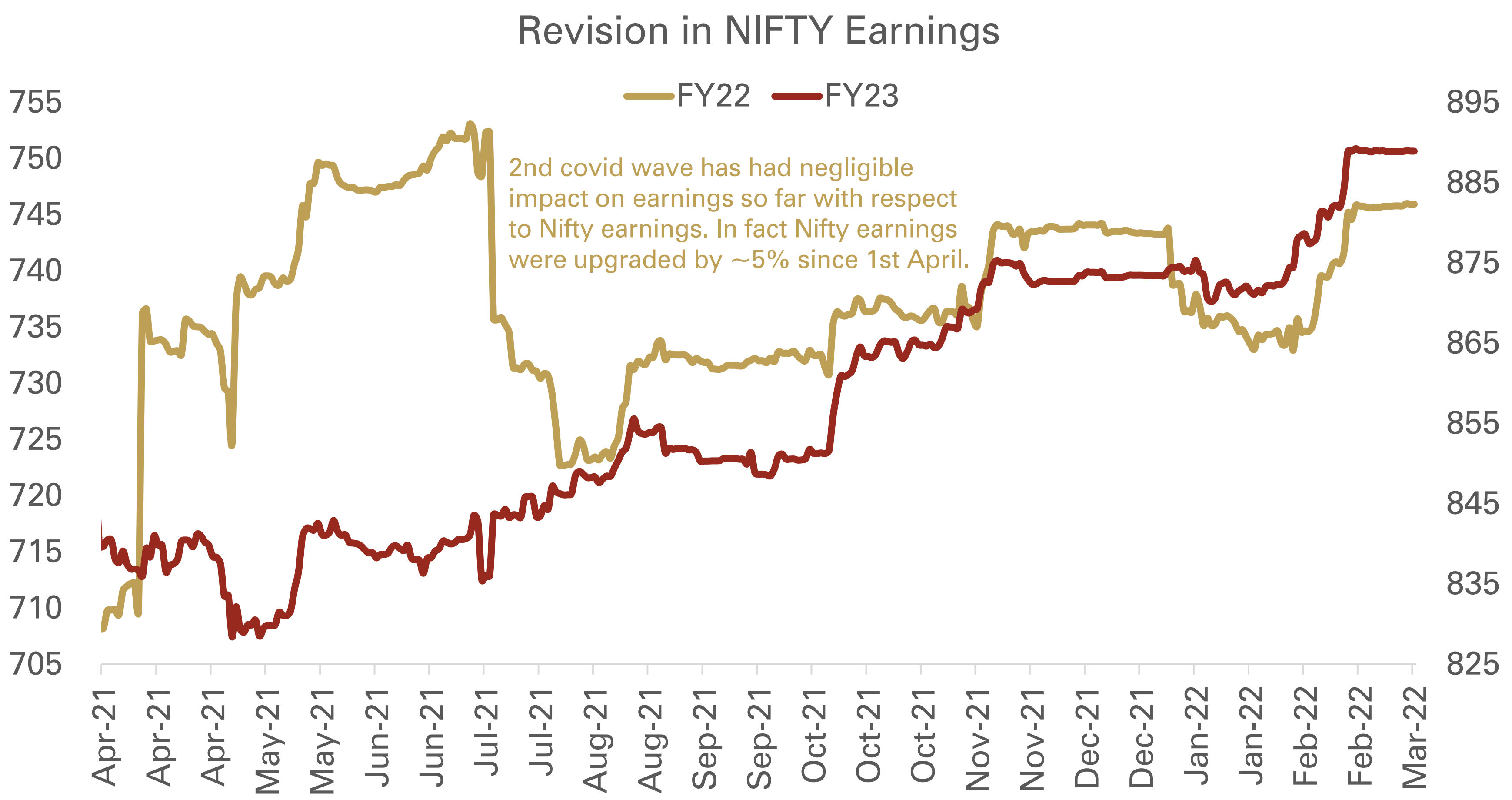
- **Key disappointments: Cement** results were weak on sluggish volumes, pricing growth muted but energy costs surged. **Staples** saw a weak volume trend that impacted overall performance with majors seeing 0-2% vol. growth. **Consumer durables** saw weak earnings partly on muted demand and rising gross margin pressures. **Industrial** earnings disappointment; though several cos reported rising orders. **Pharma** generics results continued to be impacted by high single digit price erosion in US biz and rising raw material prices.

Q3 FY22 Earnings – Margins

Impact of higher commodities prices: Sectors / companies show high input cost-related margin pressures intensifies. EBITDA margins contracted for the third consecutive quarter. Going forward, improvement/stability in margins would depend on the ability of corporates to pass on the increased costs to consumers without impacting demand conditions (considering inflationary cost pressures remain same). Companies generally seem confident of taking price increases to offset RM hit.



Earnings upgrade cycle continues



- Nifty earnings delivery has witnessed improvement vs expectations leading to earnings upgrade and supporting market performance.
- Nifty earnings have witnessed upgrades to the tune of 5% during FY22 YTD basis.

Despite the high inflationary environment and some rise in cost of funds, earnings have largely remained in line with expectations Nifty FY 22 /FY 23 estimates, at an aggregate, earnings continue to see a marginal upward revision though the extent of upgrades have come down.

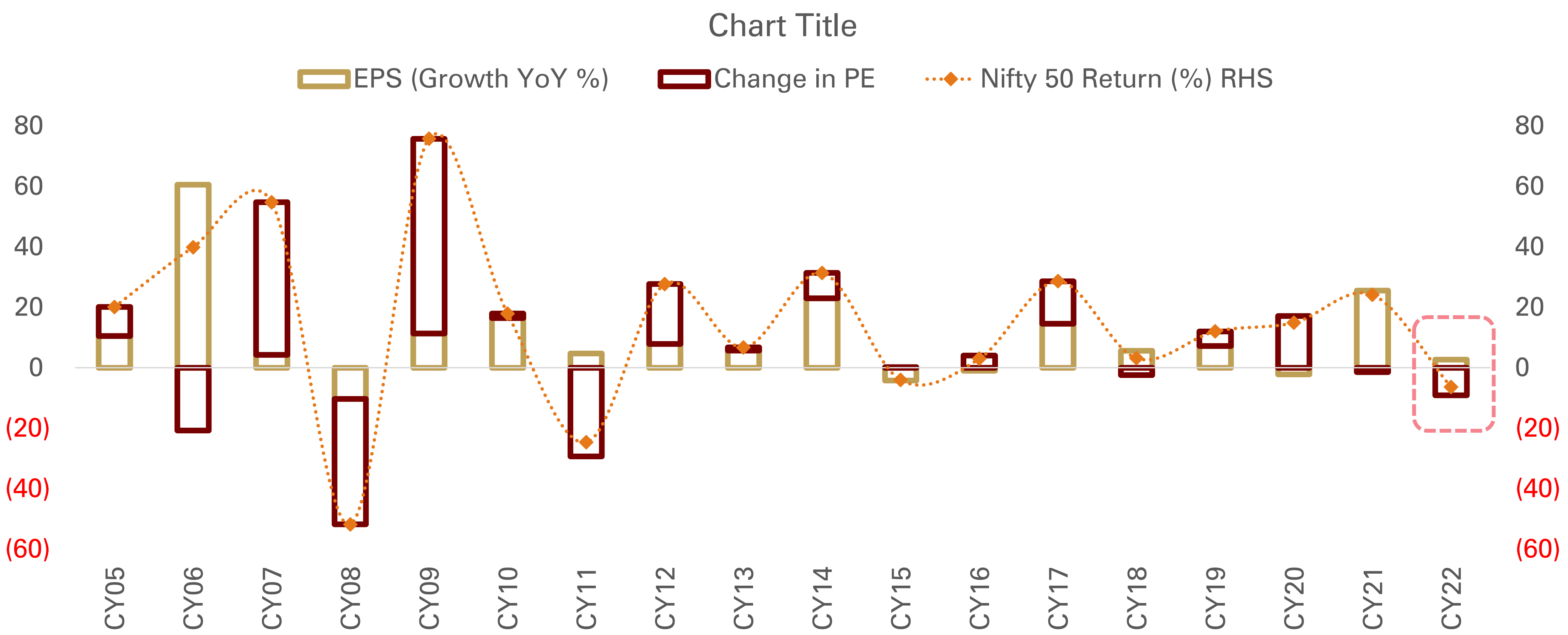
However, a prolonged period of high inflation can potentially disrupt earnings upcycle.

Outlook: Earnings Upgrades continue

Remain key support for incremental market performance

- FY23 EPS estimates rose 2-3% during the results season.
- In fact Nifty earnings were upgraded by ~5% since 1st April.
- Financials to drive predominant part of the earnings growth during the next couple of years.
- **Relative drivers of earnings growth**
  - Benefit of a large and increasing integrated domestic market, with ample liquidity;
  - Early stages of evolution of the digital economy
  - Corporate balance sheets have witnessed strength (lower leverage & capacity utilizations to aid growth)
  - Lower interest rates & higher affordability offers room for housing cycle to continue positive momentum;
  - Domestic production and import replacement;
  - Relatively low external vulnerability and
  - Benefit that India derives by being a distinct alternative to China.
  - Risk: Operating margin continued to be impacted by high inflation in several commodity prices and higher energy cost. **If they remain high for too long it may have potential to derail growth expectations.**

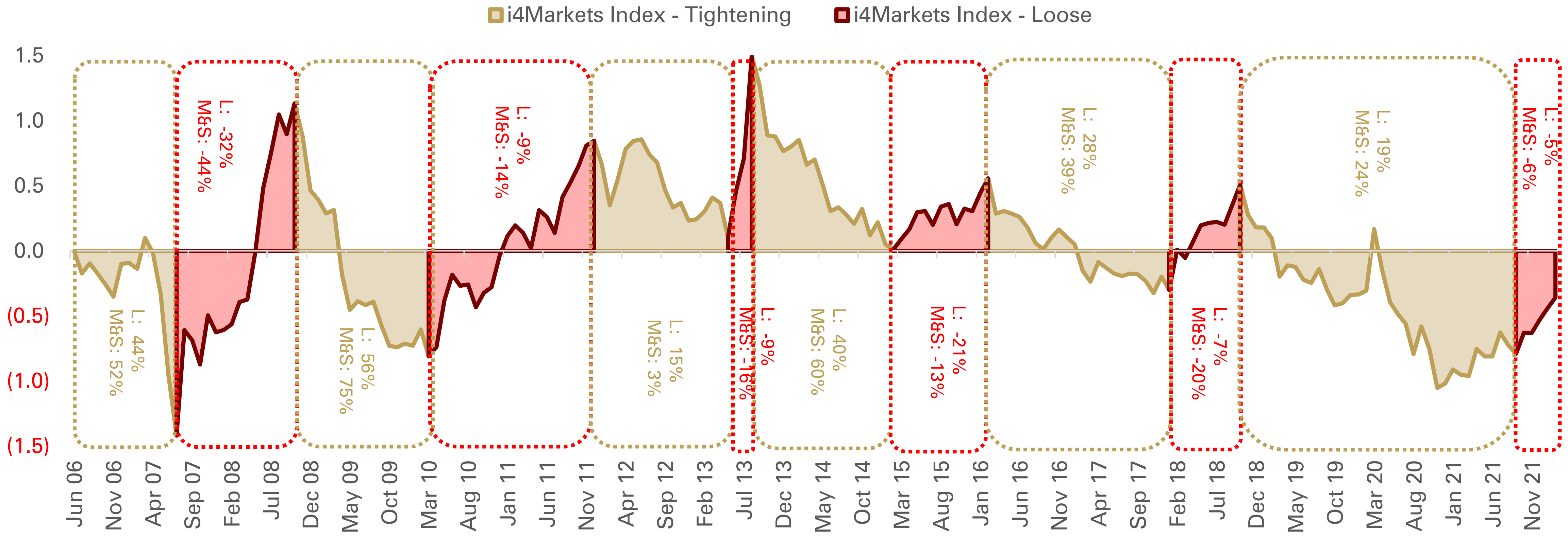
Stacking up of Nifty Returns: Valuations likely to contract in CY22



Nifty returns have been dominated by expansion in PE valuations in recent years. Going forward, earnings growth may remain key driver for market performance as valuations may not be supportive. Interestingly, Nifty has delivered positive returns for last five years, posing some risk for 2022

… but Financial conditions are expected to tighten which can impact overall market performance

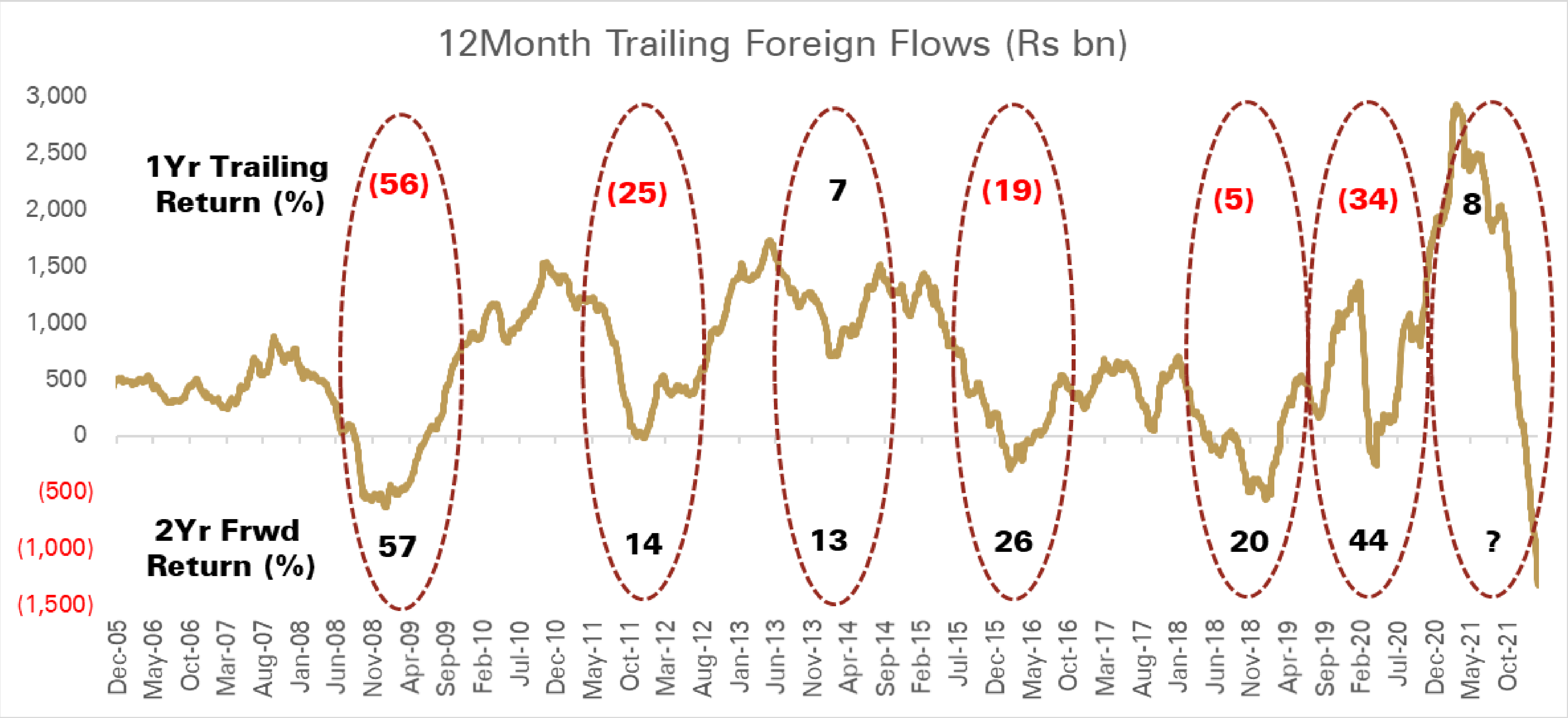
Financial Conditions may tighten going forward in India as well



L – Large Caps; M&S – Mid & Small Caps; Performance of Large, Mid & Small Caps are in CAGR for period >1Yr and on absolute if <1Yr

Financial conditions as per ICICI Bank's i4Markets index: Conditions expected to tighten going ahead, as inflationary pressures are likely to push global central banks to wind down monetary policy support at a quicker pace. RBI has also begun the process of normalizing its monetary policy by letting short end bond yields rise (through VRRR auctions). Lower Balance of Payment surpluses may also gradually weigh on systemic liquidity, esp. if credit growth picks up. **During previous episodes of financial conditions tightening, Equity markets have usually underperformed.**

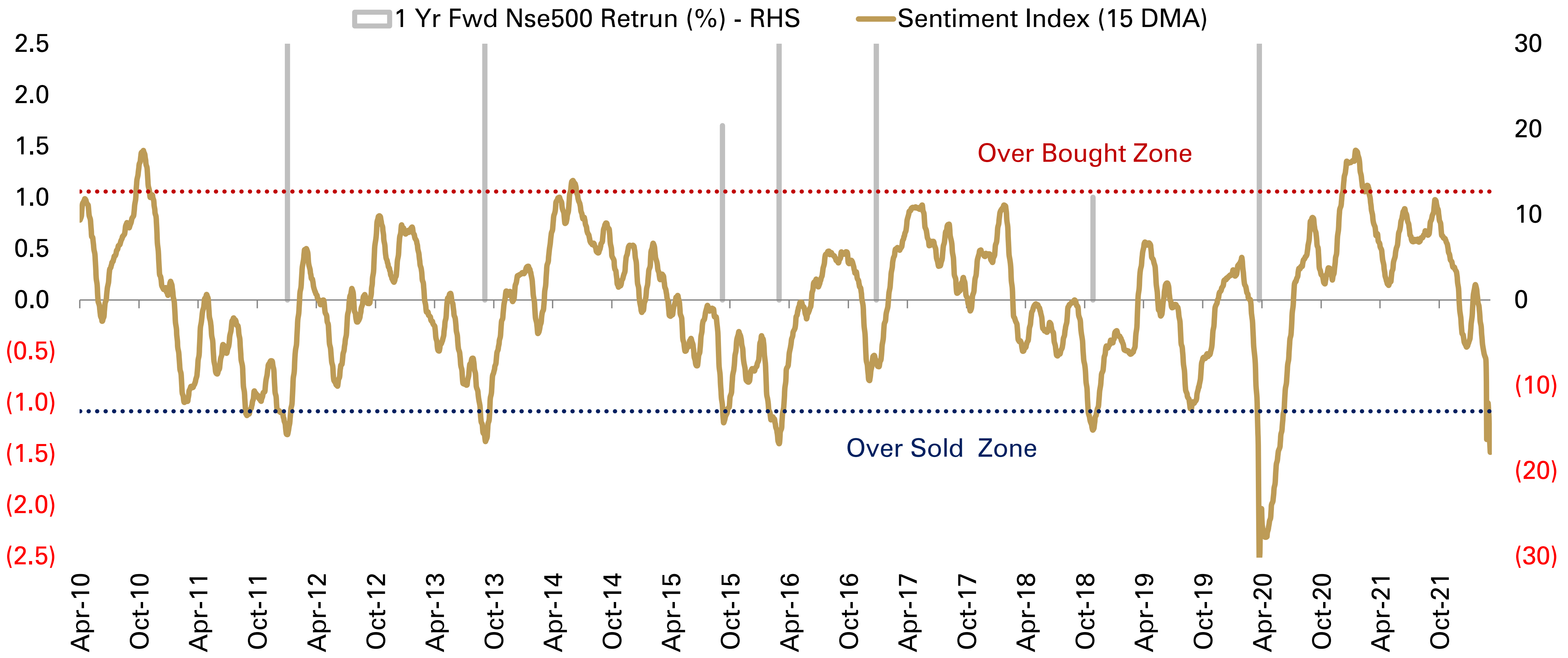
Institutional (out)flows seem to have bottomed out



Institutions have been sellers esp. led by FPI's. However, in context of historical trend, institutional investors flows is closer to bottom with respect to market cap and can mean revert sometime in 2022, as in history, providing some upside to market.

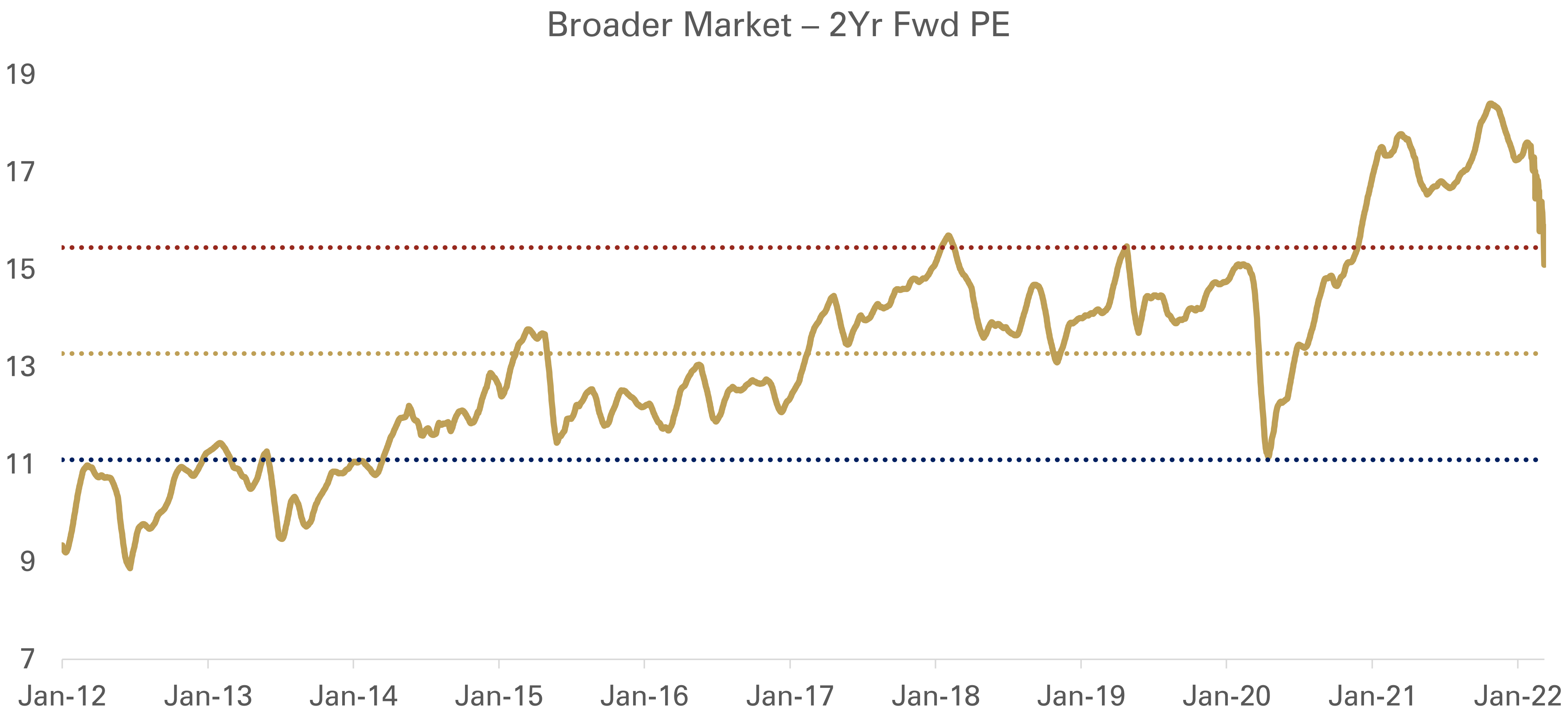
Equity Strategy & Valuations

Indian equity sentiment indicator



Sentiment index has dropped sharply and is now closer to attractive levels.

Market is now cheaper but still not cheap enough



Despite the recent pullback, Nifty P/E is above its historical average

Summary: Equity Strategy

External risks continue to rise in CY22, given rising oil prices and geopolitical scare

- Our equity strategy is determined by factors such as earnings growth (upgrades / downgrades), financial conditions (loosening / tightening), equity risk premium (above / below average), flows & positioning, shape of yield curve and local macro (inflation, fiscal & current account situation)

- As US 10 Year yields rose above 1.8% in Jan 22, that was the trigger for turning defensive towards Equities

- Since then other factors have also turned adverse, exacerbated by rising Oil prices while Equity markets have corrected at the same time across the board

- We model further PE de-rating as financial conditions tighten (equity risk premium rising to average levels), although a relief rally is a possibility if the geo political situation normalizes and / or if Oil prices correct below 100 levels

- Therefore, 'buy on dips' is suggested only for those investors who are Underweight Equities. Those fully invested can wait for further investment

- Once FII selling stops, Banking sector may outperform

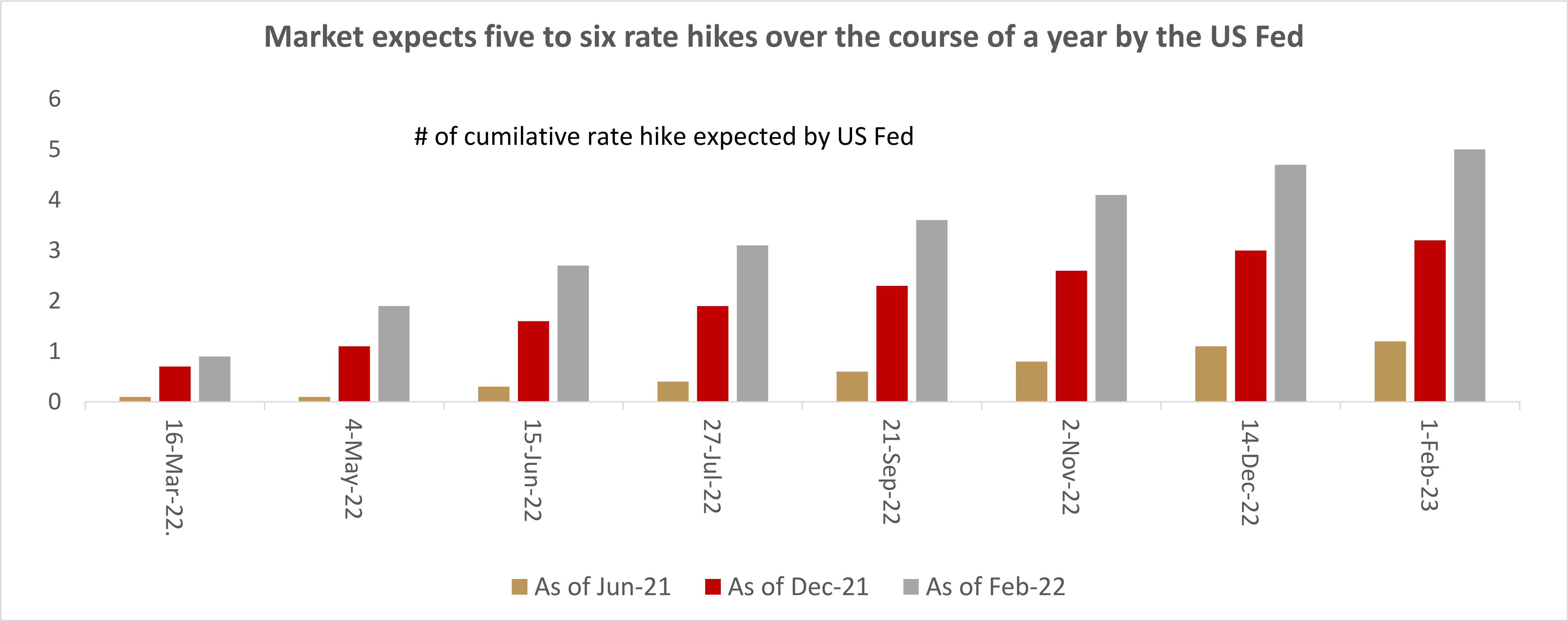
Fixed Income

Central Banks have embarked on policy normalization

Policy Rate (in %)	Dec-19	Dec-20	Mar-21	Jun-21	Sep-21	Oct-21	Nov-21	Dec-21	Feb-22
China	4.15	4.15	3.85	3.85	3.85	3.85	3.85	3.8	3.7
India	5.15	4	4	4	4	4	4.0	4.0	4.0
South Korea	1.25	0.5	0.5	0.5	0.75	0.75	1.0	1.0	1.25
Indonesia	5	3.75	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Taiwan	1.38	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
Thailand	1.25	0.5	0.5	0.5	0.5	0.5	0.50	0.50	0.50
Malaysia	3	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
Philippines	4	2	2	2	2	2	2	2	2
Russia	6.25	4.25	4.5	5.5	6.75	7.5	7.5	8.5	20.0
Turkey	12	17	19	19	18	16	15.0	14.0	14.0
South Africa	6.5	3.5	3.5	3.5	3.5	3.5	3.75	3.75	4.0
Brazil	4.5	2	2.75	4.25	6.25	7.75	7.75	9.25	10.75
Mexico	7.25	4.25	4	4.25	4.75	4.75	5.00	5.50	6.0
Colombia	4.25	1.75	1.75	1.75	1.75	2.5	2.5	3.0	4.0
Chile	1.75	0.5	0.5	0.5	1.5	2.75	2.75	4.0	5.50
US	1.75	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Eurozone	0	0	0	0	0	0	0.00	0.00	0.0
UK	0.75	0.1	0.1	0.1	0.1	0.1	0.10	0.25	0.50
Japan	0.1	0.1	0.1	0.1	0.1	0.1	0.10	0.10	0.10

Many EMs are already at an advanced stage in hiking cycles. Developed markets also have embarked on policy normalization, however at this point, policymakers obviously face even more uncertainty regarding the growth outlook, the immediate risk from the latest rise in energy prices and near-term inflation outlook

US Fed expected to commence rate hike in March'22



With US inflation already at 7.5% in January and increasingly broadly-based, the Fed's priority is to stabilize inflation and be confident that it will soon be heading on a downward path even as it now faces external shocks to inflation that are beyond its control. Market expects five to six rate hikes by the US Fed over the course of a year

Inflation is above target range for most of economies

Countries	Inflation target range (%)	Latest inflation print (%)	Last 6 month avg. inflation (%)	Latest inflation print higher than target band (Yes/ No)
Emerging Economies				
China	~3.0	0.9	1.3	No
India	4.0 ± 2.0	6	5.1	No
Indonesia	3.0 ± 1.0	2.2	1.8	No
Taiwan	2	2.8	2.6	Yes
Thailand	1.0 - 3.0	3.2	2	Yes
Malaysia	2.5-4	2.3	2.7	No
Philippines	3.0 ± 1.0	3	3.7	No
Russian Federation	4	8.7	8	Yes
Turkey	5	48.7	27.5	Yes
South Africa	3.0-6.0	5.7	5.3	No
Brazil	3.5 ± 1.5	10.4	10.3	Yes
Mexico	3.0 ± 1.0	7.1	6.6	Yes
Colombia	2.0-4.0	6.9	5.2	Yes
Chile	3	7.7	6.3	Yes
Developed Economies				
United States	2	7.5	6.4	Yes
Eurozone	2	5.3	4	Yes
United Kingdom	2	5.5	4.4	Yes
Japan	2	0.5	0.3	No
South Korea	2	3.6	3.2	Yes

- With energy prices moving further up due to recent issues inflation is likely to move up further. Globally, inflation has remained well above the target for majority of the economies, prompting faster-than expected rate hikes
- India's inflation has remained within the upper-target band

Rising Global Bond Yields

10 Year Gsec Yield (% mth end)	2020 end	Mar-21	Dec-21	Feb-22	YTD change (in bps)
Developed market					
US	0.91	1.74	1.51	1.83	32
Germany	-0.57	-0.29	-0.18	0.14	32
Italy	0.54	0.67	1.17	1.71	54
Japan	0.02	0.1	0.07	0.19	12
Spain	0.05	0.34	0.57	1.12	55
UK	0.2	0.85	0.97	1.41	44
Emerging Market					0
Brazil	6.91	9.28	10.84	11.56	72
China	3.15	3.19	2.78	2.79	1
India	5.87	6.17	6.45	6.77	32
Indonesia	5.86	6.76	6.36	6.50	14
Malaysia	2.65	3.27	3.58	3.67	9
Russia	5.92	7.04	8.45	15.99	754
Thailand	1.32	1.97	1.89	2.14	25
Turkey	12.9	18.86	24.32	21.99	(233)
Mexico	5.55	6.84	7.57	7.95	38
Poland	1.24	1.57	3.67	4.10	43
South Africa	8.75	9.5	9.81	9.85	4
Colombia	5.39	6.97	8.19	9.53	134
Hungary	2.08	2.71	4.51	5.24	73

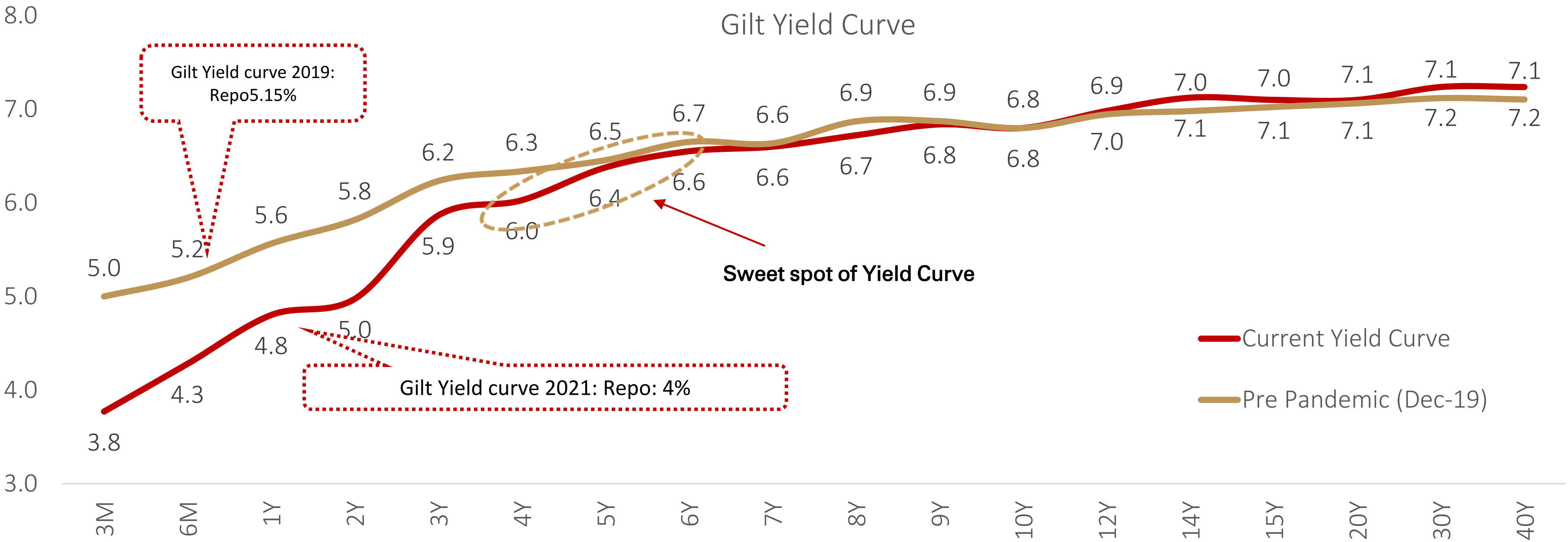
Inflationary pressures & increasingly hawkish monetary stances by major central banks across the globe resulted in higher bond yields.

Yields across the curve have gone up CYTD

Particulars	28-Feb-22	31-Dec-21	30-Sep-21	31-Mar 2021	1 Jan 2021	Change YTD Inc/ (Dec)
Call Rate	3.25	3.35	3.05	3.35	3.05	-0.1
Repo	4.0	4.0	4.0	4.0	4.0	0
Short Duration						
3M T-Bill	3.78	3.61	3.28	3.24	3.01	0.17
6M CD	4.35	4.20	3.53	3.77	3.5	0.15
6M CP	4.76	4.7	3.90	4.30	3.8	0.06
G-Sec						
1 Year Gilt	4.50	4.40	3.93	3.87	3.50	0.1
2 Year Gilt	5.0	4.90	4.60	4.54	4.25	0.1
5 Year Gilt	6.0	5.87	5.75	5.84	4.99	0.13
10 Year Gilt	6.76	6.47	6.17	6.12	5.83	0.29
10 Year SDL	7.0	6.9	6.76	6.69	6.43	0.1
Corp Bonds						
1 Year AAA	4.97	4.79	4.18	4.30	3.90	0.18
3 Year AAA	5.70	5.62	5.10	5.10	4.68	0.08
5 Year AAA	6.27	6.20	6.15	5.95	5.50	0.07
1 Year AA	7.16	7.1	6.81	6.95	6.70	0.06
3 Year AA	7.89	7.87	7.80	7.86	7.44	0.02

Yields have been gradually inching up, owing to liquidity measures by RBI and concerns on inflation and action by Global central banks.

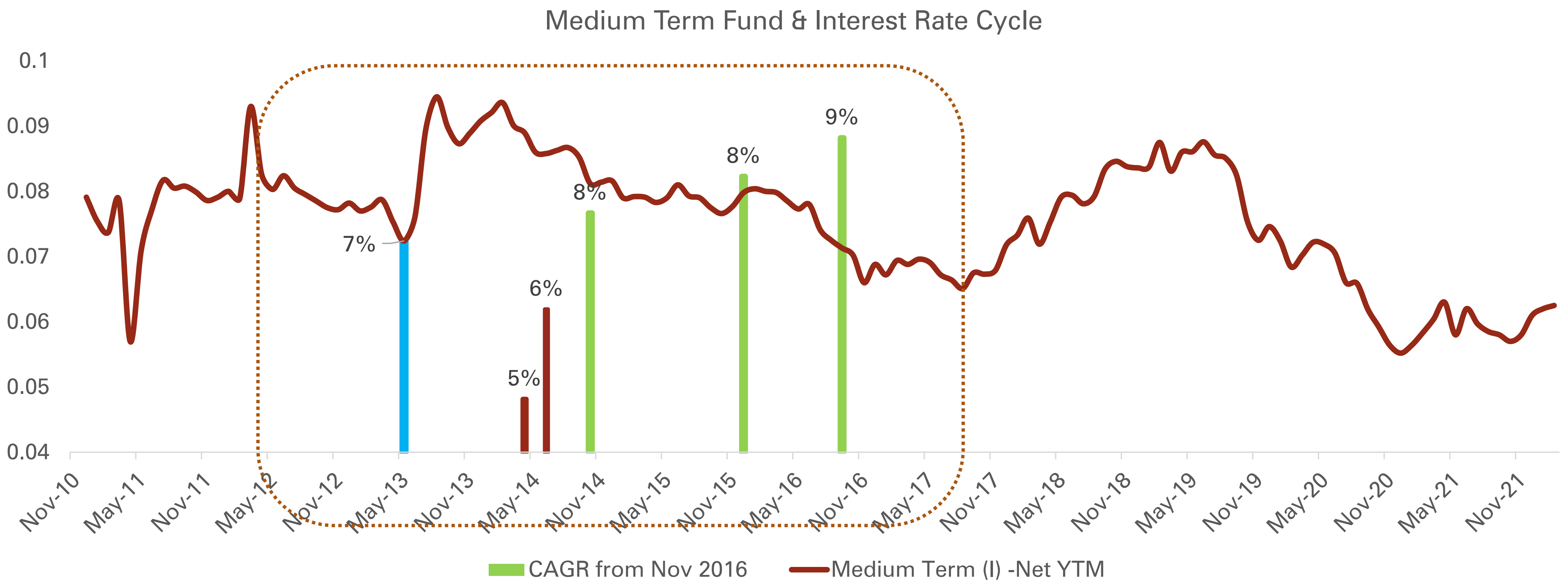
Steep curve offers value in mid part of the curve



Yield curve is steep. Compared to 1 year yield of close to 4.4%, 4-7 year yields are close to 6.4-6.7%

Funds which are targeted towards portfolio maturity 2026-2028 are appropriate for lower risk investors seeking higher visibility of returns over holding period horizon.

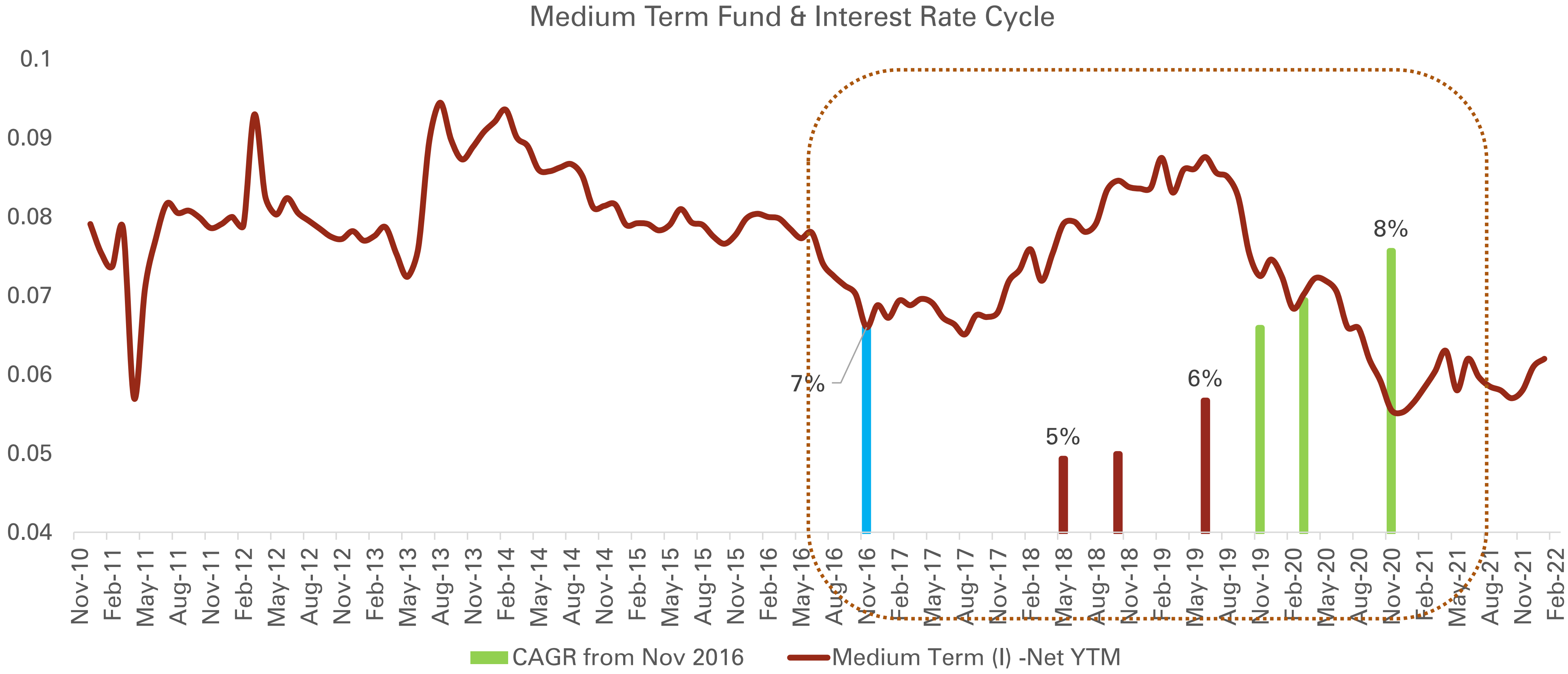
Interest Rate Cycle and Portfolio Return (Chart-I)



Since 2012, interest rates were on gradual decline till May-13, however post that due to Fed taper tantrum, the rates inched up significantly and remained at those levels for almost a year and then started to decline gradually.

Investors who invested at lower yields with investment horizon of more than 3 years were able to significantly outperform Net YTM, as full interest rate cycle played out, despite lower return in short term

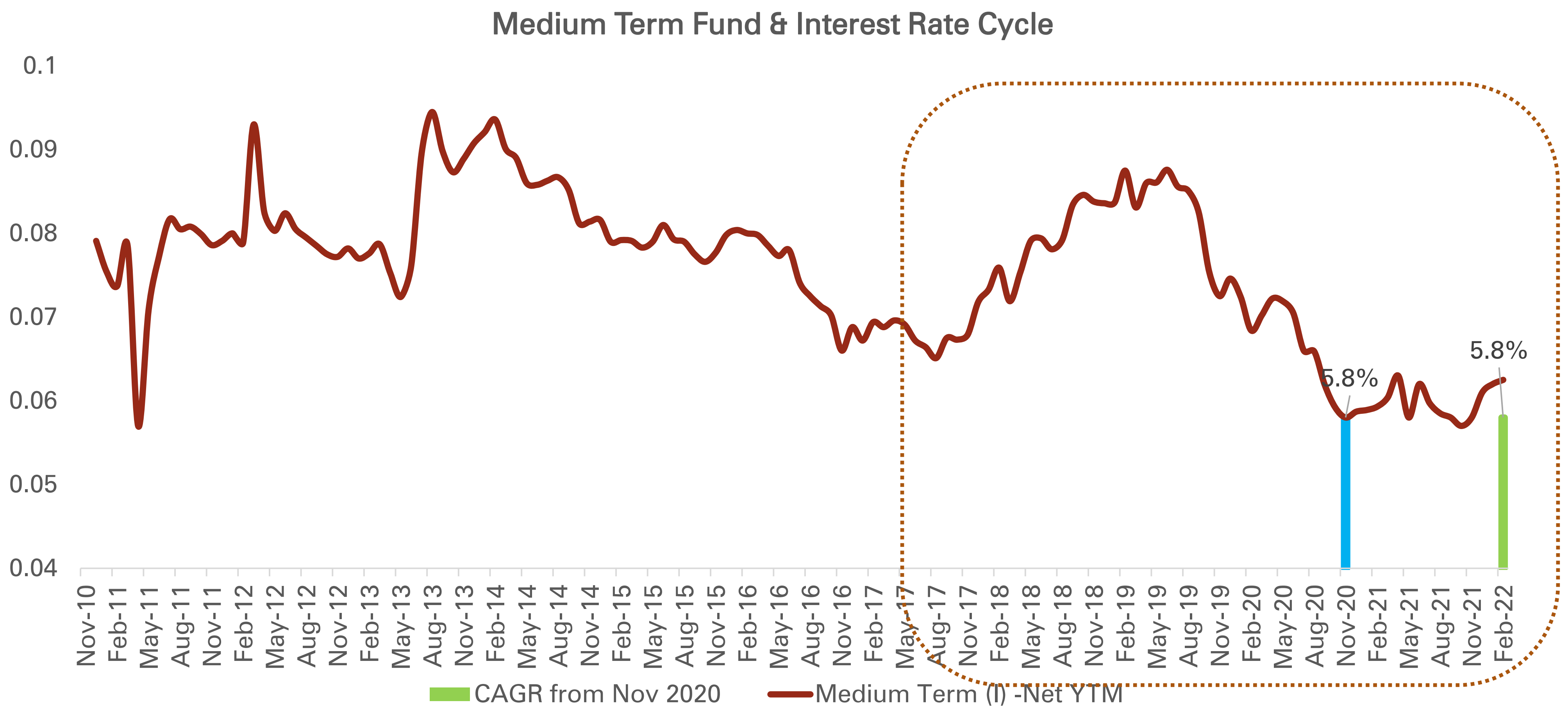
Interest Rate Cycle and Portfolio Return (Chart-II)



Interest rates again bottomed close to demonetization in Nov-16, and started to move up since mid of 2017 and further impacted by downgrades/ defaults in few of the names. Interest rates stared to come down since mid-2019.

Investors who invested at lower yields in end 2016, with investment horizon of more than 3/4 years were able to significantly outperform Net YTM as the full interest cycle played out.

Interest Rate Cycle and Portfolio Return (Chart-III)



Rates have been volatile for CY 2021 and is likely to go up from current levels.

Fixed Income Strategy

We believe, RBI might look at simultaneously changing stance and reducing policy corridor by raising reverse repo rate when it considers the same appropriate. However, as stated in the post policy interaction, RBI will communicate its policy glide path which RBI might come up in the next policy. This might give it room to raise repo rate by 75bps in FY23 as per our economists.

We believe yield curve is likely to flatten as short-end yields are likely to see a larger increase on the back of anticipation of narrowing of the corridor and repo rate hikes in next financial year. **Indian bond inclusion in global indices has the potential to anchor the long term curve.**

Given low rates & expectation of gradual upward movement in short term yields over time, **investors should consider products with duration lower than investment horizon**. Following is preferred strategy:

For investment horizon upto 3 months: prefer liquid funds. Individual investors can consider bank savings upto 3 months as other categories can be volatile.

For longer investment horizon (upto 1 Yr): investors can consider Ultra Short Term Funds, Arbitrage Funds & Deposits.

Horizon of more than 3-4 years –

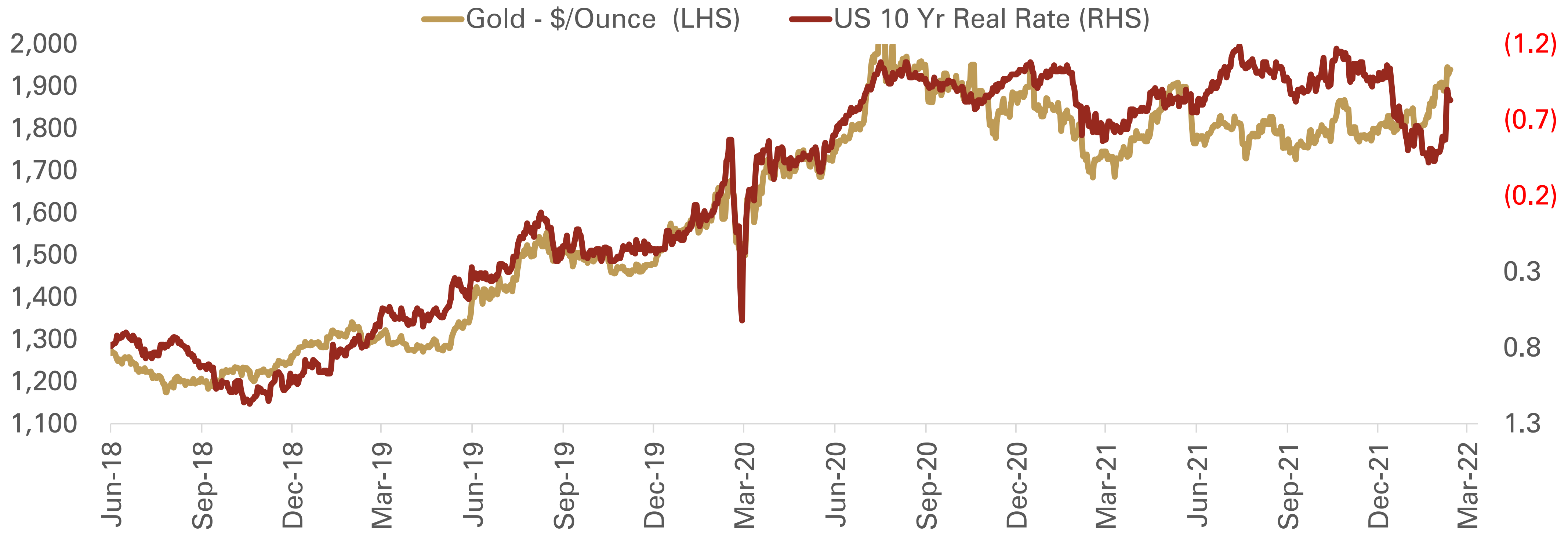
- Prefer funds with reasonable mix of AAA and AA (**medium term portfolios**) which have net yields of more than 5.5%. As highlighted, strategy can outperform the current net yield over 3-4 years, and also 3 year roll down / AAA strategies.
- One can also consider 5-7 year roll down strategies, for investors with horizon of more than 4 years

We reiterate that the experience of last decade is instructive towards the interest rate cycle. After bottoming out, interest rates tend to rise, only to moderate – the overall cycle being 3 to 4 years. Hence, its critical to have a 4-year horizon for longer term investors.

Gold

Gold price have tracked real yields

Some ‘uncertainty premium’ that has got built up (vs. Real yields). Eventually, as yields rise further, Gold may see some downward pressure



- Near term: A lot will depend on the duration of the conflict as well as whether there is a further round of intensification in terms of sanctions imposed.
- Medium-term: Gold prices may get weighed down by monetary policy tightening by global central banks pushing up real yields. **Hence, the demand for gold as a hedge against economic uncertainty may continue in near term but prices may moderate over medium term as real yields rise.**

ICICI Investment Management

Thank you

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