Investment Strategy

Executive Summary

Global / US

- Economic growth likely to remain strong, albeit risks from Delta variant are rising
- Momentum of rise in Commodities moderating, helping ease inflationary expectations
- High growth stocks have outperformed as bond yields have fallen, though remain vulnerable to reversal as quite likely bond yields shall rise, rather than fall
- Medium term valuation de-rating risks from rising bond yields remain intact, though lesser than expected earlier

India - Equities

- Broad indices continue to outperform, quite likely led by increasing non-insti participation
- **Maintain Equal Weight (medium term)** as economic activity expected to pick
- Local economic cycle far from peak, providing confidence of good future growth
- Prefer **exposure to Recovery themes & Banking Equities**
- However, brace for some correction led by global factors – 'buying opportunity'

India – Fixed Income

- RBI's G-SAP likely to influence interest rate curve to flatten, rate hikes in mid 2022
- Prefer medium duration portfolios as rates are likely to edge up gradually in medium term

Gold

- Contrary to expectation, Gold has rallied as Real Yields have declined while Dollar too has fallen. Continue to maintain mild Under Weight bias in medium term

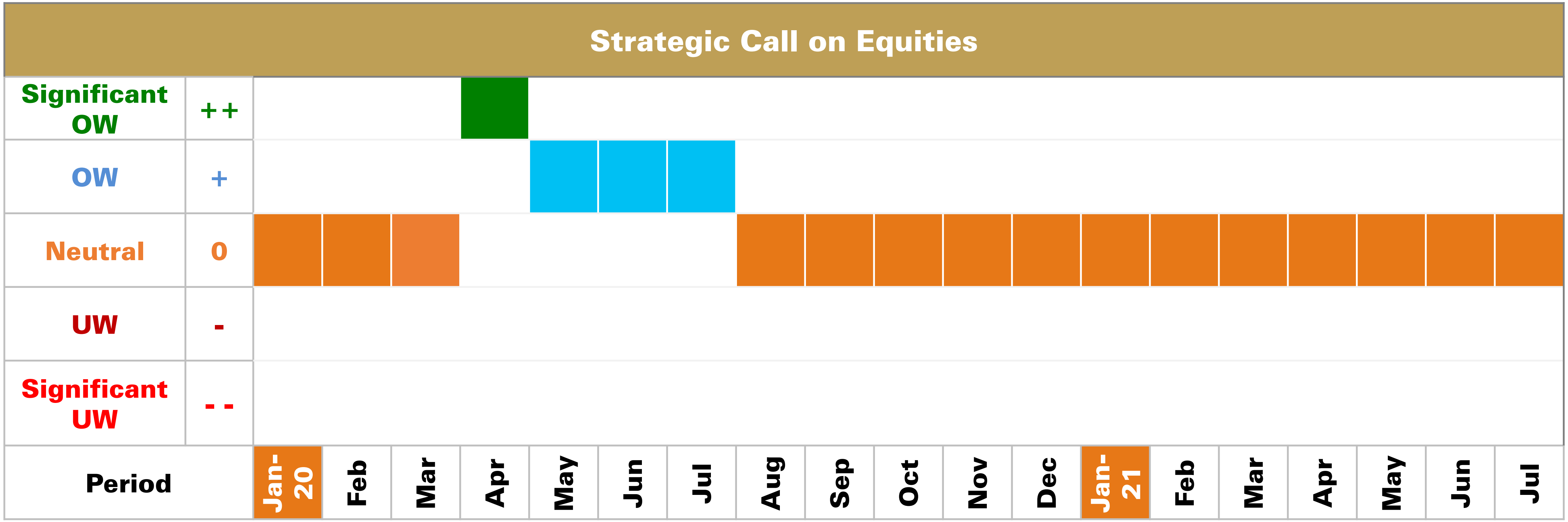
Asset Allocation Positioning

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		■					■			

Note: *Prefer mild tilt towards Cyclicals

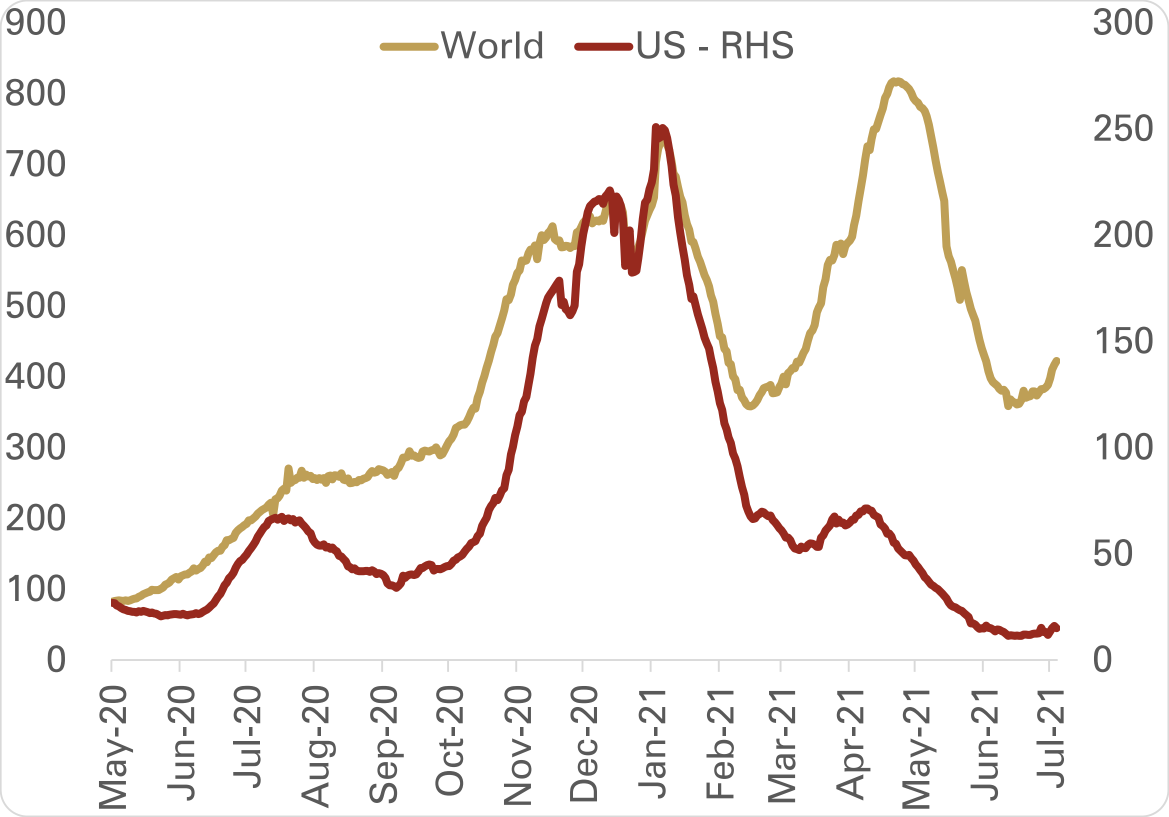
Legend	
++	Strong Overweight
+	Overweight
0	Equal weight
-	Underweight
- -	Strong Underweight
◆	Previous Position

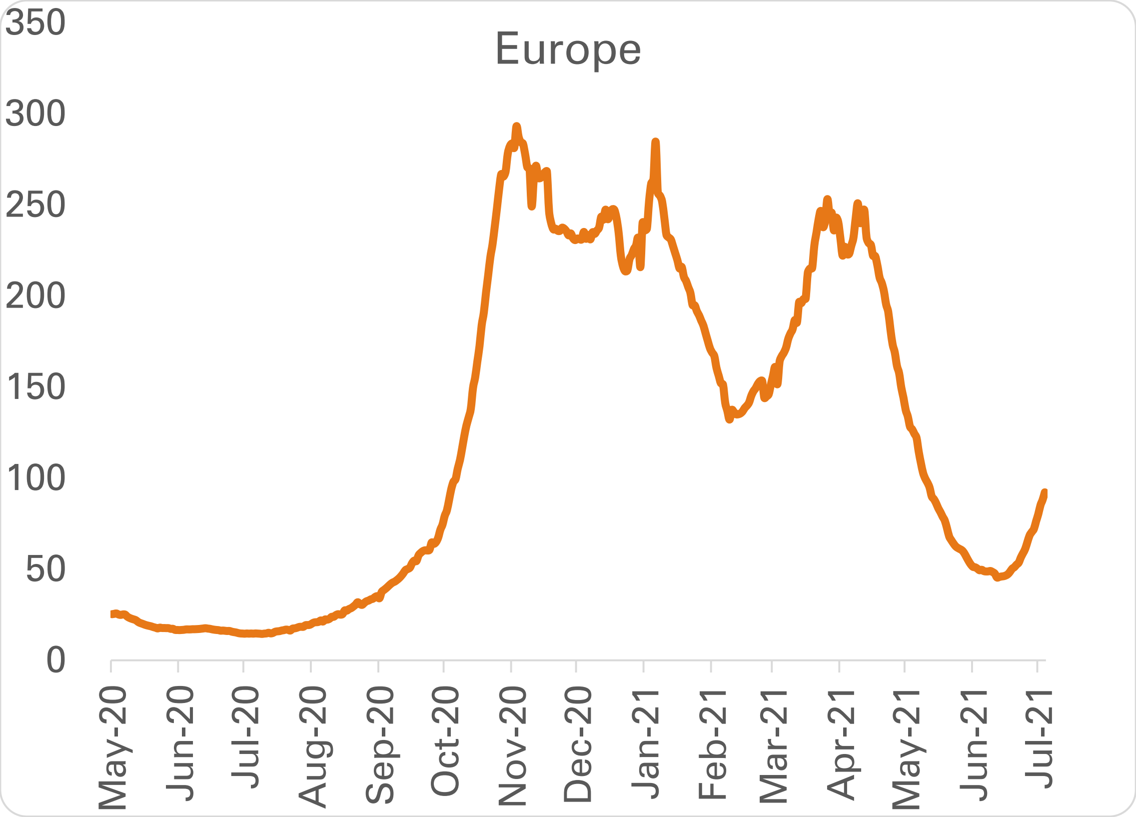
Strategic Indian Equity Allocation (recent history)



A Possible 3rd Wave?

Cases are witnessing resurgence in few regions (000's)

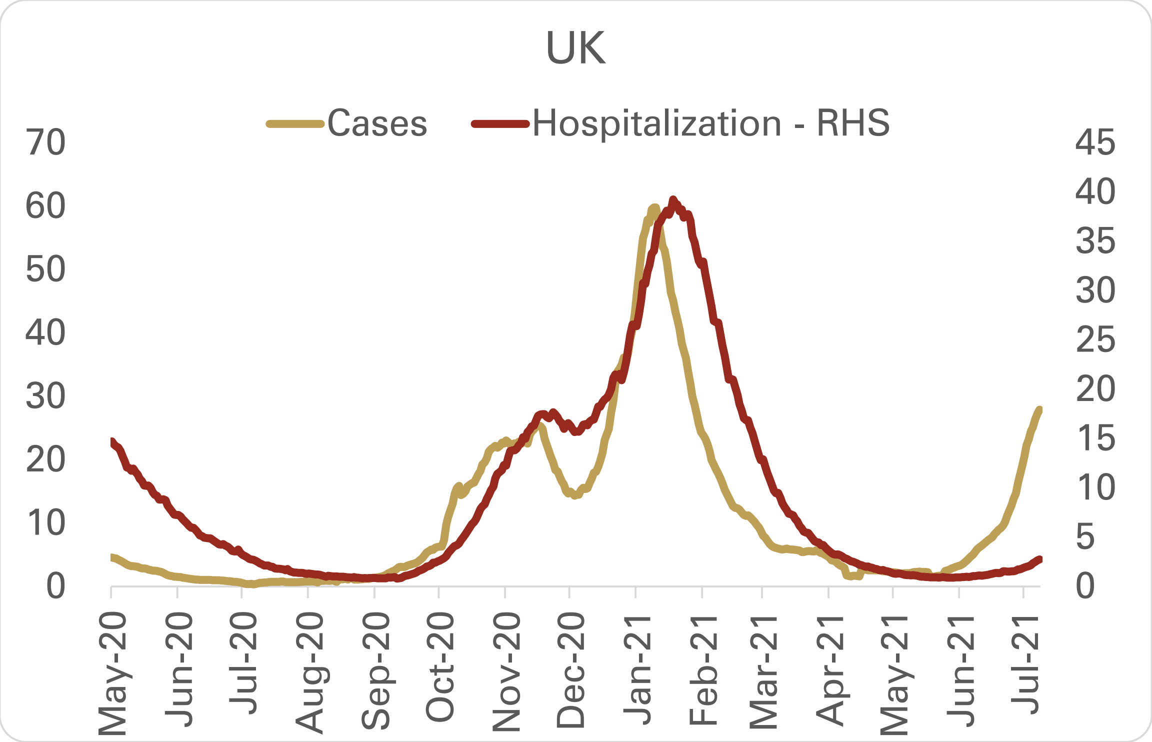


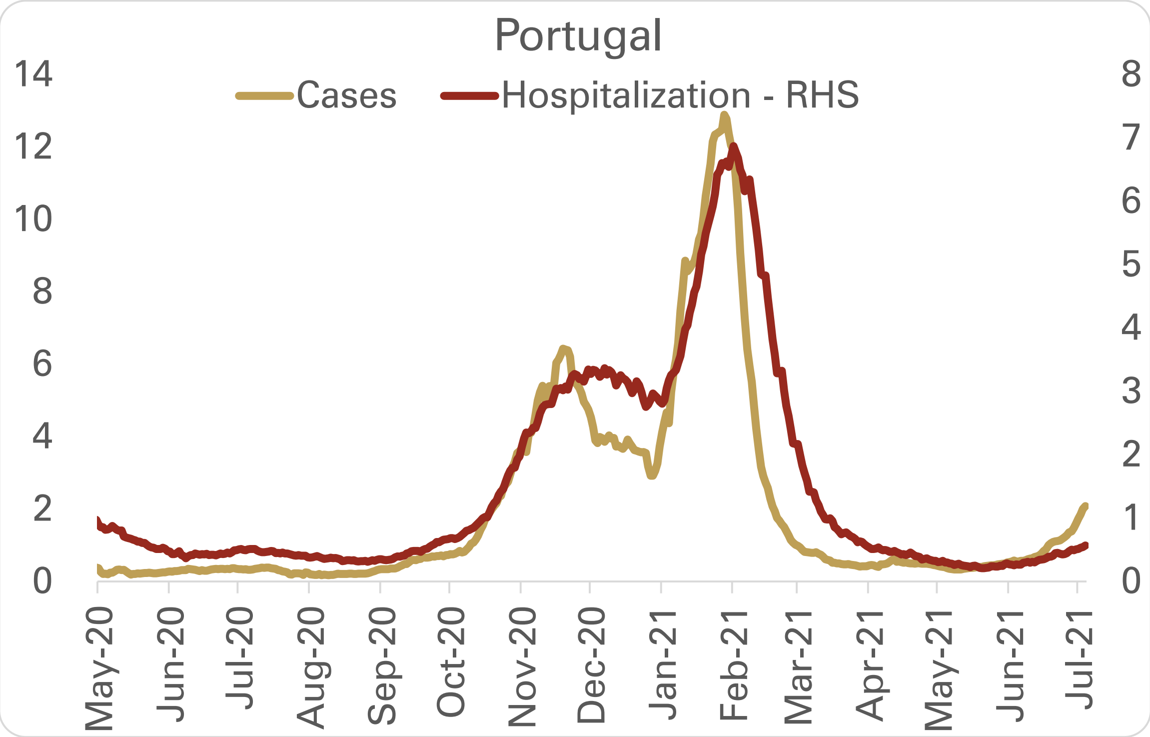


- Evidence increasing of the spread of the Delta form of coronavirus, characterized by the World Health Organization as the "fastest and fittest" of all variants.
- Fortunately, most of Delta infections have been among younger people who are less likely to fall seriously ill. Also, hospitalizations & fatalities from the virus remain very low, while more than 48% & 44% of US & EU adults are fully vaccinated. Thanks to rapid vaccination progress, it unlikely that countries will again have to impose serious restrictions to economic activity to contain medical risks.

Few countries are witnessing resurgence in daily cases (000's)

While cases have risen but hospitalization remains in check; Vaccination helping immunity

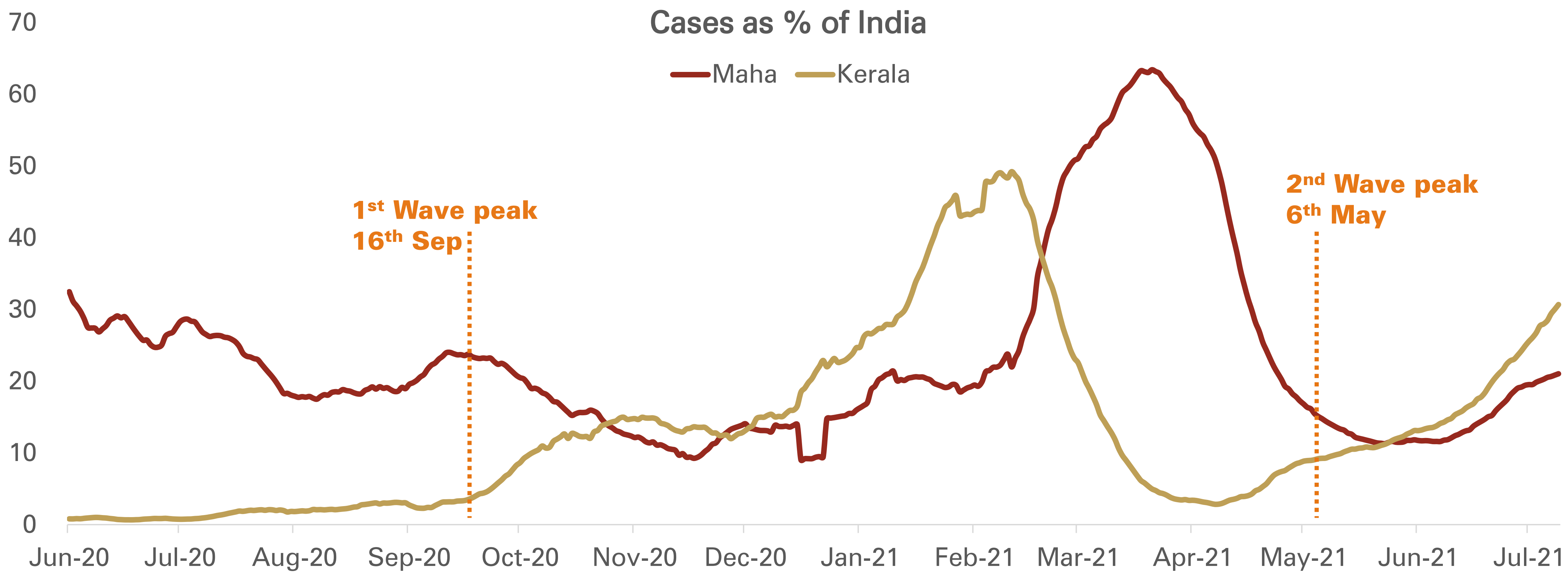




Note: UK & Portugal have witnessed 52% & 36% of population being fully vaccinated respectively.

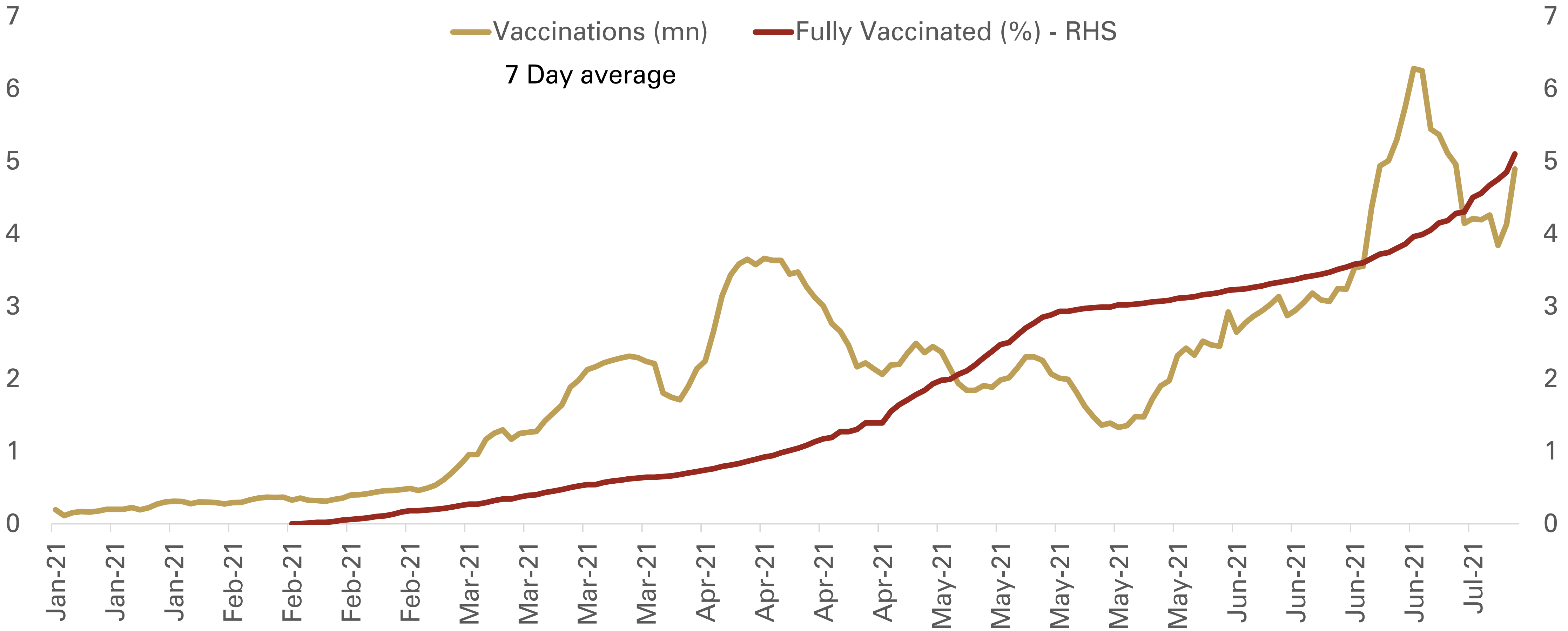
- Given the pace of vaccination, the focus now needs to turn towards rate of hospitalization due to Covid rather than the case count itself, which fortunately isn't alarming as yet.
- Spanish government argues that hospitalization rates remain low — with only 2.6% of beds occupied by Covid patients compared with 2% a week ago — and that the infection rate is less significant than the rising share of fully vaccinated people.

Share of Maharashtra & Kerala rising in total India Covid cases



- Rising cases in Maharashtra (Maha) & Kerala remain a likely precursor to Covid-19 3rd wave basis history. Currently they account for 51% of the total Covid-19 cases
- However, hopes remain (given global experience, vaccination pick up & better preparedness) that the impact of any potential third wave may be contained

India: Vaccination supply is witnessing a rise as expected



- Vaccination drive continues to pick up pace, in line with expectation with daily vaccination now averaging ~ 5Mn

Risk-on rally – Global Inflation remains a key risk

Global markets outperformed led by Growth Stocks

Performance Since 16-Jun*	World		S&P		Nasdaq		EM		India	
Sector (%)	**Avg. Wt.**	**Return**	**Avg. Wt.**	**Return**	**Avg. Wt.**	**Return**	**Avg. Wt.**	**Return**	**Avg. Wt.**	**Return**
Total	**100**	**2**	**100**	**4**	**100**	**6**	**100**	**(3)**	**100**	**(2)**
Defensives	65	4	72	5	98	6	61	(3)	48	(1)
IT	22	6	27	7	49	7	20	(3)	17	(0)
Discretionary	13	2	13	4	7	5	5	(1)	6	0
Comm. Serv.	9	3	11	3	20	4	11	(6)	3	(0)
Health Care	12	3	12	6	17	7	17	(3)	8	(3)
Cons. Staples	7	(0)	6	1	5	2	6	(4)	9	(1)
Utilities	3	(2)	2	(1)	1	(1)	2	(7)	4	(14)
Cyclicals	34	(1)	28	(0)	2	3	38	(3)	52	(3)
Materials	4	(1)	3	(1)			8	(0)	10	1
Industrials	11	0	9	1	2	3	5	0	4	0
Real Estate	3	1	3	3			2	(6)	0	(4)
Financials	13	(3)	11	(1)			18	(5)	26	(2)
Energy	3	(5)	3	(4)			5	(5)	12	(8)

Note: *Fed policy

Technology / Growth stocks are witnessing a bounce back as Inflationary expectations have declined & bond yields have fallen post FOMC meet (a counter-intuitive move)

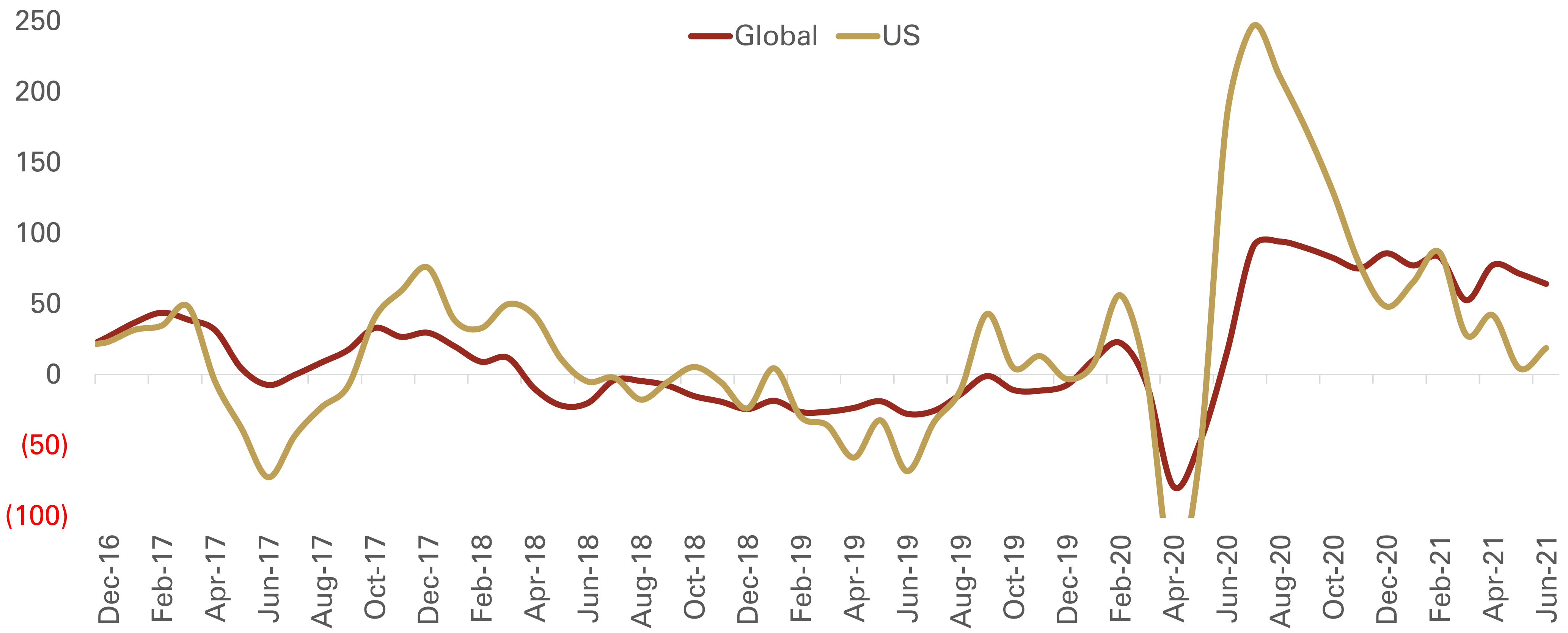
Commodity Prices witnessing moderation

Recent times have started to witnessed stabilisation in prices

$ / MT	Gold (Rs / 10 Gms)	Metal Index	Brent	Copper	Aluminium	Zinc	Steel	Lumber ($/000 board feet)
Q1 20	41,008	2,638	51	5,641	1,692	2,129	473	399
Q2 20	42,951	2,462	33	5,348	1,498	1,968	383	350
Q3 20	51,231	2,917	43	6,520	1,705	2,339	461	673
Q4 20	50,195	3,225	45	7,195	1,920	2,632	566	646
Q1 21	47,071	3,678	61	8,483	2,093	2,749	761	918
Q2 21	47,441	4,139	69	9,673	2,393	2,911	1,001	1,246
Q3 21 TD	47,566	4,155	75	9,367	2,507	2,926	966	751
Spot (Last traded)	47,723	4,187	76	9,482	2,481	2,961	960	703
Q3 CY21 (YoY %)	**(7)**	**42**	**74**	**44**	**47**	**25**	**109**	**12**
Q3 CY21 (QoQ %)	**0**	**0**	**9**	**(3)**	**5**	**1**	**(4)**	**(40)**

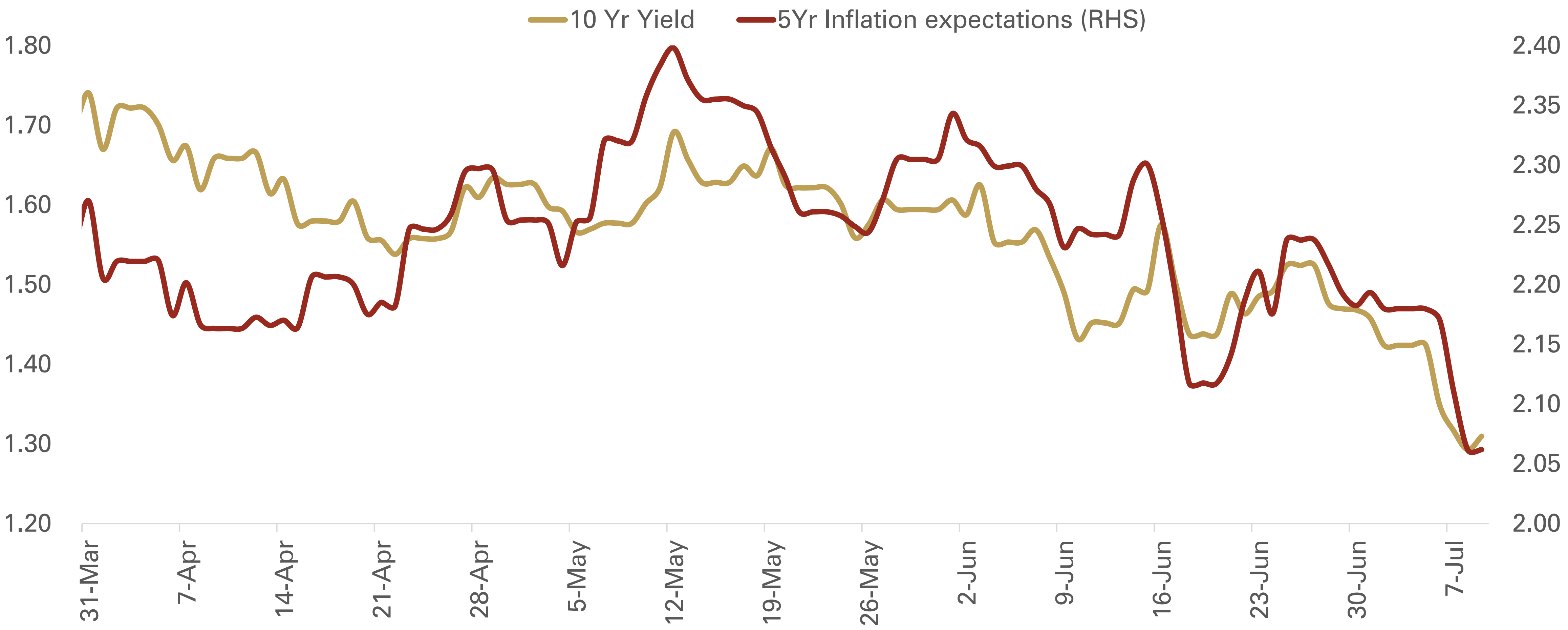
Momentum in commodity prices have stabilized over last few weeks. The best case scenario for markets is for Commodity prices to remain stable going forward. Any decline in Commodity prices, while good from inflation perspective, can impact earnings growth expectations globally.

Economic surprise index has seen deceleration in recent past



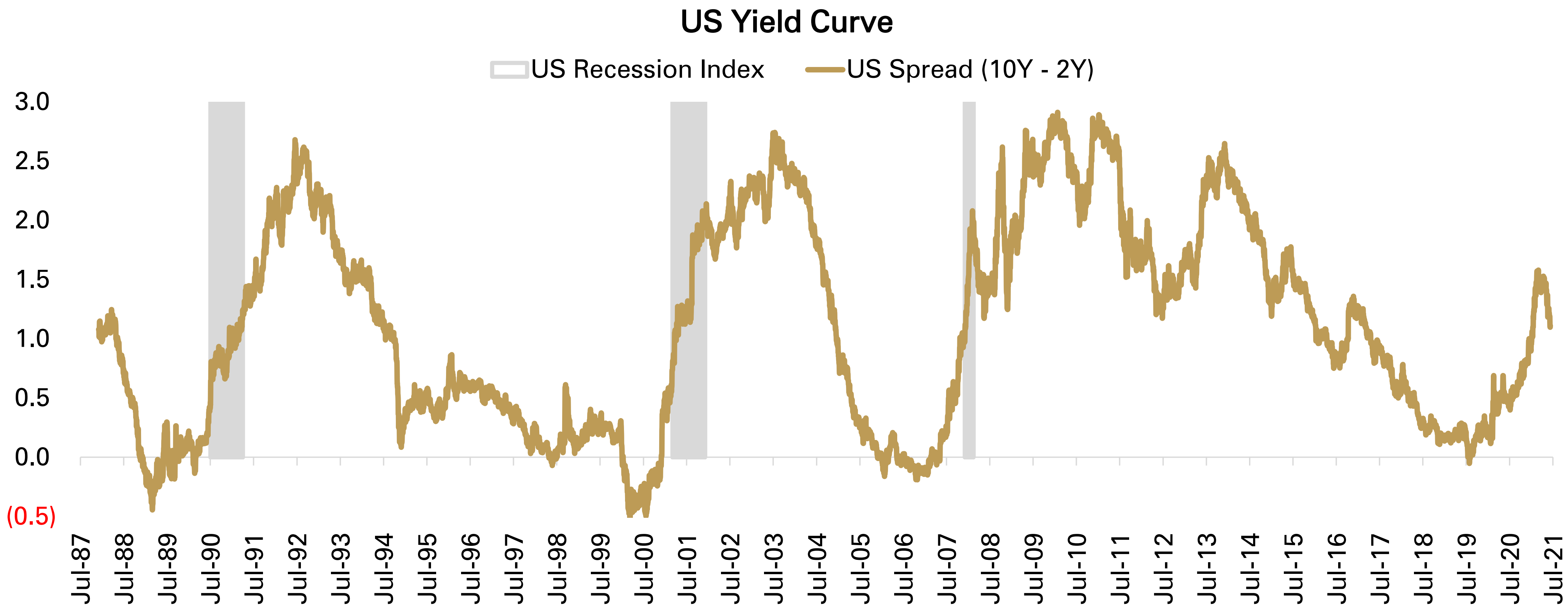
- Economic Surprise Indices measure data surprises relative to market expectations. A positive reading means that data releases have been stronger than expected and a negative reading means that data releases have been worse than expected.
- Lately, the positive surprise element in data releases have not been as stronger relative to recent past, leading to reassessment of growth expectations, and partly contributing to decline in bond yields

Bond Yields are aligned with inflationary expectations!



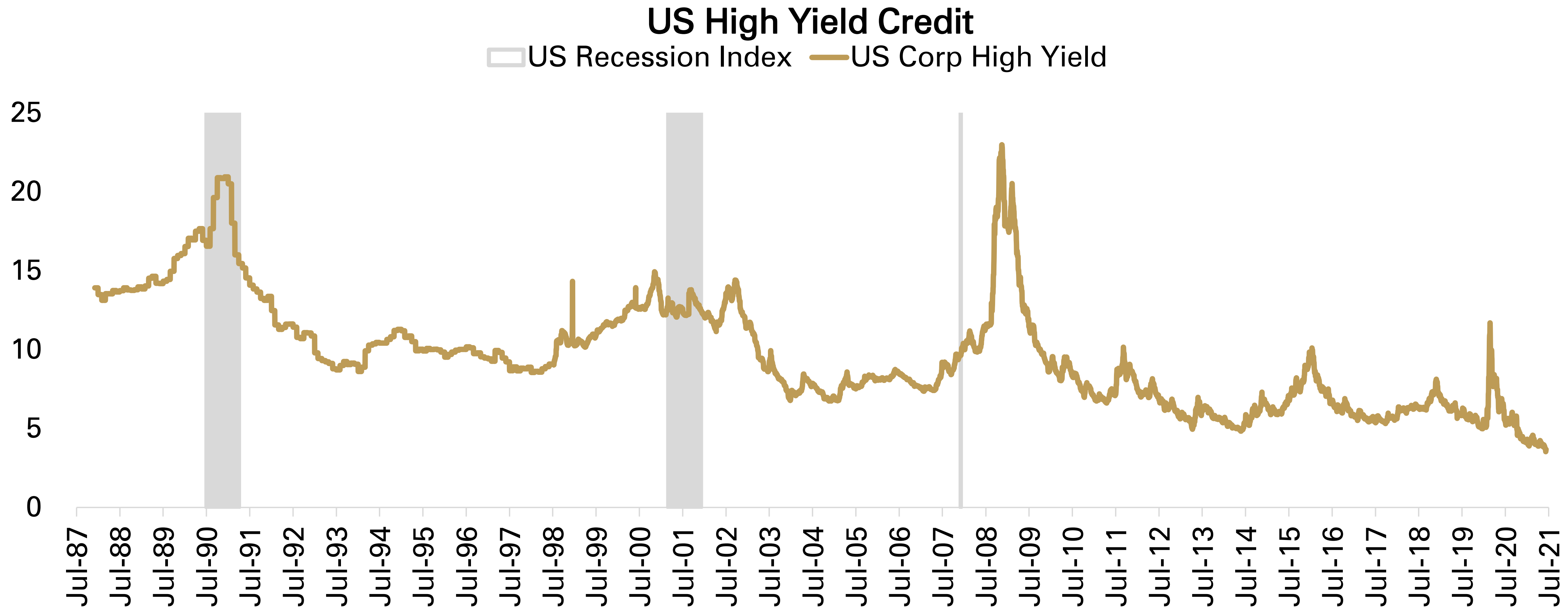
Inflationary expectations peaked in May and have since declined. Bond yields in US have continued to fall despite US Fed sounding hawkish (indicating a likely commencement of tapering & interest rate hike in 2023)

Curve flattening



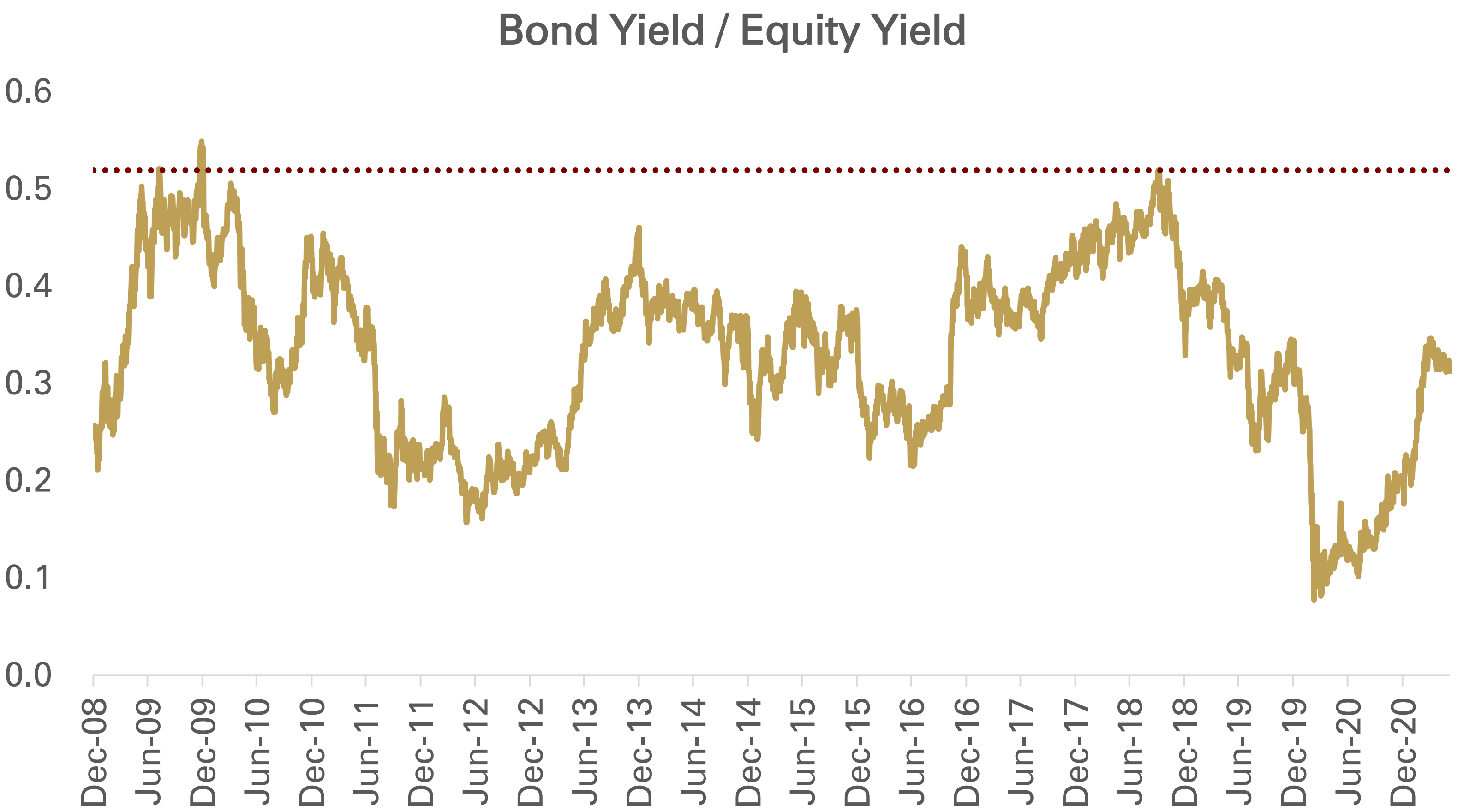
Yield curve was at its steepest level in Mar-21 (post-recession) but has since flattened i.e. 10-Yrear bond yields have fallen relative to 2-Yr. Is this abnormal? As the data shows, this move isn't abnormal & similar volatility was witnessed in early part of the cycle post 2008 recession. For example, the spread between 10-Yr & 2-Yr fell by 90 bps between Apr-10 to Aug-10, than rose again. Therefore, basis this analysis, it may be early to conclude of any decisive shift in medium term yield outlook.

US Junk Bond Yields haven't reacted yet



US Junk Bond Yields are the one to react if growth expectations take a turn. Since they haven't sold off (last at 3.7%), it is indicative that the Bond market isn't pricing in any material shift in growth outlook, and the recent decline in US Bond Yields is more due to technical reasons, than fundamental

US Equities – Relative Valuation



Our favorite chart which compares Earnings Yield to Bond Yields shows that market has tended to peak out (& fall thereafter) when this ratio touches 0.5. All else being equal, if US 10 Year Bond yield were to rise to beyond 2% (& swiftly), a correction is natural to expect. If the rise is gradual / orderly, market may not witness very high volatility as there is support from 'Economic Growth'

Range bound US Bond Yields are supportive of Equities

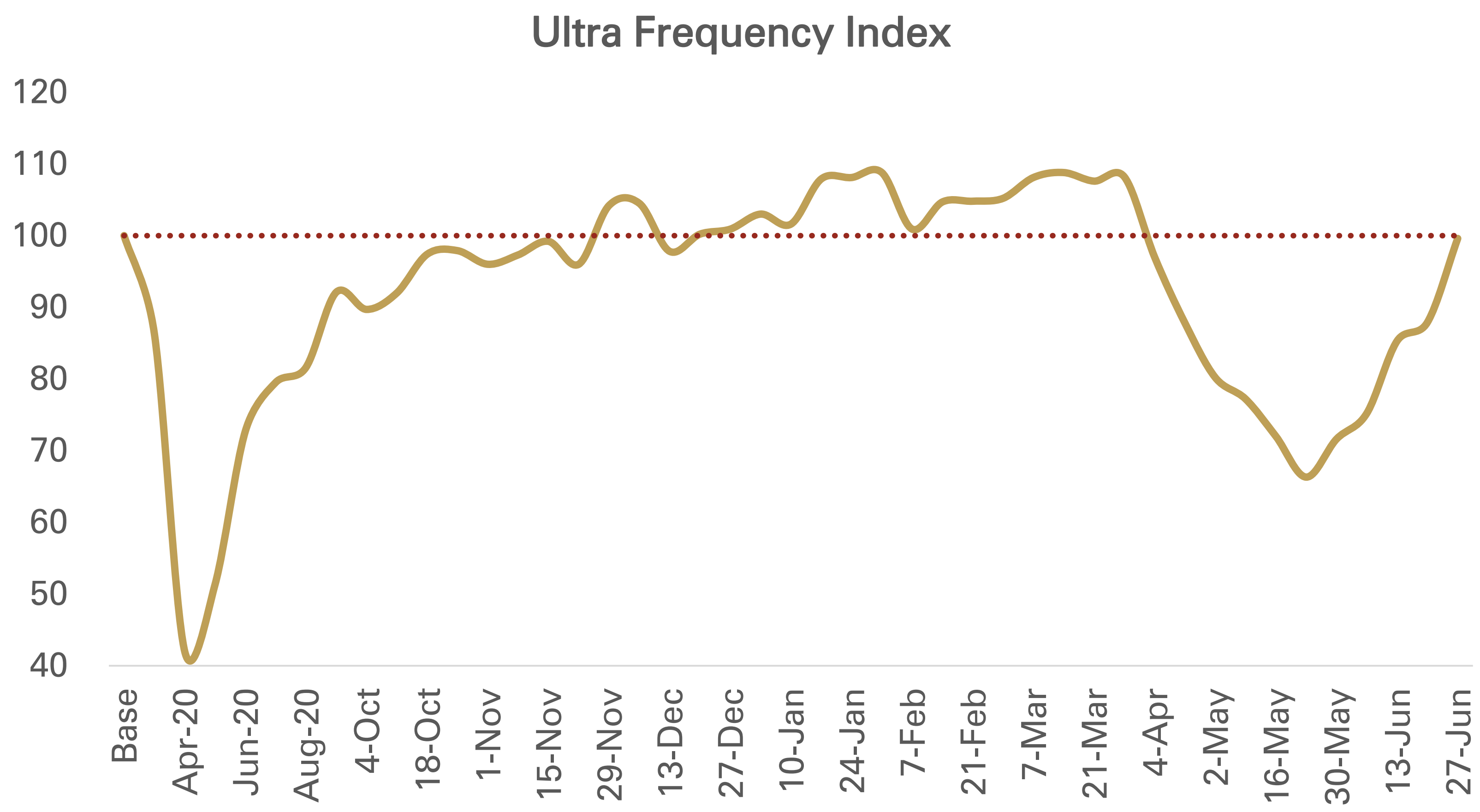
To conclude: Watch the Bond Yields

- Any material fall in US Bond Yields or a sharp rise is the key risk to equity markets
- Bond Yields have likely fallen due to technical reasons & like to gradually inch up
- Expectations high that Fed shall also indicate its plan to taper by Q4 CY 2021
- While Growth Stocks (including Tech) have outperformed as Bond Yields have fallen, base case still continues for Cyclically oriented portfolios to add relative value

India

Economic & Corporate cycle likely to support good earnings growth

UFI at pre-Covid times



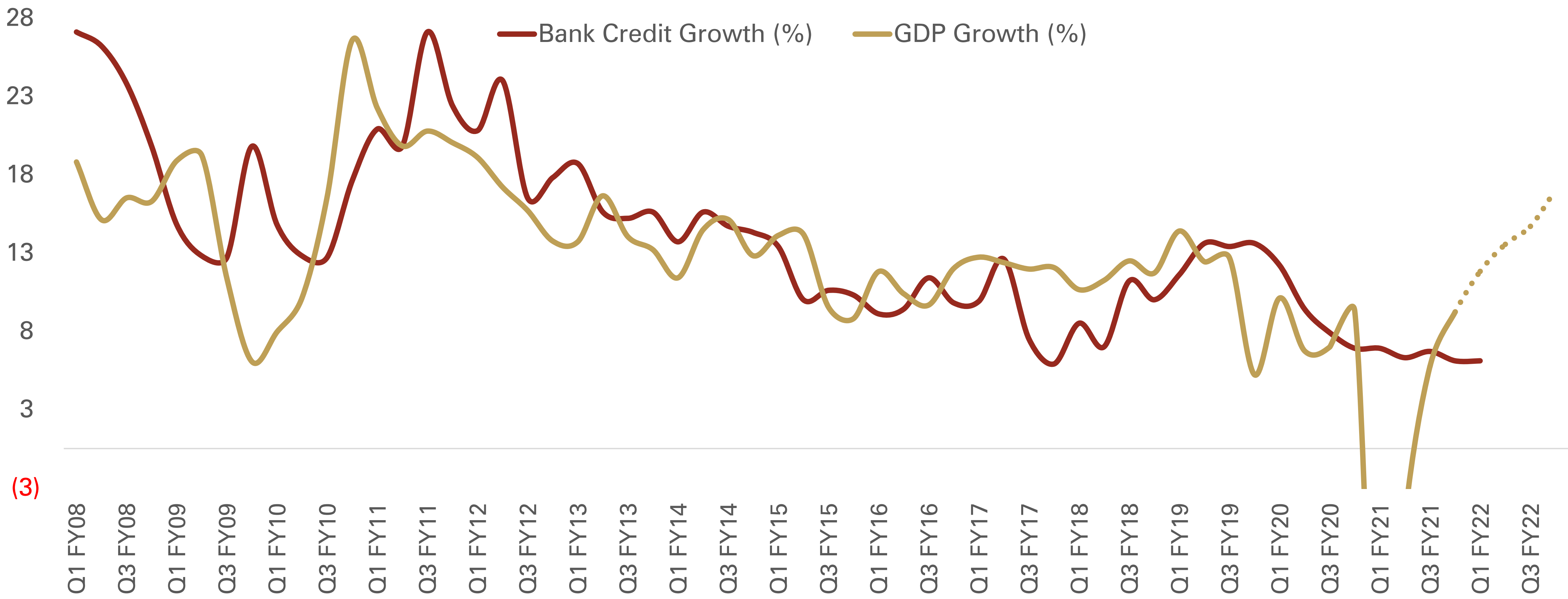
ICICI Bank's weekly UFI continued trajectory of recovery in economic activity, with an index reading of 99.6 (vs. 93.5 in previous week).

Index performance was driven by sequential improvement witnessed in all indicators including Mobility.

Among industrial indicators, peak power demand & E-way bill generations recorded a significant improvement over the previous week's levels. Industrial activity, which saw far more muted disruption this year, is now gaining traction upon the unlocking of restrictions, as all indicators recorded readings above pre-COVID levels as compared to the previous week.

As normalisation in economic activity picks up pace, UFI may continue to maintain the uptrend going forward aided by the unlocking of the states, albeit at different paces. Increased supply of vaccines to the population will propel the growth recovery from Q2FY22. Appearance of the new variants of concern for states like Maharashtra, Kerala and Tamil Nadu will remain important to watch from a recovery perspective, though a gradual improvement over the next few months is unlikely to get arrested.

India - Banks Gross Bank Credit Growth



As GDP picks up, the bank credit cycle is also likely to closely follow from near bottom currently. This is likely to be a big tailwind for Banking Equities

Q1 FY22 – Earnings Preview

Q1 FY22 - Earnings Preview

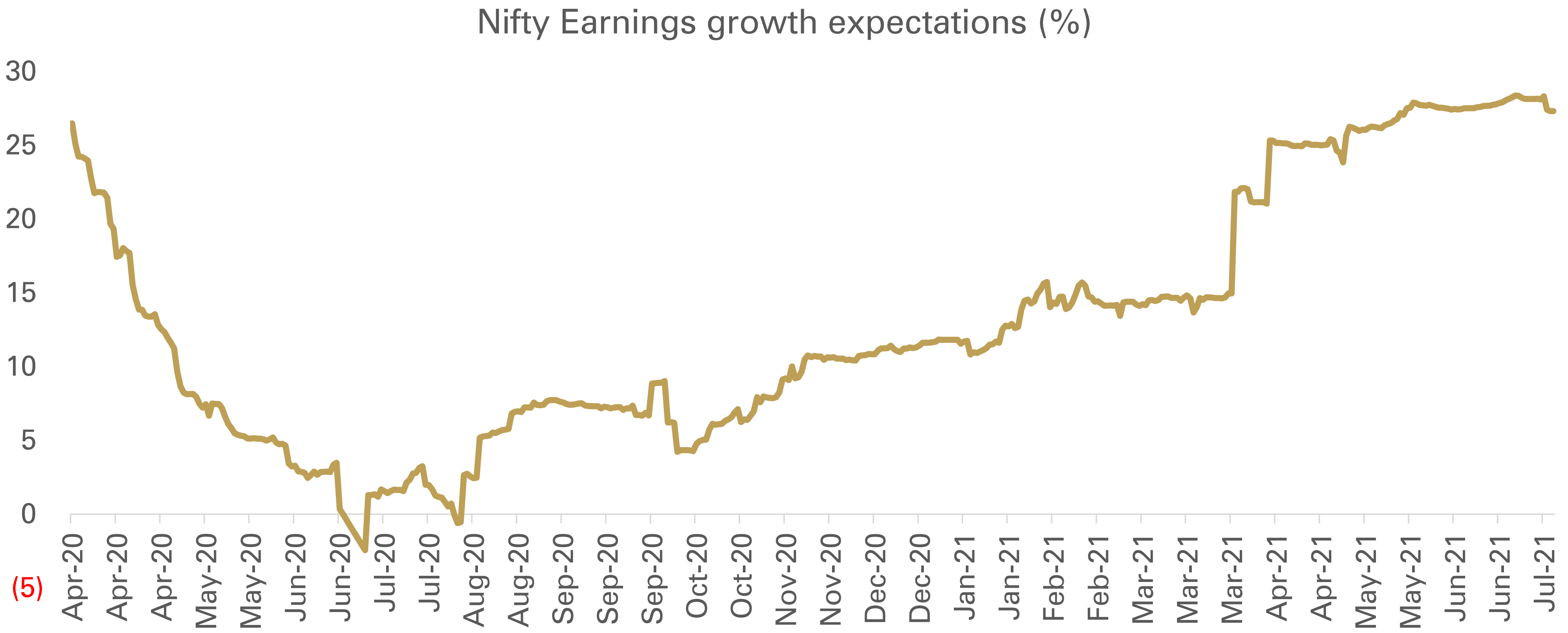
Low base effect (due to the Covid-led lockdown in the base quarter) and Metals to aid earnings growth

- **Q1 FY22 net income of the Nifty 50 set of companies is expected to more than double on YoY** basis due to the Covid-led lockdown in the base quarter; many companies reported weak profits/large losses in Q1 FY21. Strong yoy increase in the net income is expected for almost all sectors.
- **Sectoral trends**: Quarter's highlight will yet again be commodities. Steel realizations are expected to improve sequentially with average domestic spot HRC prices improving ~20% QoQ. As a result, metal companies will post strong result during the quarter.
- Financials (lower provisions, better performance by large banks), capital goods (strong order inflows, improved availability of manpower), IT services (higher number of billing days, increase in spending intensity across verticals, ramp-up of strong deal wins of earlier quarters), metals and mining (sharp increase in realizations and volumes) and upstream oil, gas & consumable fuel companies (higher realizations and volumes).
- However, on a **QoQ basis**, net income is expected to decline in low double digit to high single digit due to the 2nd wave of Covid-19, RM headwinds (sharp increase in commodity prices) and sequential decline in volumes.
- Macro backdrop for the Q1 FY22 was subdued. Activity levels contracted in April/May. May CPI inflation dented expectations by printing at 6.3%, with core dynamics being a growing source of concern (global reflationary pressures). INR depreciated Q/Q (2.5% QoQ). Brent prices averaged $69/bbl in Q1 FY22 (up 13% QoQ). 10Y yields averaged at 6.02% in the June quarter (+4bps QoQ).

FY22 - Earnings expectation

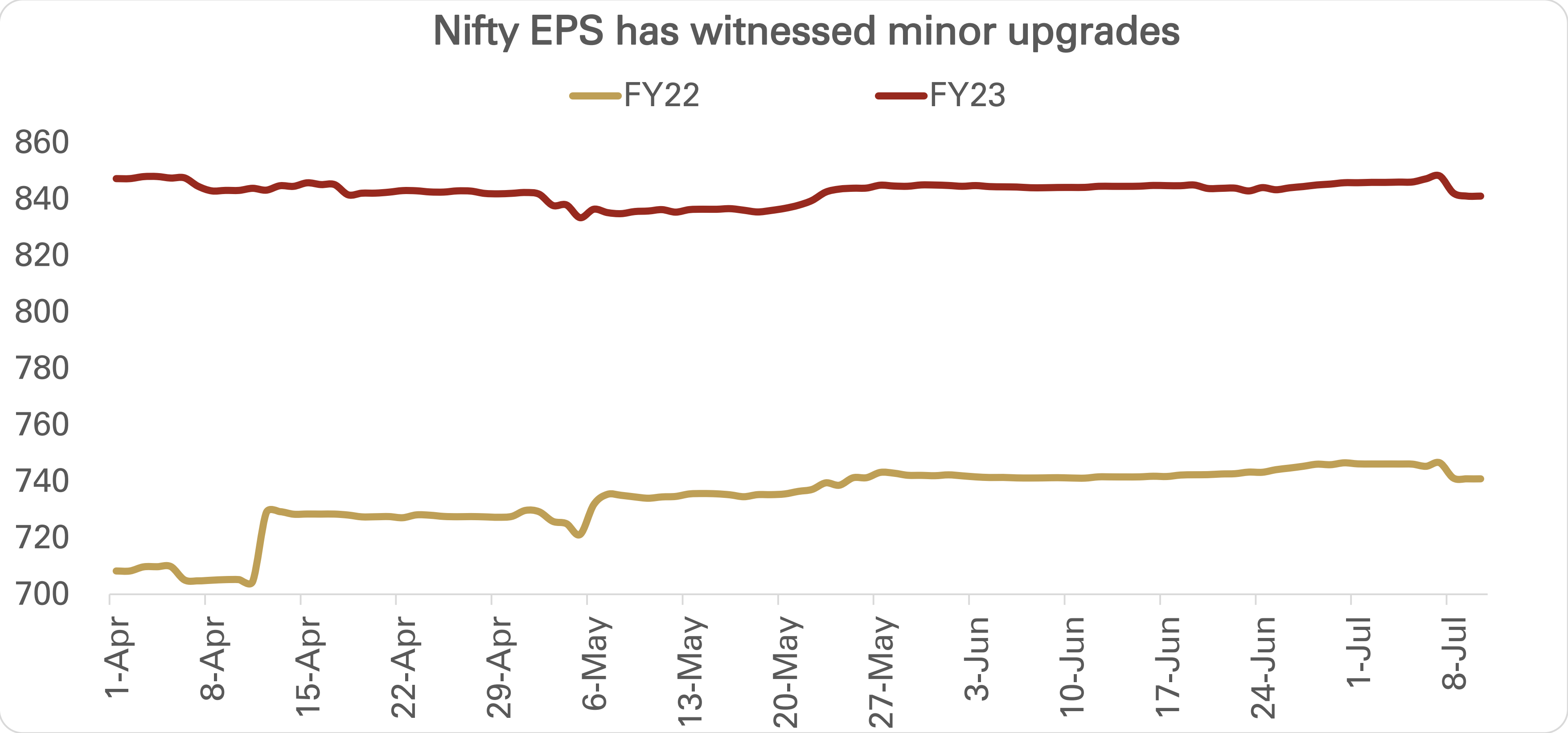
- 2nd covid wave has had little impact on earnings so far with Nifty earnings estimates for FY22 has been upgraded by ~5% since 1st April. Better than expected revenues in Q4 FY21 helped. Excluding metals, estimates have been broadly flat, barring a small downgrade seen in consumption sectors. With our proprietary ICICI Bank UFI Index showing sharp recovery in June and a strong GST trend, downside risk to 21% consensus EPS CAGR over FY21-23 for the Nifty remains low as yet.
- Nifty consensus EPS for FY22 is up 5% over Apr-Jun'21. Earnings were upgraded right through the 2nd wave. Consequently, consensus now builds in ~27% positive earnings growth for FY22 and 14% for FY23.
- Sectoral earnings expectation: Largest upgrades to FY22 earnings have been seen for metals sectors. Financials have seen minor upgrades by FY22/23 with some asset quality buffers built-in. Tech earnings estimates are flat. FY23 earning trends are mostly stronger than FY22 with consensus baking in 14% YoY growth. Limited earning cuts for domestics: Sharp slowdown in domestic economy in Q1 FY22 has driven some cuts in domestics oriented companies/sectors, but even they are limited to in the autos, consumer discretionary & FMCG. Telecom, Retail, Cement, Property and Utilities sectors might see earnings resilience.
- Across the board, input cost pressure has not dented earnings outlook indicating the ability to rationalize & pass on cost. Going forward, cost pressures may arise as operations resume in full swing & raw material prices continue to firm-up. But, as growth normalizes, operating leverage benefits should kick in & support margins.

Earnings delivery remains key with respect to expectations



- Nifty earnings delivery has witnessed improvement vs expectations leading to earnings upgrade and supporting market performance.
- 2nd covid wave has had negligible impact on earnings so far with respect to Nifty earnings. In fact Nifty earnings were upgraded by ~5% since 1st April.

Earnings upgrade cycle continues although pace has moderated



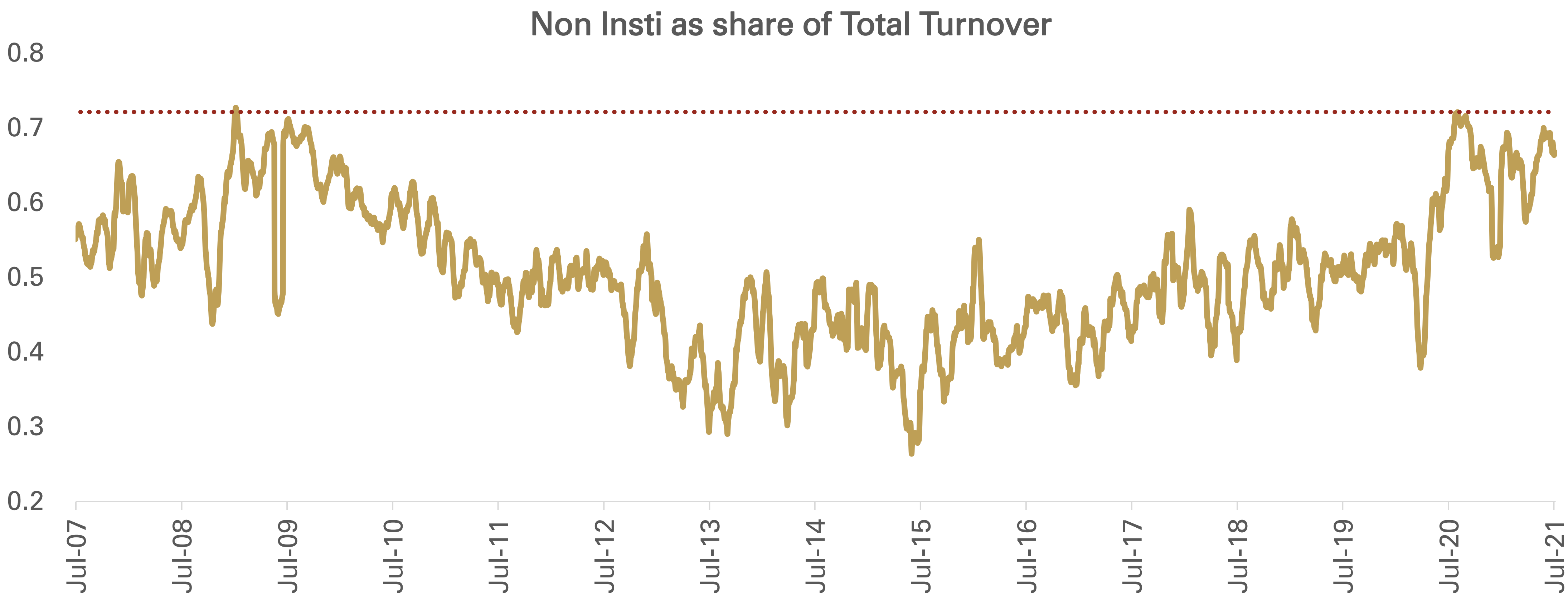
- Despite drop in several economic activity indicators (due to localized lockdowns), earnings have not witnessed downgrades.
- Nevertheless, EPS has witnessed minor upgrades.

Key reasons for upgrade in recent times:

- Energy & metals have witnessed big upgrades while multiple stocks in sectors like Consumer discretionary, FMCG, etc. have seen downgrades. So while, there are minor upgrades on an aggregate level, they are from the more volatile sectors.
- Larger companies & organized sector in the economy have been gaining market share and would likely have gained again in the 2nd wave.

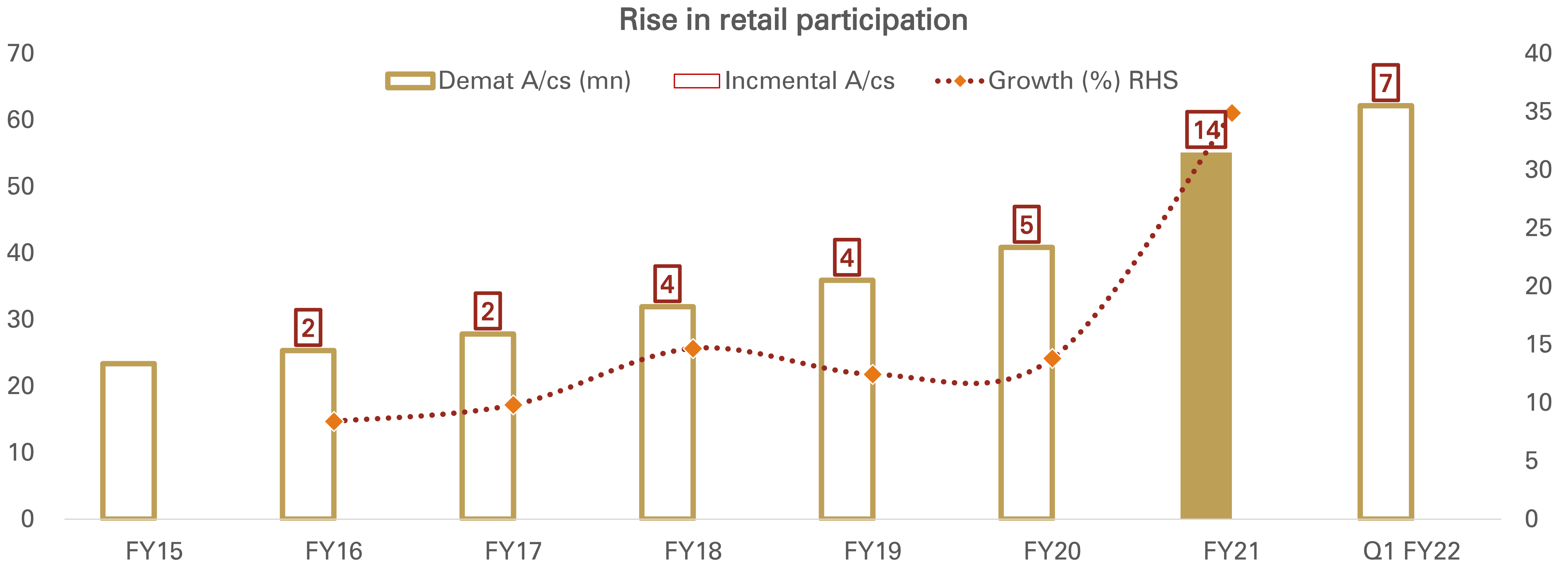
Equity Strategy & Valuations

Retail participation in markets have risen significantly



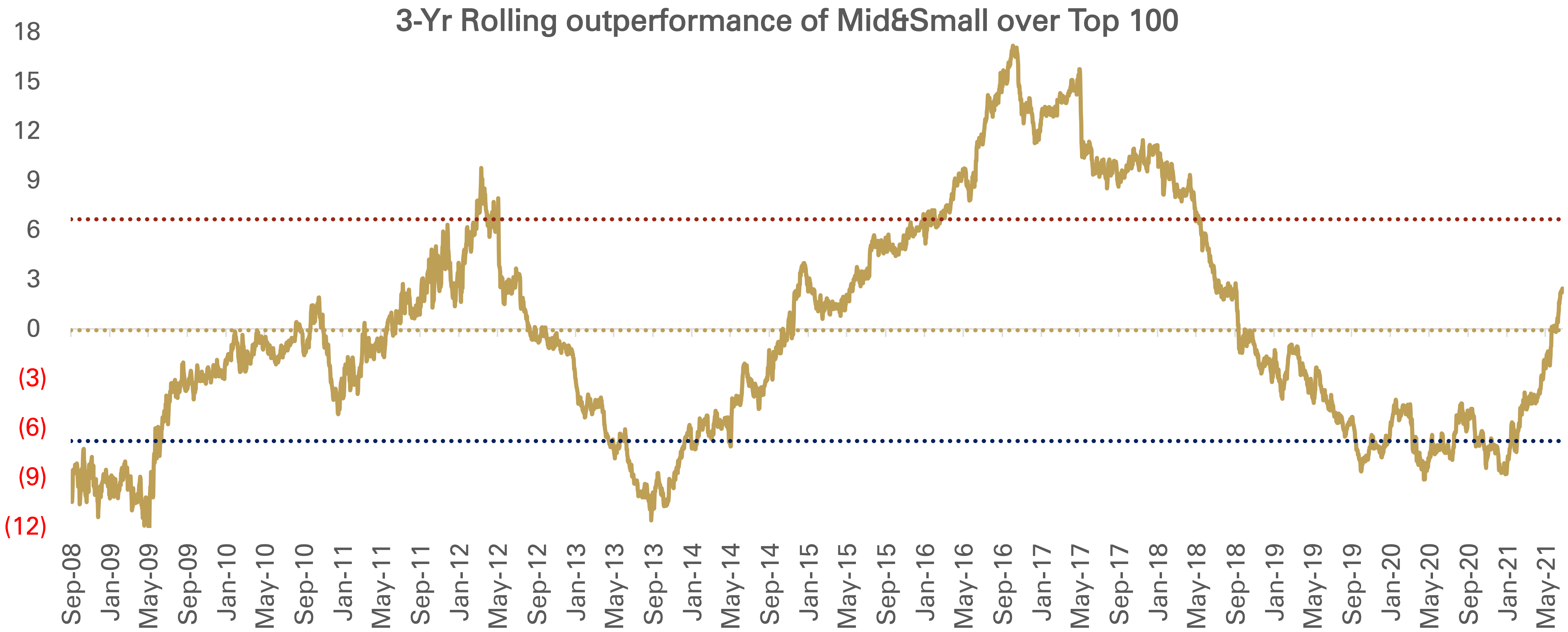
Retail participation rose last year and continues to remain elevated. Tech-savvy new millennials find it very convenient to internet-based, mobile-enabled trading platforms.

Retail participation in markets have risen significantly



Number of demat accounts opened in the last few months is a clear reflection of rising retail participation. **At an industry level, the number of incremental demat accounts opened in the last year is more than the accounts opened in the previous 3 years collectively.**

Rolling Outperformance of Mid & Small w.r.t. Large caps



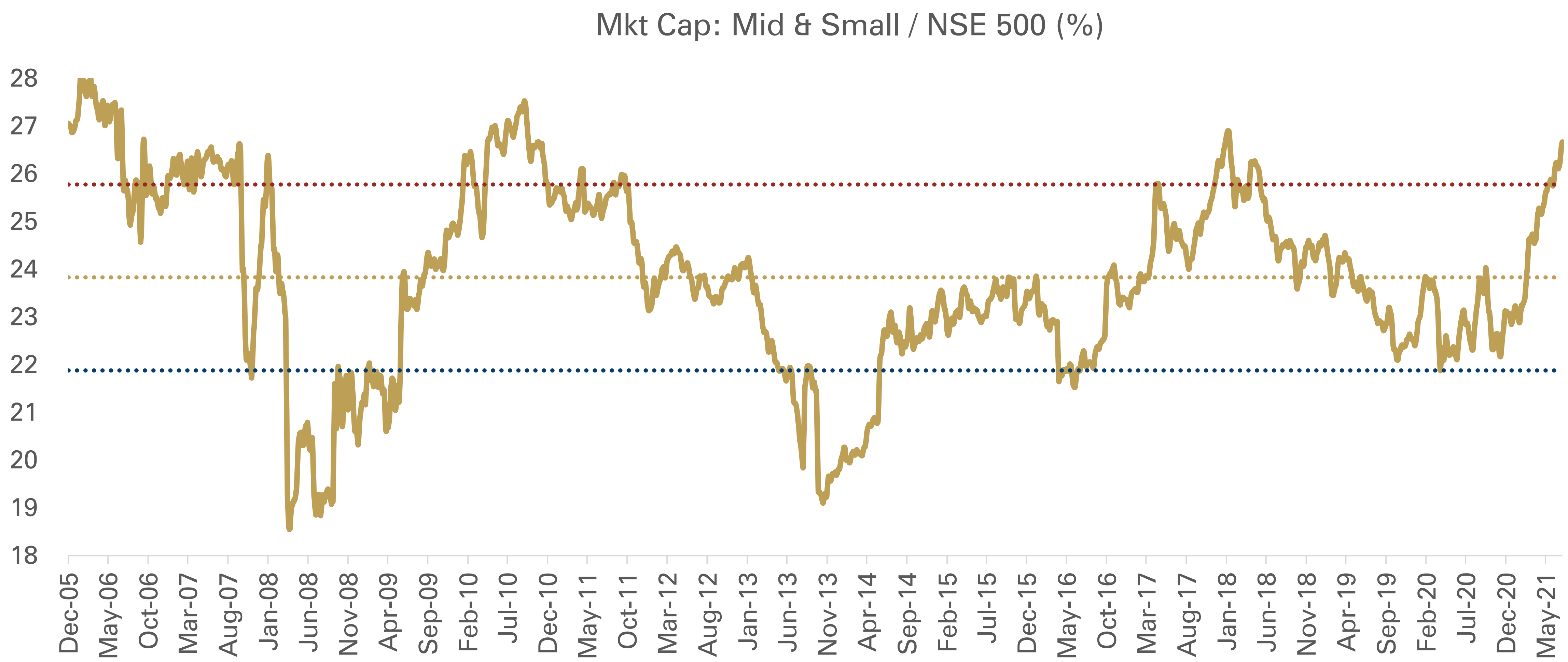
Mid & Small Caps have now begun to outperform and may continue in near term. However, other valuation measures are now showing relative stretch…

Small Cap Volumes on higher side but not at peak

Duration of cycle				Volume (mn)			Index
Start Date	End Date	Duration	Phase	St Date	End Date	% Change	Return (%)
Jun-06	Jan-08	573	Bull	30	143	374	171
Jan-08	Mar-09	427	Bear	112	36	(67)	(78)
Mar-09	Nov-10	611	Bull	36	105	187	305
Nov-10	Aug-13	1,000	Bear	105	37	(64)	(52)
Aug-13	Jun-14	307	Bull	37	168	350	86
Jun-14	Nov-16	897	Flat	168	45	(73)	9
Nov-16	Jan-18	419	Bull	45	78	76	70
Jan-18	Dec-19	695	Bear	78	23	(71)	(37)
Dec-19	Feb-20	57	Rising	23	40	77	12
Feb-20	Apr-20	62	Bear	40	20	(51)	(36)
Apr-20	Jul-21	456	Present	20	103	424	157
Average		404	Peak	32	101	219	134

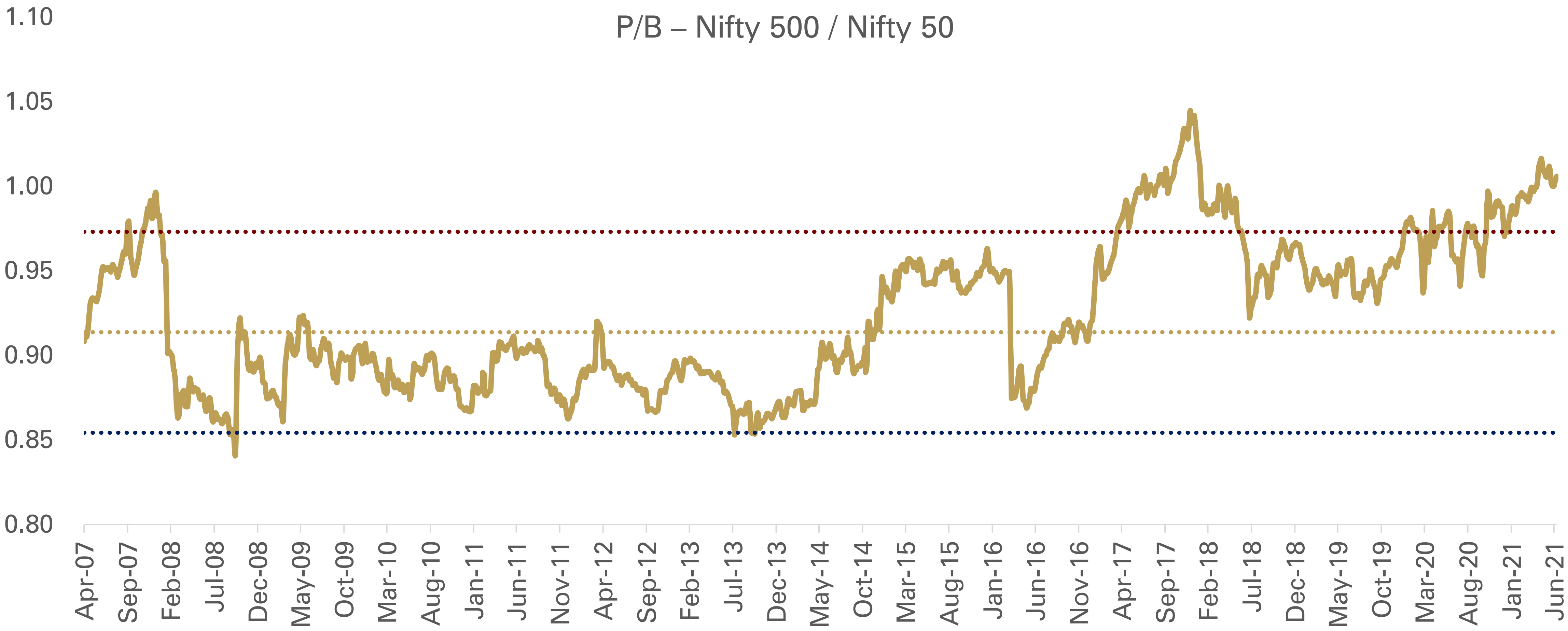
Small cap are trending closer to previous cycle peaks basis volumes and historical returns during bull phases

Mid & Small Mkt Cap vs Large Mkt Cap inching closer to highs



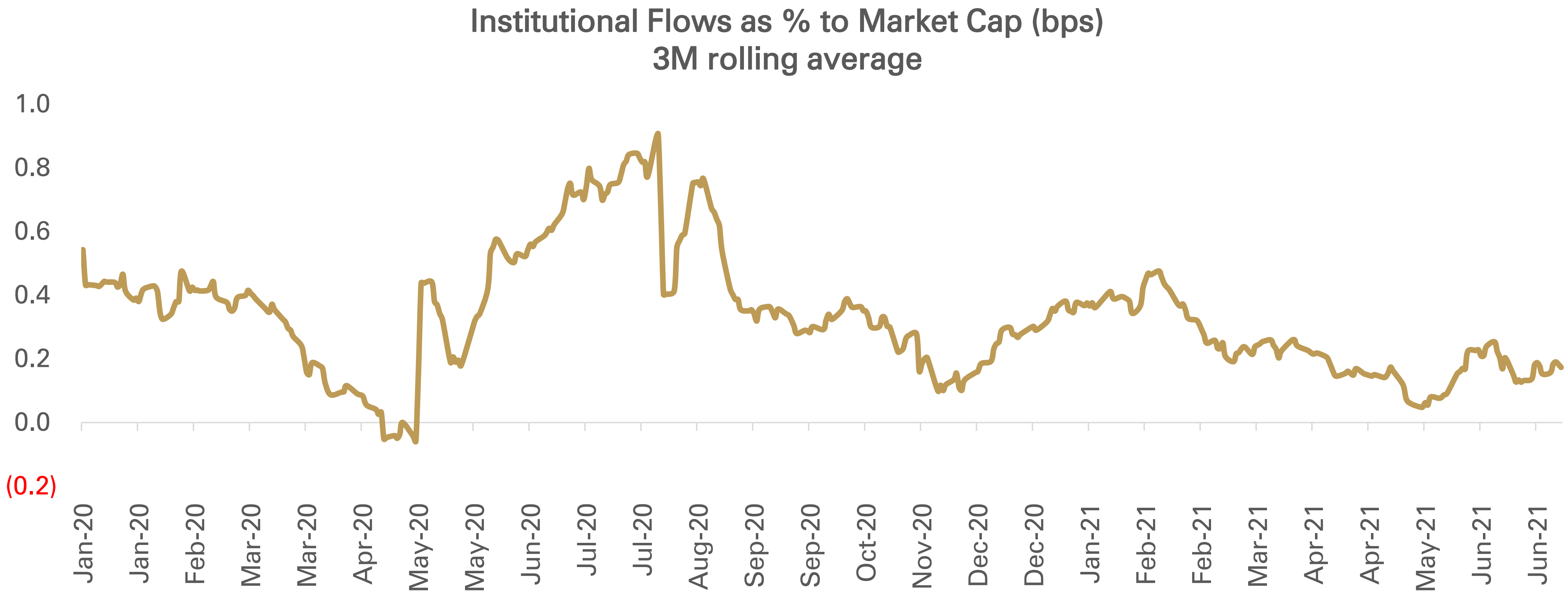
Since Mar-20, Mid & Small caps out-performance has progressively increased given the rise in their market caps relative to broader markets. Current technical indicator suggest Mid & Small cap outperformance is closer to peak relative to history.

Valuations: Mid & Small caps w.r.t. Nifty are relatively expensive



Relative valuations of Mid & Small caps (inferred from broader index Nifty 500) with respect to Nifty has edged at above +1 Std dev. and is now moving closer to peak levels witnessed in Jan 2018.

Equity Flows have witnessed moderation



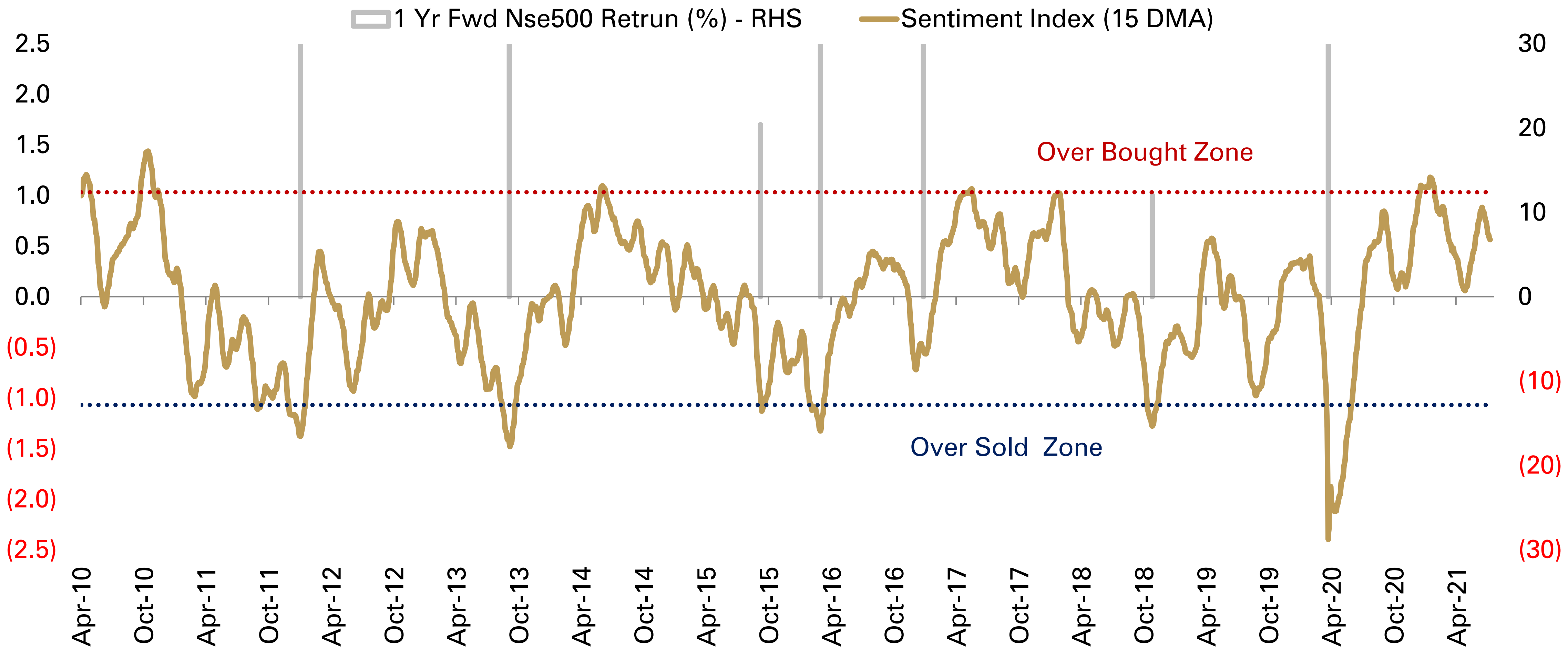
Recent market up-move haven't been led by Institutional Flows, which indicates a higher than usual non institutional participation in the market

India - Sectoral Valuation: Cyclicals are relatively well placed

Sector	Percentile Rank	Frwd PE	2Yr EPS Growth	PEG
MNC	0.9	36.3	18.0	2.0
Real Estate	1.0	29.9	15.1	2.0
FMCG	0.9	31.4	16.5	1.9
Next50	0.9	23.1	12.8	1.8
IT	1.0	23.4	14.4	1.6
Infra	0.4	15.0	10.3	1.5
Pharma	0.9	24.3	21.6	1.1
NSE500	1.0	19.0	18.9	1.0
Mid	0.7	21.0	21.1	1.0
Small250	0.9	16.0	16.7	1.0
Nifty	1.0	18.7	20.2	0.9
Energy	0.2	9.3	10.3	0.9
Financials	0.5	15.3	17.2	0.9
Media	0.1	14.3	17.5	0.8
Bank	0.7	15.3	27.0	0.6
Auto	0.9	17.6	37.7	0.5
Metal	0.6	9.0	28.2	0.3
PSU Bank	0.6	7.6	37.6	0.2
P / B				
Bank	0.6	2.0		
Energy	0.2	1.2		
Metal	0.9	1.4		
Small250	1.0	2.4		
Nifty	1.0	2.8		

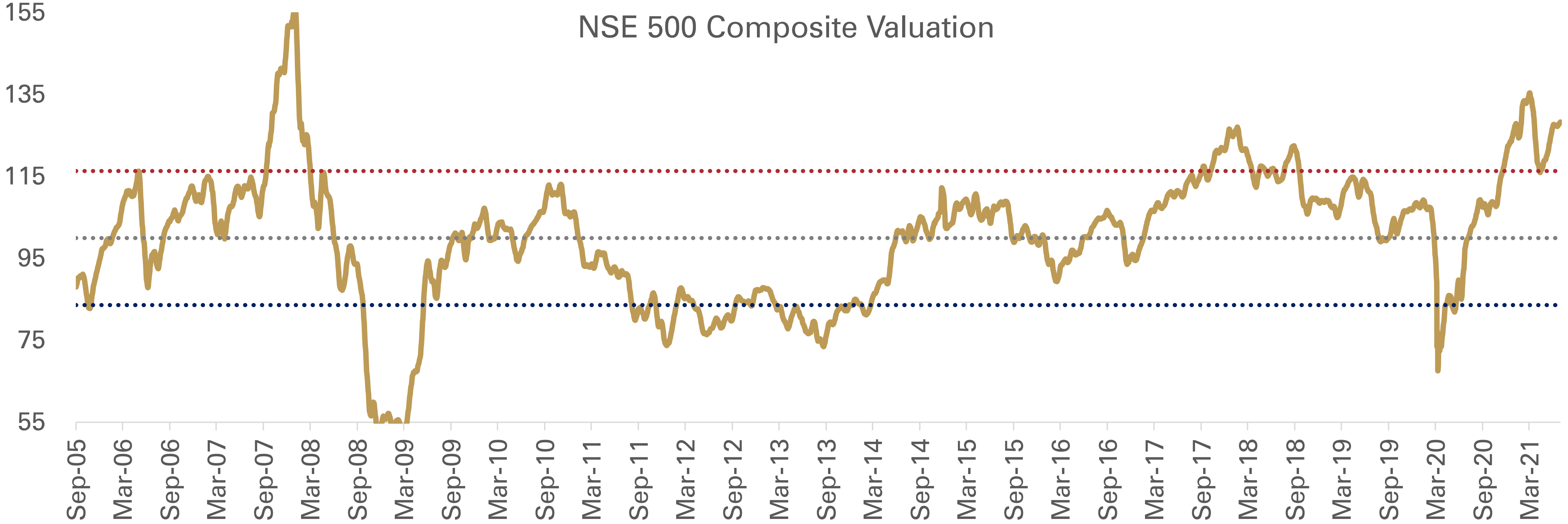
Several sectors and stocks appears to be fairly valued and offering limited scope for re rating, returns will likely follow roll forward (in earnings) or potential upgrades in earnings (as actual earnings follow expected trajectory). **Banking continues to offer opportunities on ‘buy on dips’**

Indian equity sentiment indicator



Lower Sentiment Index indicates a better buying opportunity given above avg 1 year forward return & vice versa.

Valuations remain expensive but earnings growth prospects have improved too



While valuations are decisively on higher side but may not cause markets to materially correct as long as global markets and yields are stable and are well supported by superior earnings growth prospects. However, market performance is likely to be lower than earnings growth as valuations are likely to mean revert over medium term.

Theme ahead is likely to be stronger economy but volatile markets with upward bias

Equity Strategy

We **maintain Equal Weight position in Equities** given that full year expectations haven't materially changed. The local business cycle is at an early stage of inflection with far better balance sheets (for listed corporates), improving profitability and credit growth far below in excess zone.

- Earnings are likely to hold up well in foreseeable future, given the improving profitability in Banking & Commodity segment. No material disappointment is expected in any major sector, albeit company level commentary shall be key to future earnings upgrade
- **While some de-rating (in equity multiples) is likely over medium term, they may not fall materially below +1 Standard Deviation just as yet** given the overall global & cyclical tailwind.
- Medium term, cyclical & economy facing sectors like **Banking**, Industrials / Capex, Energy etc. are still not in outright expensive zone & offer reasonable growth prospects & can be added to in current phase of underperformance / on dips.
- Defensive sectors (like IT, Pharma, FMCG & select Discretionary) exhibit stretched valuations.
- Also prefer a "late recovery theme" as a portfolio from a medium term perspective

Risks

- **Global Inflation & US Tapering risks are rising**: Inflation risks induce uncertainty and Tapering is a certainty though timing is debatable. This has to be seen in context of high equity valuations and expectations that Dollar shall remain range bound
    - Further rise in real yields has the potential to de-rate equity valuation especially growth stocks, if the pace of increase is sharp. An orderly gradual increase may not be disruptive.
- Rising cases of Covid, despite the 2020 learnings & template, do not necessarily offer room for complacence, although our base case continues that the current spell shall be far less economically impactful vs H1FY21.
- Higher levels of crude prices has the potential to impact domestic macros adversely
- **Non institutional equity participation has been rising**, quite likely enthused by very low volatility observed in last several quarters. Any sudden volatility has the risk of shaking this segment risking the continued outperformance of mid & small caps

Fixed Income

Fixed Income Update

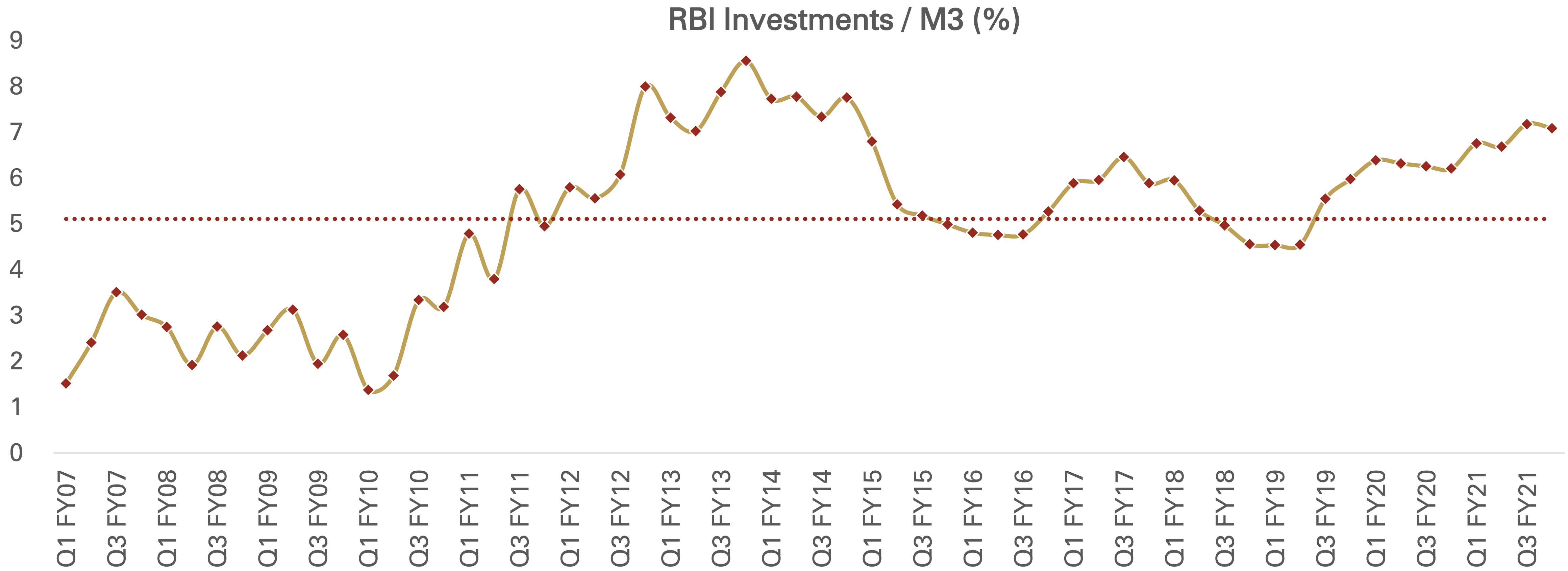
Bonds yields went up in the month of July as market participants re-anchored their expectations of the timing and quantum of RBI policy reversal after relatively higher inflation surprises on the upside & sharp increases in global commodity prices.

RBI released its MPC committee minutes where MPC members detailed their rationale for continued accommodative stance to revive and sustain growth on a durable basis and mitigate the impact of COVID-19 on the economy. Some of the MPC members remained watchful of generalized inflation after the initial impact of cost-push inflation

Headline inflation for month of June came at 6.26% YoY slightly lower than 6.3% YoY in May-21, however higher than upper band of 6% of RBI. Core CPI inflation was up by 6.2% indicating sustained increase in price pressures.

New Benchmark: The RBI launched new 10 Year benchmark at cutoff yield of 6.10% indicating tolerance to slightly higher yields. The outstanding limit in the current 10-year G-Sec/GS (coupon rate: 5.85 per cent) has reached about ₹1.20-lakh crore. Moreover, the RBI has mopped up about three-fourth of the 5.85 per cent GS via its G-SAP/OMO, and the trading volume in this paper has been gradually drying up.

RBI has expanded its Balance Sheet to support economy



The data above reflects RBI's investments (pre-dominantly GoI Securities) relative to total money supply (M3). RBI has expanded its balance sheet by 80bps in FY2021, and is likely to do the same in foreseeable future, anchoring long bond yields at near current levels. A question although remains how will market react when this ends!

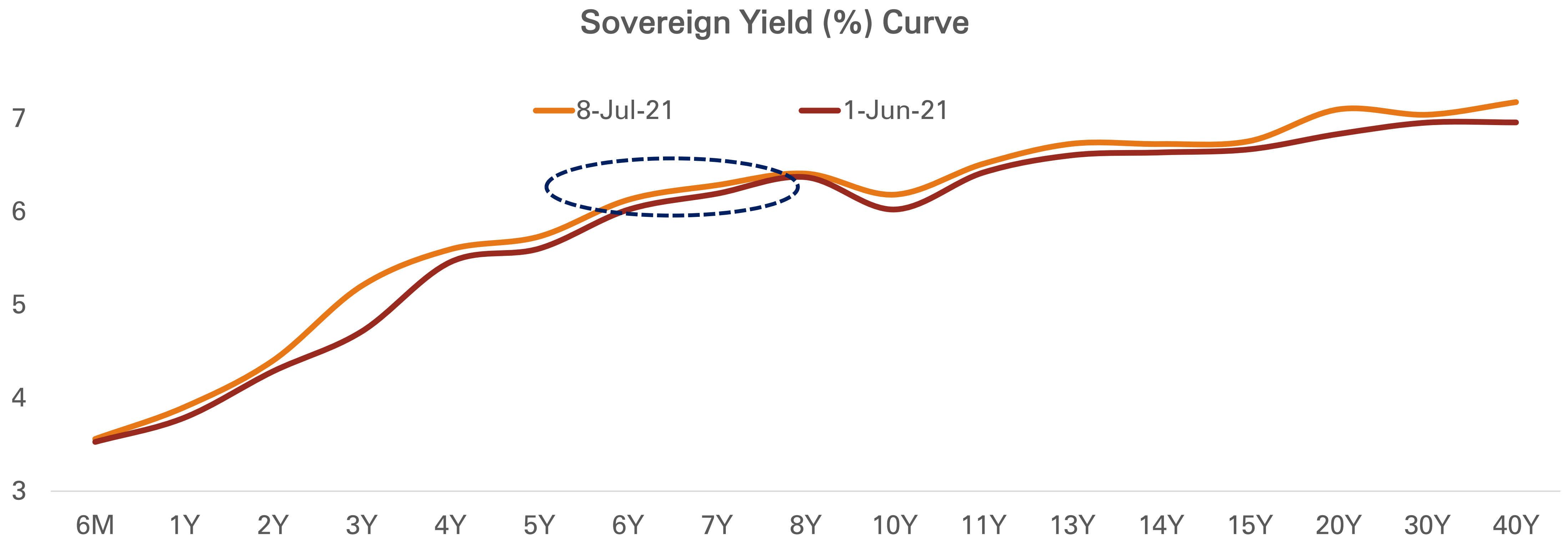
There is a significant scope for further balance sheet expansion, relative to various DM Economies – For US Fed~40%, BOJ~47%, Euro Zone~ 51%.

Yields across the curve have gone up CYTD

Particulars	9 July 2021	1 June 2021	9 April 2021	1 Jan 2021	Change from 1-Jan Inc/ (Dec)
Call Rate	3.0	3.0	3.1	3.05	(0.05)
Repo	4.0	4.0	4.00	4.0	-
Short Duration					
3M T-Bill	3.41	3.40	3.34	3.01	0.40
6M CD	3.85	3.70	3.80	3.5	0.35
6M CP	4.25	4.0	4.35	3.8	0.45
G-Sec					
1 Year Gilt	4.05	3.90	4.00	3.50	0.55
2 Year Gilt	4.40	4.23	4.50	4.25	0.15
5 Year Gilt	5.80	5.50	5.85	4.99	0.81
10 Year Gilt	6.17	6.02	6.02	5.83	0.34
10 Year SDL	6.72	6.6	6.60	6.43	0.29
Corp Bonds					
1 Year AAA	4.35	4.20	4.35	3.90	0.30
3 Year AAA	5.50	5.20	5.10	4.68	0.52
5 Year AAA	6.20	5.90	5.90	5.50	0.40
1 Year AA	6.97	6.87	7.00	6.70	0.17
3 Year AA	8.10	7.80	7.90	7.44	0.36

Yields went up in the month of June with shorter end of the curve (2-3 years) rising faster than longer end

Yield curve is steep

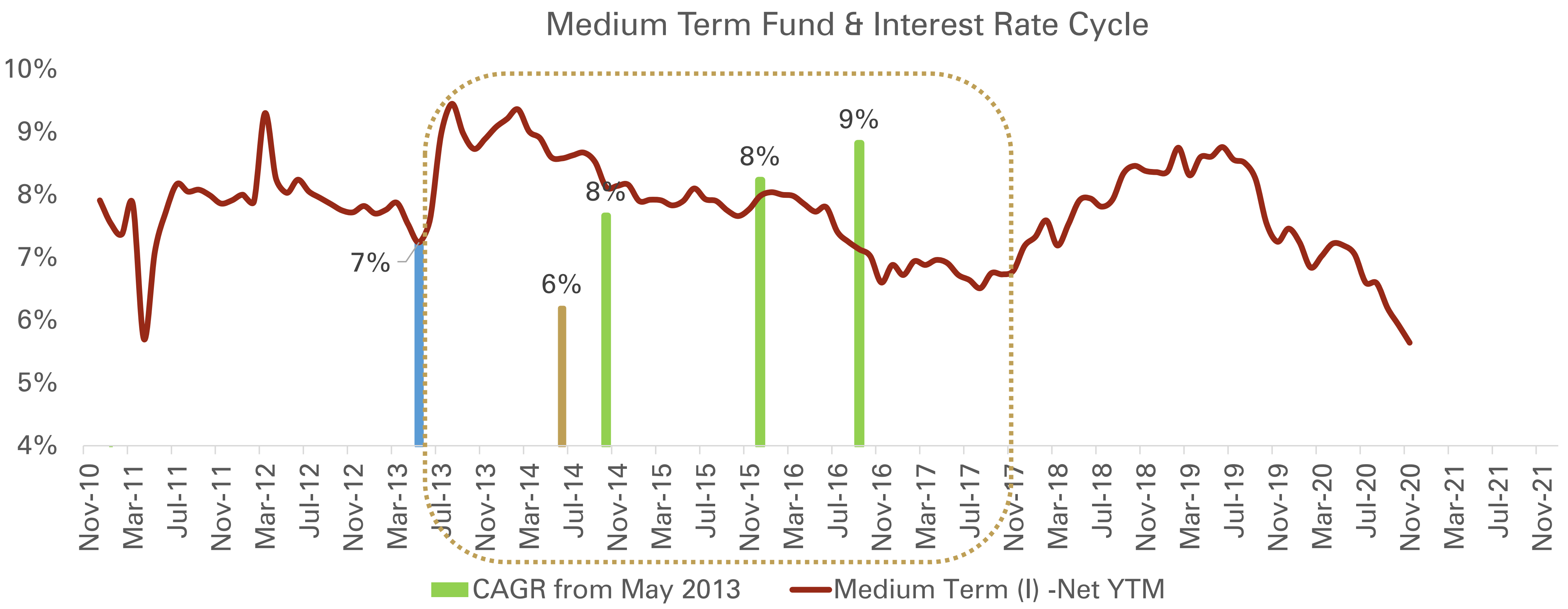


As compared to 1 year yield of close to 4%, 6-8 year yields are close to 6.1-6.4%.

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

Government launched new benchmark for which cut off came at 6.10%, slightly higher than market estimates indicating tolerance to higher yields as compared to last few months

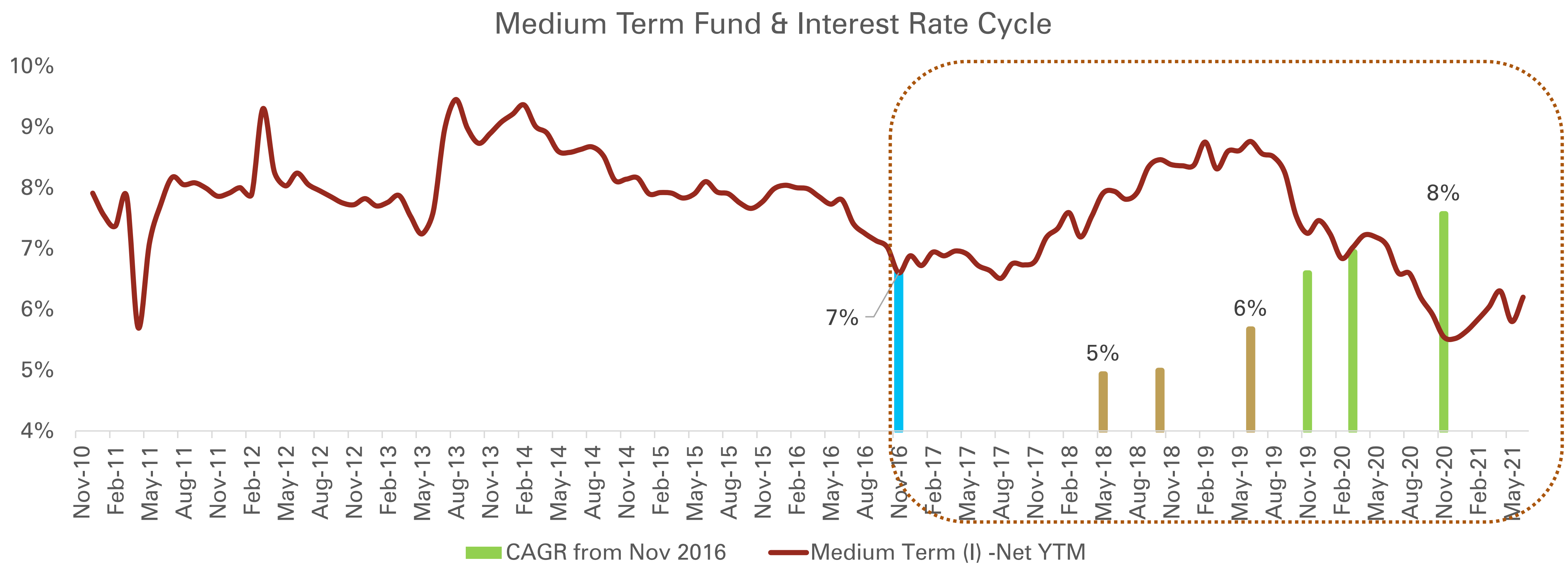
Interest Rate Cycle and Portfolio Return (Chart-I)



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

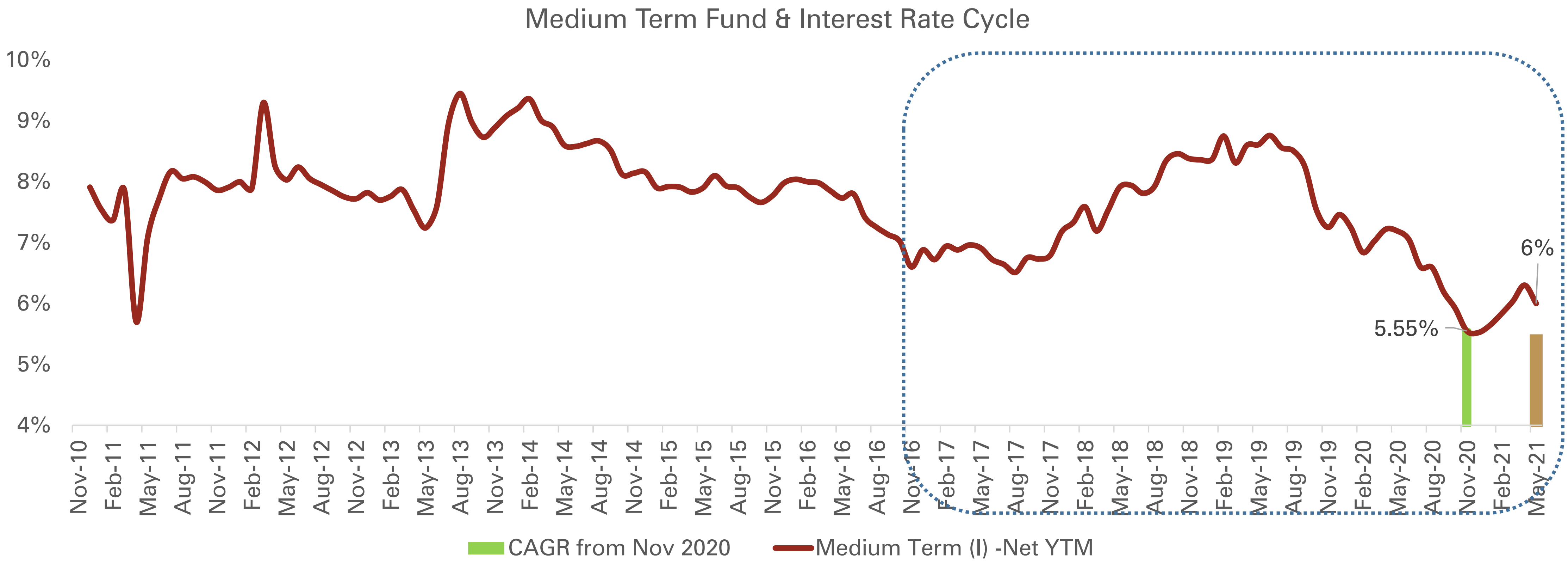
Interest Rate Cycle and Portfolio Return (Chart-II)



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)



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Fixed Income Strategy

The RBI Governor in recent interview, said that growth is the main challenge now, even though inflation was sticky, the Governor described it as being a 'transitory hump'. However, the bond market has gradually step up speculation concerning the shelf-life for RBI's current ultra-dovishness.

The Reserve Bank of India (RBI) announced its first tranche of its GSAP 2.0 schedule on Jul 08, 2021 of INR 200 billion. 10Y G-Sec is likely to trade in range of 6.0% to 6.5% and will be volatile.

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 year): investors can consider Ultra Short Term Funds, Arbitrage Funds & Deposits.

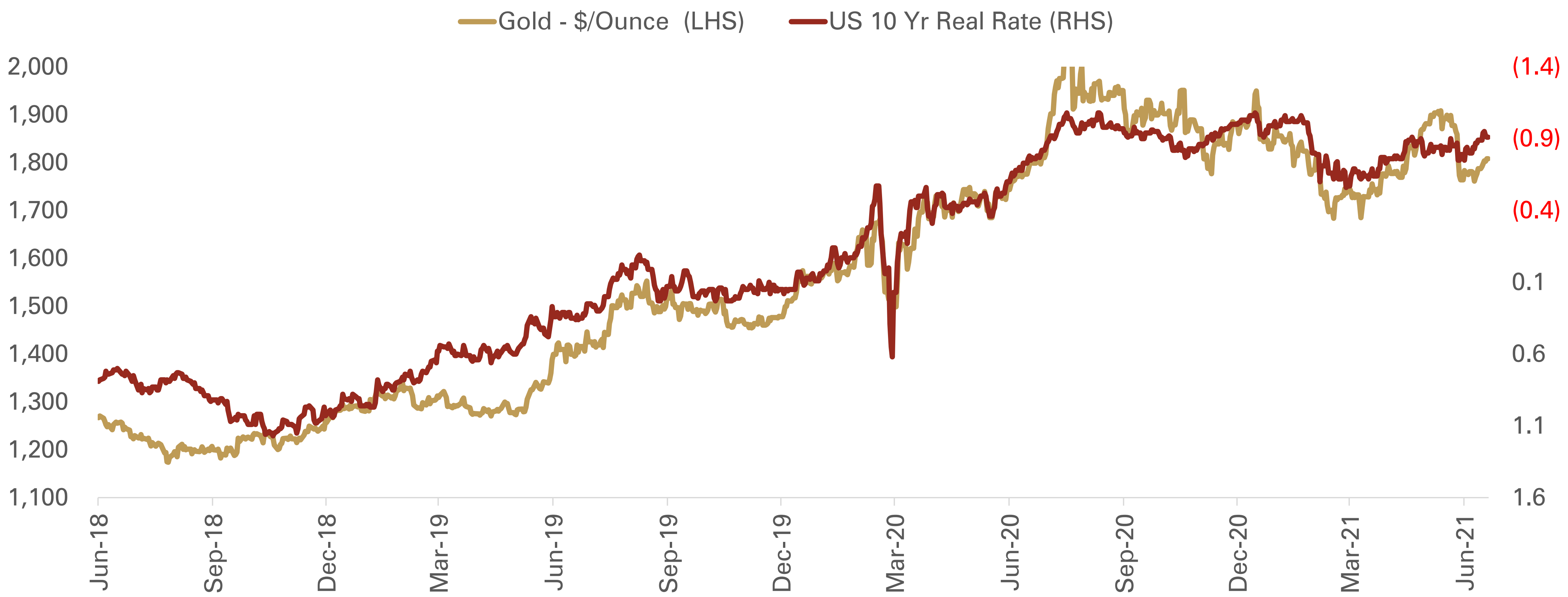
Horizon of more than 3-4 years –

- 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

As real yields fell, Gold has rebounded…



Gold has tracked Real Yields quite closely, in addition to price momentum. Price momentum as well as peak of Real Yields are perhaps behind, therefore, maintain a mild underweight bias.

Thank you

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