

December 28, 2020

Equity Market

Update

Indian equity markets have witnessed a remarkable rally from March 2020 lows making new all-time highs against all expectations. Rising global markets with US election uncertainty behind, significant inflows from foreign portfolio investors, policy and continued reform measures by the RBI, government and incrementally positive news flow on Covid vaccine development have aided headline indices to scale all-time highs.

Market optimism was also fuelled by better-than-expected recent quarterly results wherein a large majority of companies benefitted from low raw material cost and realised operating leverage benefits with management commentary positive on demand prospects and retaining some part of operating leverage gains in the post Covid world. On the macroeconomic front, GST collections improved while present E-way bill generation, fuel consumption and power demand surpassed pre-Covid levels.

Both the ~40% fall in headline indices in February/March and the subsequent recovery recouping all those losses was unanticipated and took most market participants by surprise. While volatility in the market is a known fact, many investors time and again get swayed by the noise around them and forget the basic principle of investing more during a fall and not shying away from it. Investors who followed the basic principle of systematic accumulation at every market level again stand vindicated.

Equity markets both globally and in India took a forward looking view despite rising Covid-19 cases. Now, incrementally the rate of positive cases are declining. Smart investors took a more medium to long term view of the next two to three years. They ignored the near term impact on the current year's weak earnings of companies. Aided by strong fiscal and monetary stimuli and no rollback of reopening of the economy, developed markets led by the US continued their positive momentum.

Foreign portfolio investors who sold ₹ 80000 crore worth of equities since February end till April end turned net buyers and bought equities worth more than ₹ 2.0 lakh crore since then. The buying by FPIs has increased significantly in the last two months of November and December. FPI buying is the primary reason for markets scaling new highs almost every day in November and December 2020.

Outlook

Given the sharp up move, particularly in the last few months, we expect broader market participation to follow. Stock specific action is expected to continue wherein we continue to like IT, pharma, private banks and rural economy linked business models.

The broader markets, represented by midcaps and small caps, have started outperforming, taking cues from the reopening of the economy, better-than-expected recent quarterly results and positive investor sentiments. We expect midcap and small cap funds to outperform, going forward. Investors may consider investing lumpsum as well in midcap/small cap funds at current levels while continuing their overall systematic allocation in other categories as per their risk-return profile.

Our overall outlook on the market remains constructive with buy on dips as an investment strategy.

Our overall market outlook remains positive. However, with equity markets trading at all-time highs, buy on dips is a better investment strategy. We believe midcap and small cap funds are better placed to outperform, going forward

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Debt Market

Update

In the last two years, Indian debt markets have witnessed a good rally with most funds having clean portfolios with no credit risk event delivering annualised return in the range of 11-12%. Funds with higher duration delivered even higher returns as long bond yields, particularly G-Sec yields, delivered higher capital gains as yields decline on a consistent rate cut by the Reserve Bank of India.

While the RBI in its last three policy meetings kept benchmark rates on hold, their liquidity stance remains accommodative. RBI announced the following measures:

- increasing the quantum of liquidity infusion into the market, via special open market operations (OMOs) and outright bond purchases
- Announcing ₹ 1 trillion of on-tap TLTROs
- conducting OMOs in state development bonds (SDLs) as a special case during the current financial year
- in addition, the RBI extended the dispensation of the enhanced held-to-maturity limit of 22% up to March 31, 2022, for securities acquired between September 1, 2020 and March 31, 2021

Minutes of the Monetary Policy Committee meeting held in December were released where members reiterated their assessment that the increased CPI was mostly due to supply side constraints. While members expressed the need to closely observe any signs of generalisation of these supply-side shocks and prevent spillovers, majority of the members were consistent in their view that inflation would be on a downward trend, going forward. The MPC acknowledged the need for a counter-cyclical fiscal policy in this situation and need to reduce the long term bond yields.

CPI inflation fell sharply down to 6.93% in November 2020 compared to 7.61% in October. The reading in November was lowest in the last three month indicating the headline print has peaked in October and is now trending down. The decline in inflation was largely driven by food inflation. Food inflation was down to 8.76% in November against 10.09% in October. Almost all components, except oil & fats and non-alcoholic beverages, saw a decline in growth in inflation. Food inflation seems to have peaked out and is likely to trend lower due to a decline in retail prices of vegetables and favourable base effect. Vegetable prices inflation declined to 15.63% in November compared to 22.08% in October.

Outlook

RBI has said that the scope for further rate cut remains and will be used judiciously to have a higher impact. In a way, this indicates that the scope for significant rate cut remains low and focus would remain on ensuring surplus liquidity.

With banking system liquidity continues to remain in surplus, short-term rates are likely to remain low for longer. The G-sec supply overhang from both the central and the state government remains and is likely to keep the yield curve steep.

The yield for quality bond portfolios like corporate bond funds are trading at cyclical lows. Therefore, the return expectation should be lowered. Select funds in the medium term category offering higher yield with measured exposure to sub-AAA rated papers are better placed for long term debt allocation.

Indian debt markets have performed really well in the last two year with most funds delivering double digit annualised returns. Going forward, with yields already declining, returns would be lower

While corporate bonds funds remain a better option for risk averse investors, returns would be in the range of current YTM's of ~5.50-5.75%. Select funds in the medium term category with measured exposure sub-AAA papers may be a better investment option for moderate and aggressive investors

Industry Synopsis

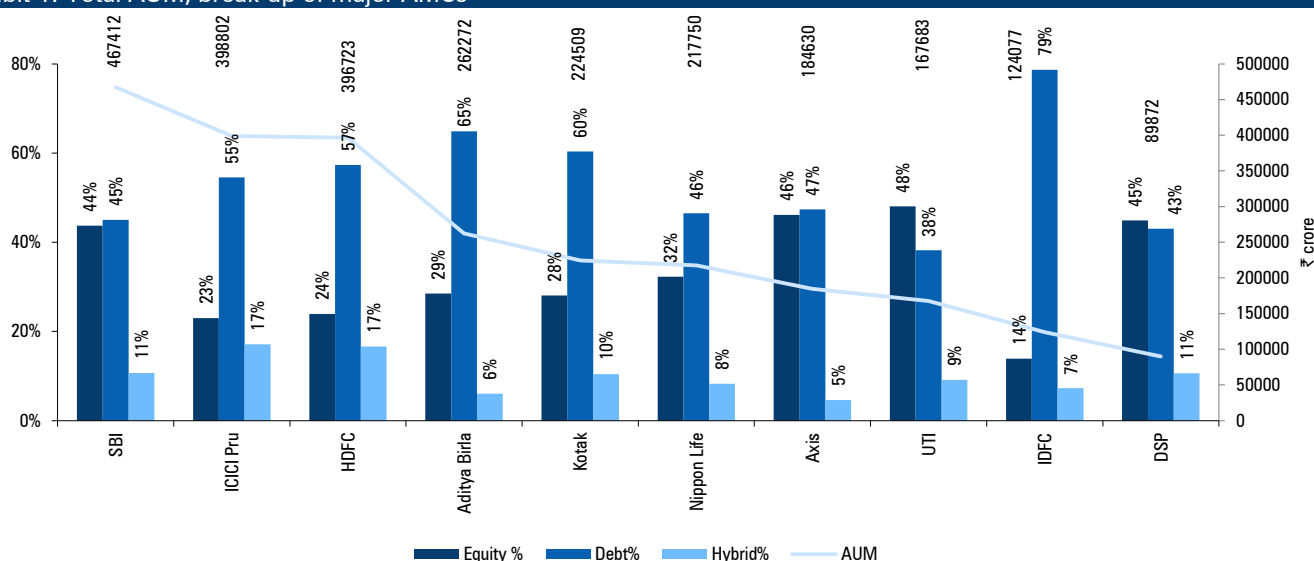
The mutual fund industry AUM rose 6.3% in November 2020 to cross ₹ 30 lakh crore for the first time in its history on the back of inflows into debt funds and mark to market gains in equity funds.

AUM of open ended equity funds is at an all-time high of ₹ 8.6 lakh crore in November 2020. Equity AUM gained around 10% month on month on the back of rising equity markets. Within the equity category, large cap funds and multicap funds account for ₹ 1.6 lakh crore each. The debt fund AUM is at ₹ 13.9 lakh crore as on November 2020.

In debt funds, almost all categories of funds saw inflows in November 2020 as the interest rate outlook remain stable while liquidity remains comfortable. Outflows in credit risk funds have receded to a large extent indicating stabilisation of the credit risk environment.

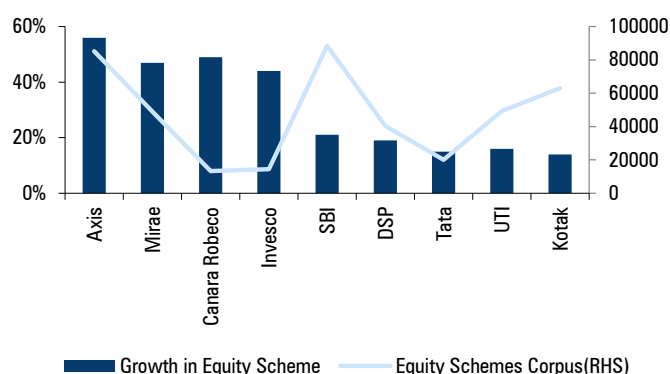
Equity funds witnessed highest ever outflows at ₹ 12917 crore. Equity funds have seen outflows for a fifth consecutive month. Total outflows in the last five months have cumulated almost at ₹ 23000 crore. Few investors seems to be booking profit at the current higher levels.

Exhibit 1: Total AUM, break-up of major AMCs



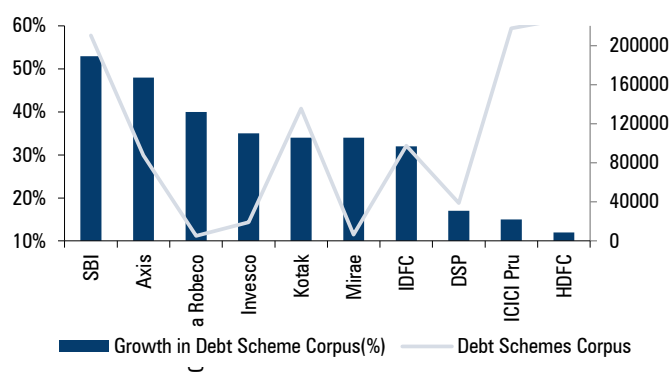
Source: ACE MF. Data as on month-end November 2020

Exhibit 2: In equity, Axis, Mirae, Canara Robeco, Invesco gaining share in last few quarters among major AMCs



Source: ACE MF. Data as of November 2020. YoY growth in last one year. For SBI & UTI, Nifty/Sensex ETF AUM excluded.

Exhibit 3: In debt, SBI, Axis see highest AUM growth in last one year among major AMCs



Source: ACE MF. Data as of November 2020.

Category Analysis

Equity Funds

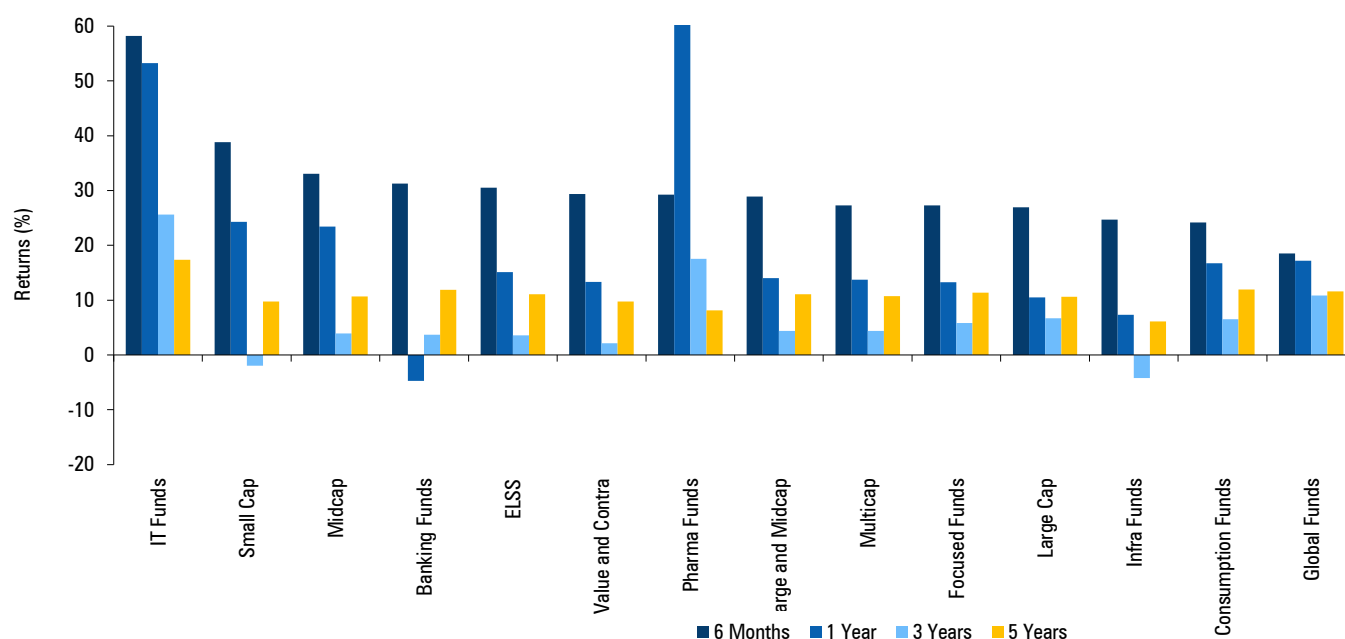
The year 2020 has been one of the most volatile years for Indian as well as global equity markets. There was a sharp fall of around 40-50% in February, March followed by an equally sharp recovery since then taking markets to new highs. Equity investors who stuck to their asset allocation plan and investors who continued their regular investment through SIP and otherwise stand out as winners in this extremely difficult year.

Sector rotation has also been witnessed in the last one year with the clear winners being IT and pharma sectors. Banking funds have also outperformed in the last six months as the impact of Covid-19 related stress seems to be lower than earlier expected on the banking system.

After the initial recovery phase, the broader markets, as represented by the midcap and small caps funds, have outperformed the large cap funds category.

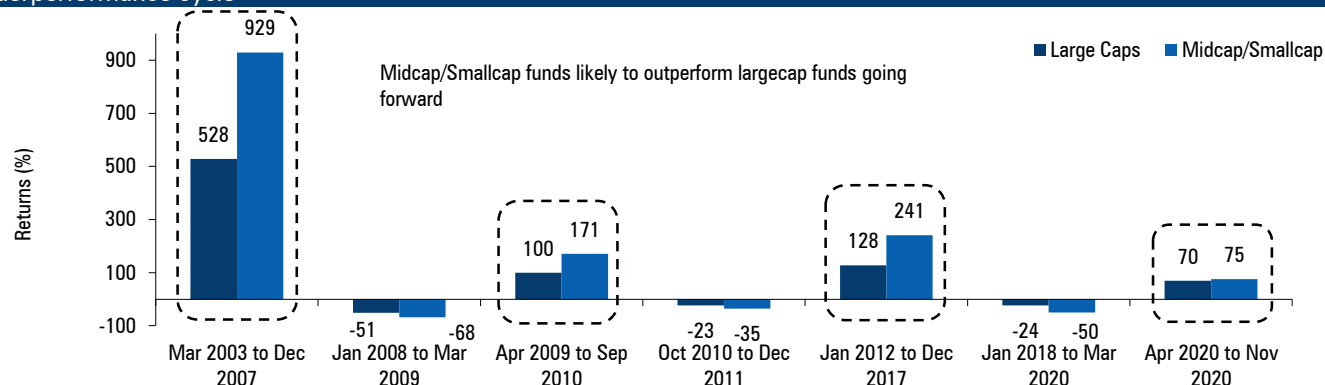
International funds, after having outperformed for a brief period, have underperformed in the last few months now.

Exhibit 4: IT, pharma funds have been major outperformers in last six months to one year



Source: CRISIL. Category average returns as on December 23, 2020. Returns above one year are annualised

Exhibit 5: In most up-market cycle midcap/small cap funds have outperformed significantly, especially after previous underperformance cycle



Source: Bloomberg

Equity diversified funds

Flows into equity funds witnessed a turnaround in the last five months. Equity funds, after witnessing consistent inflows in the last four years, have been witnessing outflows in the last five months. November 2020 saw record net outflows of ₹ 12917 crore. Total outflows in the last five months are now at ₹ 22857 crore.

While retail investors have shown significant maturity by continuing investment at lower levels, few investors seem to be booking profit as markets recovered. SIP inflows, however, remained sticky with November 2020 seeing inflows of ₹ 7300 crore.

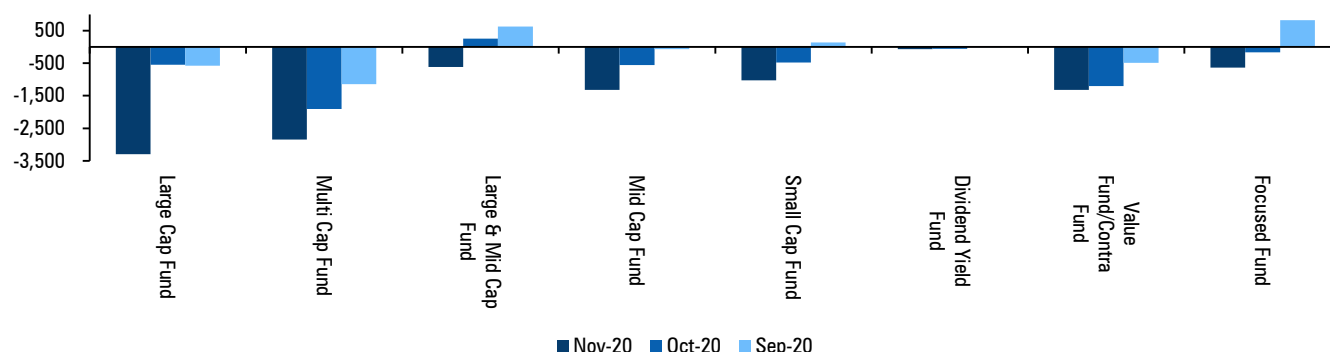
While the outflows in equity funds are secular across category, multicap funds witnessed higher outflows in the last three months.

Midcap and small cap funds witnessed the least outflows in the last few months as its continued outperformance drew investor's interest.

We continue to prefer multicap funds as they offer fund managers flexibility to allocate funds across all market segments, especially in the current market where many smaller cap stocks offer a good investment opportunity. Investors may also consider investing lumpsum amounts in midcap/small cap funds from a long term perspective.

The last four to five months saw outflows against the long trend of consistent inflows. However, SIP inflows continue to be strong at around ₹ 7300 crore

Exhibit 6: Monthly flows: Multicap, large cap funds witnessing higher outflows



Source: AMFI

Exhibit 7: Large cap funds see higher outflows in November 2020

Equity Oriented Category	Inflow/(Outflow) during Nov 2020	AUM
Large Cap Fund	(3,289)	163,104
Multi Cap Fund	(2,842)	160,053
ELSS	(804)	110,953
Mid Cap Fund	(1,317)	100,697
Sectoral/Thematic Funds	(988)	75,594
Large & Mid Cap Fund	(615)	66,392
Focused Fund	(637)	60,525
Small Cap Fund	(1,031)	59,210
Value Fund/Contra Fund	(1,323)	56,573
Dividend Yield Fund	(70)	4,410

Source: ACE MF

Exchange traded funds (ETFs)

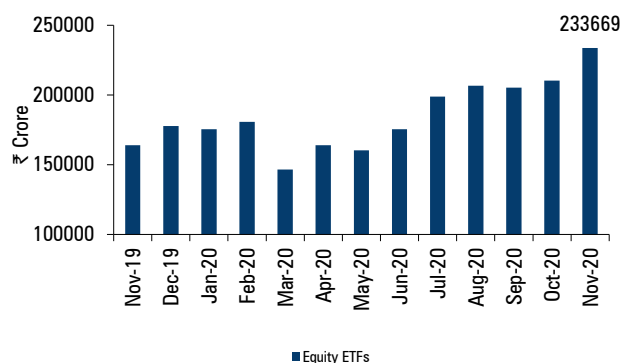
ETFs have already taken the world by storm, with assets under management (AUM) in such funds already surpassing that in traditional mutual funds in many countries. Passive funds emerged in the US more than two decades ago. The first modern day exchange traded fund (ETF) S&P SPDR (Spiders) started trading in the US in 1993. The market for ETFs has grown tremendously since then. Today, 2,000 ETFs are listed in the US. In India, the ETF landscape has gained traction since 2015 and has not only become much bigger but also more diverse. AUM for ETFs has grown from ~₹ 5400 crore in December 2014 to around ₹ 2.3 lakh crore as of November 2020. While growth in ETF is driven by institutional flows led by EPFO in Nifty 50 and BSE Sensex ETF along with CPSE ETFs, inflows from individual investors have also started gaining traction.

This trend of allocation towards ETF is increasing and is likely to gain further traction. The ETF market is expected to grow on the back of continued thrust from government and rising acceptance of such products as an investment vehicle by the retail segment.

ETFs are best placed from an asset allocation perspective as they do not carry any stock selection risk. Indian equity ETF market has grown with many categories of ETFs now available in large cap, midcap, thematic segment.

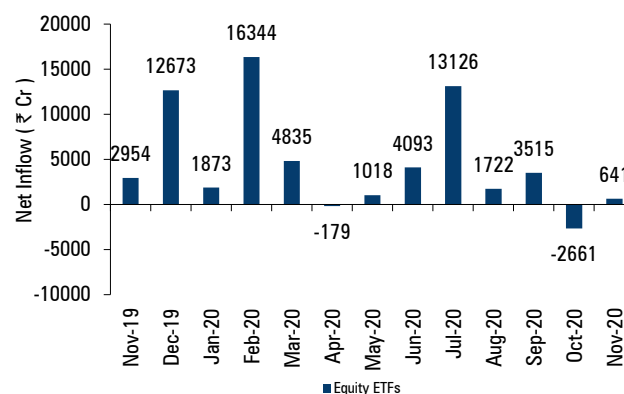
ETFs have a number of attractive features. Usually they have much lower fees and can be bought and sold during the day as opposed to mutual funds that usually execute at the close. Earlier, there was primarily Nifty or Sensex ETF but now there are many ETFs in the large cap space like Nifty Next 50 ETF. Similarly, in midcaps, Nifty Midcap 100 ETF and Nifty Midcap 150 ETF are available to take exposure to midcaps. Many thematic ETFs are also available like banking ETFs and Nasdaq 100 ETFs.

Exhibit 8: Equity ETF AUM at an all-time high



Source: AMFI

Exhibit 9: ETFs witness inflows in November, after first in many months in October



Source: AMFI

Different category of investment options available under ETFs

Exhibit 10: There are currently around 27 categories of ETFs available in Indian market

Nos.	Types of ETFs	Name of ETF	AUM (Cr)
I Largecap oriented ETFs			
1	Nifty 50 ETF	Most AMCs	2490 (Nippon AMC- Highest)
2	Sensex ETF	Most AMCs	426 (LIC MF- Highest))
3	BSE 100 ETF	SBI-ETF BSE 100	4
4	Nifty 100 ETF	LIC MF ETF-Nifty 100	327
		ICICI Pru Nifty 100 ETF	12
		Nippon ETF Nifty 100	7
5	Nifty 100 Quality 30 ETF	Edelweiss ETF - Nifty 100 Quality 30	10
6	Nifty 200 Quality 30 ETF	SBI ETF Quality	21
7	Nifty Low Vol 30 ETF	ICICI Pru Nifty Low Vol 30 ETF	186
8	Nifty Alpha Low Vol 30 ETF	ICICI Pru Alpha Low Vol 30 ETF	27
9	Nifty Next 50 ETF	Nippon India ETF Junior BeES	1195
		SBI-ETF Nifty Next 50	567
		UTI-Nifty Next 50 ETF	377
		ICICI Pru Nifty Next 50 ETF	90
		Aditya Birla SL Nifty Next 50 ETF	68
		Mirae Asset Nifty Next 50 ETF	42
10	Sensex Next 50 ETF	Nippon India ETF Sensex Next 50	12
		UTI S&P BSE Sensex Next 50 ETF	5
		SBI-ETF Sensex Next 50	4
11	NV 20 ETF	Nippon India ETF NV20	25
		Kotak NV 20 ETF	12
		ICICI Pru NV20 ETF	8
12	Nifty Dividend Opportunities 50 ETF	Nippon India ETF Dividend Opportunities	2
II Midcap Oriented ETFs			
13	Midcap 100 ETF	Motilal Oswal Midcap 100 ETF	42
14	Nifty Midcap 150	Nippon India ETF Nifty Midcap 150	175
		ICICI Pru Midcap 150 ETF	24
15	Midcap Select ETF	ICICI Prudential Midcap Select ETF	19
III ETF in Multicap segment			
16	S&P BSE 500 ETF	ICICI Pru S&P BSE 500 ETF	37
IV ETFs based on sectors/Themes			
17	Banking ETF	Kotak Banking ETF	5087
		SBI-ETF Nifty Bank	2478
		Edelweiss ETF - Nifty Bank	1
18	PSU Bank ETF	Nippon India ETF PSU Bank BeES	31
		Kotak PSU Bank ETF	25
19	Private Bank ETF	ICICI Pru Pvt Banks ETF	1590
		Tata Nifty Pvt Bank ETF	11
20	IT ETF	Nippon India ETF Nifty IT	782
21	Nifty India Consumption ETF	Nippon India ETF Nifty Consumption	13
22	Nifty Infrastructure ETF	Nippon India ETF Infra BeES	11
23	Nifty 100 ESG Sector Leaders ETF	Mirae Asset ESG Sector Leaders ETF	-
24	Nifty 50 Shariah ETF	Nippon India ETF Shariah BeES	3
25	Global ETF	Motilal Oswal Nasdaq 100 ETF	1651
		Nippon India ETF Hang Seng BeES	13
26	CPSE ETF	CPSE ETF	9854
27	BHARAT 22 ETF	BHARAT 22 ETF	4706

Source: ACE MF. AUM as on October 2020. In Sensex and Nifty ETFs, SBI and UTI AMC has higher AUM but dominated by institutional flows.

Exhibit 11: Return of various category of ETFs

Name	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
Largecap Oriented ETFs							
Nifty 50 ETF	6.4	19.8	37.1	13.5	11.1	13.3	9.9
Sensex ETF	6.3	21.0	38.1	14.2	13.0	14.3	10.5
BSE 100 ETF	6.9	19.5	37.2	14.3	9.7	13.1	-
Nifty 100 ETF	6.5	19.3	35.6	13.4	9.6	12.8	-
Nifty 100 Quality 30 ETF	9.3	18.5	37.9	21.2	11.0	-	-
Nifty 200 Quality 30 ETF	10.1	15.4	35.1	24.4	-	-	-
Nifty Low Vol 30 ETF	8.1	15.5	33.8	22.6	11.9	-	-
Nifty Alpha Low Vol 30 ETF	8.1	10.9	-	-	-	-	-
Nifty Next 50 ETF	7.8	16.3	28.7	14.6	3.0	11.5	-
Sensex Next 50 ETF	10.0	19.8	34.9	16.5	-	-	-
NV20 ETF	10.9	19.3	40.0	24.6	14.8	15.7	-
Nifty Dividend Opportunities 50 ETF	11.7	17.0	32.0	16.1	6.3	11.8	-
Midcap Oriented ETFs							
Midcap 100 ETF	9.9	18.8	43.3	23.4	1.5	9.6	-
Nifty Midcap 150 ETF	9.3	17.9	43.4	26.6	-	-	-
Midcap Select ETF	9.3	19.5	43.0	20.0	1.3	-	-
Multicap Oriented ETFs							
S&P BSE 500 ETF	7.3	18.7	37.9	16.2	-	-	-
ETFs based on sectors/Themes							
PSU Bank ETF	17.6	27.2	26.8	-30.2	-23.2	-9.7	-8.2
Nifty Bank ETF	3.2	39.4	46.4	-6.1	5.9	13.1	-
Nifty Pvt Bank ETF	2.6	38.6	47.4	-5.5	-	-	-
IT ETF	9.1	18.0	-	-	-	-	-
Nifty India Consumption ETF	9.8	13.7	26.7	19.7	6.5	11.8	-
Nifty Infrastructure ETF	7.2	13.9	24.4	13.1	2.2	7.0	1.2
Nifty 50 Shariah ETF	10.1	14.9	39.9	34.9	10.5	13.6	10.0
Hang Seng ETF	-1.1	8.2	5.9	1.3	4.1	8.6	9.1
Nasdaq 100 ETF	5.2	14.9	23.4	54.3	31.0	24.7	-
CPSE ETF	19.2	20.5	20.4	-7.6	-10.9	0.5	-
Bharat 22 ETF	12.6	26.0	30.9	-5.8	-4.7	-	-

Source: ACE MF. Return as on November 19, 2020

Hybrid funds

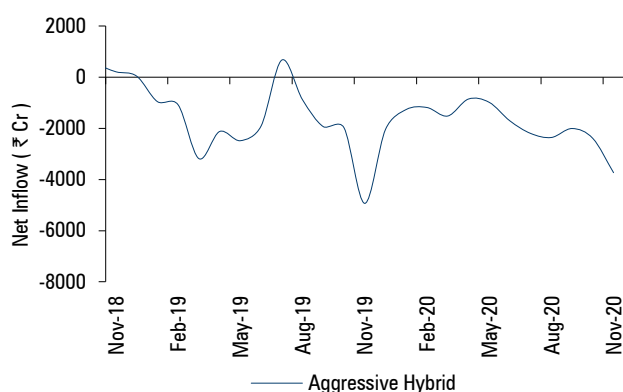
The hybrid funds category is dominated by aggressive hybrid funds (erstwhile balanced funds) and balanced advantage or dynamic asset allocation funds.

The trend of outflow continues in the aggressive hybrid category. The category has witnessed consistently outflows in the last many months.

While Balanced Advantage Funds or Dynamic Asset Allocation category saw marginal outflows in the last few months, the category has grown significantly over the last few years.

Arbitrage funds, as a category, have been popular among investors for parking money temporary in a tax efficient manner.

Exhibit 12: Outflow in aggressive hybrid category continues



Source: AMFI

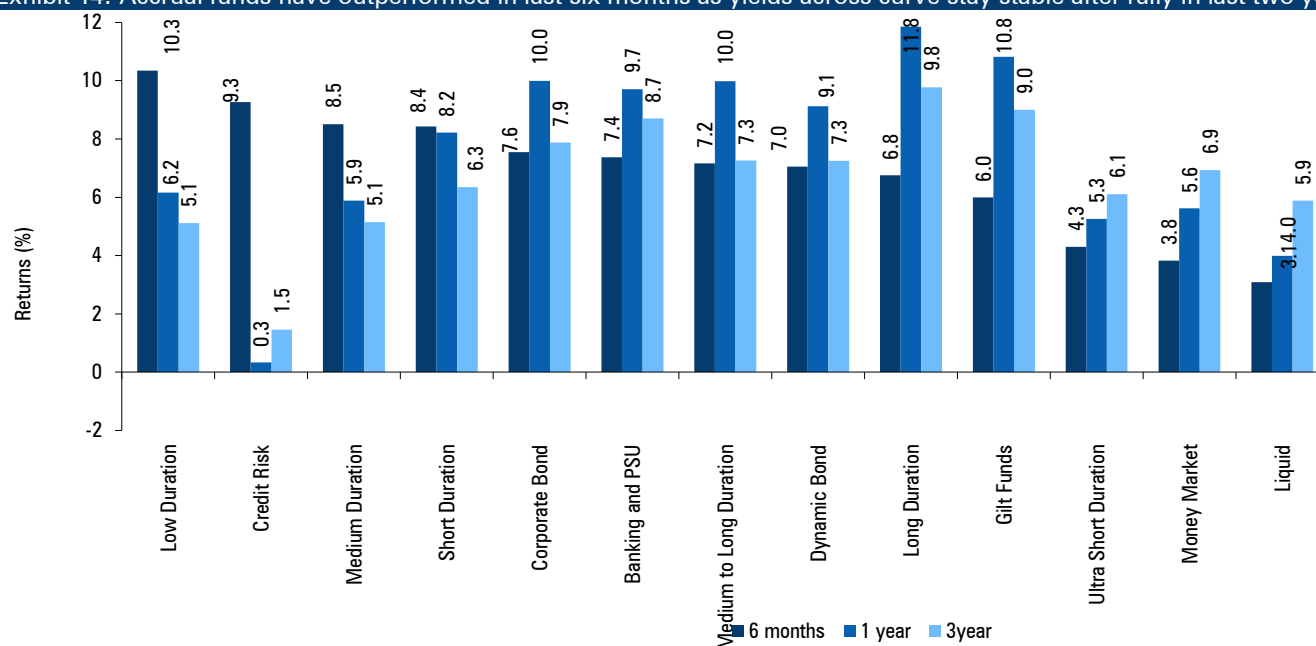
Exhibit 13: AUM of hybrid category has not seen any significant inflows in last few months

Hybrid Category	Inflow/(Outflow) during May 2020	AUM
Balanced Hybrid Fund/Aggressive Hybrid Fund	(3,731)	118,310
Dynamic Asset Allocation/Balanced Advantage	(734)	94,089
Arbitrage Fund	(339)	62,781
Multi Asset Allocation	(178)	13,533
Conservative Hybrid Fund	140	11,826
Equity Savings	(407)	10,032

Source: AMFI

Debt Funds

Exhibit 14: Accrual funds have outperformed in last six months as yields across curve stay stable after rally in last two years



Source: CRISIL. Category average annualised returns as on December 23, 2020

Gold: Golden run continues amid multiple tailwinds

The recent up market cycle in gold prices started from around October 2018 with the safe haven demand being accentuated by the Covid-19 pandemic. Indian prices have since then risen from ₹ 30000 per 10 gram to currently above ₹ 50000 per 10 gram. During the same period, global prices have risen from US\$1175 per ounce to US\$2000 per ounce.

We maintain our positive outlook on gold prices given uncertain outlook on global growth, volatility in other asset classes, viz. global equity, commodity and currency markets, massive stimulus measures announced by major central bankers, extremely low interest rates environment & outlook, US-China trade war and increased buying interest of global central bankers.

Gold has been a long term performing asset class, especially in the Indian context. Annualised long term return since 1970s in US\$ terms is ~3.3%. However, during similar periods, the return in Indian rupee terms is around 9.0%. One of the important aspect for Indian gold prices is the currency depreciation against the US dollar, which is a stable long term contributor to gold prices in India.

For Indian investors, gold has been an effective asset class from a diversification perspective as apart from global price movement, rupee depreciation has helped it deliver better returns. Holding some portion of the portfolio in gold provides effective diversification.

Historically, performance of gold is not structural. Generally, it performs in specific short periods of time, especially during capital market meltdown, global recession, geopolitical tension, etc. Therefore, it may not be an ideal long term asset class

In rupee terms, gold has exhibited a relatively far stable performer aided by currency depreciation and strong domestic demand

Accentuated economic growth concerns due to Covid-19 makes preference for gold stronger

While safe haven demand has been accentuated by the Covid-19 pandemic, gold prices started rising from October 2018. Indian prices have since then risen from ₹ 30000 per 10 gram to currently above ₹ 50000 per 10 gram. During the same period, global prices have risen from US\$1175 per ounce to US\$2000 per ounce.

The uncertain impact of Covid-19 on the global economy led to a sharp fall in equity markets, commodity markets along with depreciating currencies leading investors to scout for relatively stable asset class. Accordingly, in the currently never before seen uncertainty and risk aversion environment, gold seems to be an appropriately placed asset class for global investors.

Relatively safe haven assets like US treasuries have already rallied significantly with negative yielding debt increasing. Simultaneously, with very low bond yields elsewhere, expected returns from bond markets have reduced significantly. With major global central bankers already lowering rates significantly, further scope for a reduction in rates is either not there or very limited. This limits expected bond returns, going forward. Accordingly, gold may become an attractive and more effective diversification, resulting in a higher portfolio allocation.

Currently, where around 25% of developed market sovereign debt is trading with negative nominal rates and, once adjusted for inflation, a significantly higher amount trades with negative real rates, the opportunity cost of gold almost goes away, even providing what can be seen as a positive "cost of carry" relative to sovereign bonds.

Gold prices have responded to the surge in negative real-yielding debt, as evidenced by the strong positive correlation between the amount of debt and price of gold over the past four years. To some degree, this illustrates the erosion of confidence in fiat currencies related to monetary intervention.

Economic growth likely to be significantly impacted by current lockdown due to rising Covid-19 threat on human life. The same is likely to aid the demand for gold in times of weak economic growth

Central banks buying gold to diversify their holdings

Global central banks are looking to diversify their holdings by adding gold to their corpus. Predominantly, US treasuries are believed to be a larger proportion of their holdings. Central banks accumulated over 668 tonnes in gold purchases in CY19, more than 2018's record numbers of 652 tonnes. Heightened geopolitical and economic uncertainty throughout the year increasingly drove central banks to diversify their reserves and re-focus their attention on the principal objective of investing in safe and liquid assets. Central banks have bought significant amount of gold in the last two years. Central bank net purchases crossed 650 tonnes in 2018, 74% higher than 2017. In 2019, gold buying by central banks continued and reached another all-time levels of 668 tonnes. The last two years have seen the highest level of annual net purchases since the suspension of dollar convertibility into gold in 1971. These institutions now hold nearly 35,000 tonnes of gold.

The last two years have seen the highest level of annual net purchases by global central bankers. These institutions now hold nearly 35,000 tonnes of gold

Similarly, holdings of gold by global exchange-traded funds are at a record high as investors sought safety from recent weakness in equities and worries about the Covid-19 virus hurting the global economy. Global gold-backed ETFs (gold ETFs) witnessed net inflows of US\$23 billion or 298 tonnes in January-March 2020 quarter taking holdings to a new all-time high of 3,185 tonnes. Assets under management (AUM) rose to a record high at US\$157 billion at the end of February 2020.

Gold is the best way to hold US dollar asset in the portfolio. Future US dollar requirement also necessitates gold requirement for an Indian investor's portfolio. US dollar may be required for financial goals like children's study in a global management or other institute, foreign vacation, buying any foreign asset in future, etc. Gold is the best way to own a dollar asset as all other asset classes like overseas funds, gold mining companies, etc, have higher underlying volatility. Sovereign gold offers one of the best way to hold gold if interment liquidity is not in consideration.

Similarly, holdings of gold by global exchange-traded funds are at a record high as investors sought safety from recent weakness in equities and worries about the Covid-19 virus hurting the global economy. As per World Gold Council, global gold-backed ETFs (gold ETFs) recorded their seventh consecutive month of positive flows, adding 104 tonnes in June 2020 equivalent to US\$5.6 billion or 2.7% of assets under management taking global holdings to new all-time highs of 3621 tonnes. In the first half of CY20, global net inflows reached 734 tonne (US\$39.5 billion), significantly above the highest level of annual inflows, both in tonnage terms (646 tonne in 2009) and US dollar value (US\$23 billion in 2016).

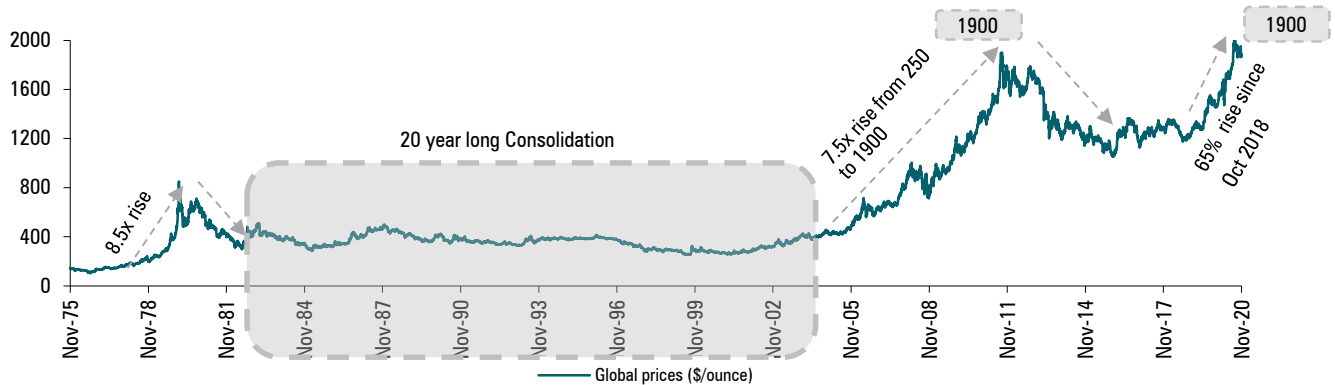
Historically, long term performer with or without events

Gold is traditionally seen as a safe investment in times of political or economic turbulence. The yellow metal usually does well during geopolitical turmoil with the crisis over North Korea's nuclear capability boosting the prospects of gold. Crises such as wars, which have a negative impact on prices of most asset classes, have a positive impact on gold prices since the demand for gold goes up as a safe haven for parking funds.

The current Covid-19 virus outbreak is likely to boost safe haven demand for gold as seen earlier during major global geopolitical or other events. However, gold has not just seen higher buying interest during periods like current market turmoil. It has been a long term performing asset class, especially in the Indian context. Annualised long term return since 1970s in US\$ terms is ~3.3%. However, during similar periods, the return in Indian rupee terms is around 8.8%. The return difference can be explained through the rupee depreciation against the US dollar, which is at around 4.0% during

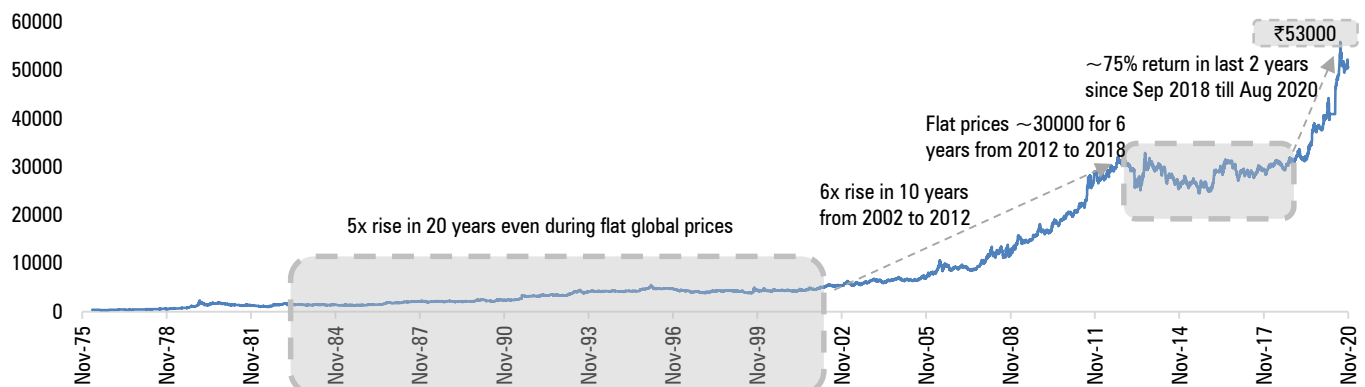
the same period in the last 40-50 years. Even the inflation differential between the US and India is around similar levels of around 4.0%.

Exhibit 15: Global gold price cycle generally spans over multiple years with multi-fold rally. In current cycle it has moved around 65% so far; may have further room



Source: Bloomberg, prices in USD per ounce

Exhibit 16: In Indian prices, gold has been stable performer over longer term. However, current rally is sharpest with 75% return in less than two years



Source: Bloomberg. Prices in ₹ per 10 gram

Mutual Fund Recommendation

Exhibit 17: Equity oriented funds

Category wise top picks	
Largecaps	Axis Bluechip Fund
	Canara Robeco Equity Bluechip Eq. Fund
	ICICI Prudential Bluechip Fund
	IDFC Large Cap Fund
Large and Midcaps	Mirae Asset Largecap Fund
	Invesco Growth Opportunity Fund
	Kotak Equity Opportunities Fund
	LIC Large and Midcap Fund
Multicaps	SBI Large and Midcap Fund
	Sundaram Large and Midcap Fund
	Aditya Birla Sunlife Equity Fund
	Axis Multicap Fund
	Canara Robeco Equity Diversified Fund
	Invesco Multicap Fund
	Kotak Standard Multicap Fund
	Nippon Multicap Fund
Midcaps	Parag Parikh Long Term Equity Fund
	UTI Equity Fund
	Axis Midcap Fund
	DSP Midcap Fund
Smallcaps	Kotak Emerging Equity Fund
	L&T Midcap Fund
	Mirae Midcap Fund
	Axis Smallcap Fund
ELSS	ICICI Pru Smallcap Fund
	Invesco Smallcap Fund
	Kotak Smallcap Fund
	Nippon Small Cap Fund
Aggressive Hybrid	SBI Smallcap Fund
	Axis Long Term Equity Fund
	Canara Robeco Equity Taxsaver Fund
	DSP Blackrock Tax Saver Fund
	IDFC Tax Advantage Fund
	Mirae Asset Tax Saver Fund
	Canara Robeco Equity Hybrid Fund
	HDFC Hybrid Equity Fund
	Mirae Asset Hybrid Equity Fund
	SBI Equity Hybrid Fund

Source: ICICI Direct Research

Exhibit 18: Debt funds

Category wise top picks	
Category	Fund
Overnight / Liquid / Ultra Short Term	Aditya Birla Sun Life Savings Fund
	HDFC Ultra Short Duration Fund
	SBI Magnum Ultra Short Duration Fund
Low Duration / Money Market	ICICI Prudential Savings Fund
	IDFC Low Duration Fund
	Kotak Low Duration Fund
Short Term	Aditya Birla Sun Life Short Term Fund
	HDFC Short Term Debt Fund
	ICICI Prudential Short Term Fund
Medium Term	Axis Strategic Bond Fund
	HDFC Medium Term Debt Fund
	ICICI Prudential Medium Term Bond Fund
Medium to Long Term / Long Term	Aditya Birla Sun Life Income Fund
	ICICI Prudential Bond Fund
	IDFC Bond Fund - Income Plan
Dynamic Bond Fund	DSP Strategic Bond Fund
	IDFC Dynamic Bond Fund
	Kotak Dynamic Bond Fund
Corporate Bond	Aditya Birla SL Corporate Bond Fund
	HDFC Corporate Bond Fund
	IDFC Corporate Bond Fund
Credit Risk	-
	-
	-
Gilt	Aditya Birla Sun Life G-Sec Fund
	IDFC G-Sec Fund - Investment Plan
	SBI Magnum Gilt Fund

Source: ICICI Direct Research

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