



“Allocate Across Assets, Think Long Term On Equity”

All things that could go wrong went wrong in 2022. After a record of sorts last year, the Street saw extreme volatility amid a concoction of macro headwinds, primarily led by a hike in interest rates by central banks across the globe. The sudden reversal of liquidity amid an inflationary environment, triggered by the Russia-Ukraine conflict rolled markets and economies worldwide. Recessionary winds are blowing across the U.S. and Europe. While India is grappling with the fallout, its growth story remains intact. Against this backdrop, *Fortune India* got the country's leading private wealth managers, **Ashish Gumashta** of Julius Baer India, **Ashish Kehair** of NuVama Wealth Management, **Anirudha Taparia** of 360 ONE Wealth, **Atinkumar Saha** of Deutsche Bank and **Rajesh Saluja** of ASK Wealth Advisors to discuss how different asset classes will perform in the year ahead. The discussion was moderated by **V. Keshavdev**. Edited excerpts:



From left: Rajesh Saluja, Anirudha Taparia, Ashish Kehair, Ashish Gumashta and Atinkumar Saha.

PHOTOGRAPH BY: NISHIKANT GANDE (RAJESH SALUJA), BANJAY KAWAT (ANIRUDHA TAPARIA), PADMINI (ASHISH KEHAIR, ASHISH GUMASHTA AND ATINKUMAR SAHA)

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CY22 has been a year of macro uncertainty and volatility, and there are concerns that it could be a 2008 redux. What is your view?

Ashish Kehair, MD & CEO, NuVama Wealth Management: There is a clear divergence of trends. Growth is visible on the ground, even client interactions reveal a positive sentiment. Credit growth is picking up as well. Yet, given the inflationary concerns, global recession, troubles in the Eurozone, this is not a market where you can be all-in because you don't know how it will play out. The view on inflation has gone from transient to sticky, and we are now talking about recession. So, it will impact flows as interest rates are at unprecedented high levels. While I don't see a repeat of 2008 when the indices more than halved, I don't foresee the market going up in a hurry either.

Anirudha Taparia, co-founder & joint CEO, 360 ONE Wealth: Yes, it has been an unprecedented year with all the macro uncertainties at play. Going into the new year and 2024, it will all boil down to two things: How worldwide economies tackle inflation and, second, the interest rate trajectory.

Ashish Gumashta, executive chairman, Julius Baer India: Clearly, the U.S Fed's rate hikes have exported unprecedented volatility across bond, equity and currency markets. Volatility is usually followed by shrinking of liquidity and we are already seeing challenges around refinancing. In India, too, interest rates have risen quite fast. Borrowing costs have gone up significantly over the past one year with five-year G-Sec now at 7.13%-plus. It's time to be cautious on equities. With yields becoming attractive, investors can start looking at fixed income.

Rajesh Saluja, CEO & MD, ASK Wealth Advisors: It is a different situation today. Yes, more money got printed during Covid compared with 2008, coupled with supply side shocks. As a result, we are seeing high inflation across economies, compounded by the geopolitical tensions, led by the Russia-Ukraine war. Now,



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₹1,96,200 CR

AS OF Q1FY23

(SOURCE: INVESTOR PRESENTATION)

Client Portfolio Mix 2023*

	Debt	Domestic Equity	Offshore Equities	Gold
Aggressive	10%	78.75%	6.25%	5%
Balanced	46.25%	45%	5%	3.75%
Conservative	72.5%	21.25%	3.75%	2.50%

Outlook 2023

Favoured sectors	Automobile	Defence	Power
Avoid sectors	-	-	-

*THESE LONG-TERM THEMES MAY REMAIN VOLATILE AS UNCERTAINTY LINGERS ON PRIVATE CAPEX REVIVAL AND OMICRON-TYPE RESTRICTIONS.

Expected Return

Indian Equity	Indian Debt	Foreign Equities [^]	Alternatives ^{^^}	Gold ^{^^^}
12-14%	7-8%	6-8%	9-11%	NA

[^]FOREIGN EQUITIES EXPECTED RETURNS INCLUDE EXPECTED CURRENCY IMPACT FOR INR INVESTORS.

^{^^}ALTERNATIVES RANGE FROM PRIVATE DEBT TO PRIVATE EQUITY AND HENCE THE RANGE OF RETURNS CAN BE WIDER.

^{^^^}THE FIRM DOESN'T CONSIDER GOLD AS A SEPARATE ASSETS CLASS, BUT IT MAY ADD VALUE AS A PORTFOLIO DIVERSIFIER, ESPECIALLY IN A HIGH INFLATION SCENARIO.

the expectation is that inflation is nearing its peak and that means beyond the budgeted rate hikes, the Fed will go easy. Our house view is that 2024 may see the onset of rate cuts, though not as low as those seen during Covid. It will surely be a softer interest rate regime as none of these economies can survive with such high rates in the longer term. We strongly believe that despite all the challenges, this is going to be a golden decade for India. Once things settle down globally, we'll be one of the biggest beneficiaries given that we have a stable political government, strong incentives (PLI) for manufacturing, and a reasonably good fiscal deficit situation. As a strategy, however, we are neutral and will be staggering money over the next six months.

Atinkumar Saha, head, wealth management,

Deutsche Bank: Our house view is very clear that global headwinds are very high, and the U.S. and Europe will slide into recession in the first half of 2023. Though China, and some other emerging markets (EMs) will do well, global growth will go down the curve by 0.5% next year. Slow growth, high inflation, and high Fed rates clearly create some uncertainty in the market. So, when there's uncertainty, investors stay on the sidelines and that's what's been happening for a while now and it might continue for the next six to nine months. Given these uncertain times, investors would do well by sticking to asset allocation. On the fixed income side, from a 3.5-4% return, you're getting

into approximately 5-7% on AAA-rated book and since the curve is flattened, there's no reason to take a duration risk. On the equity side, we need to wait out and think long term. Given India Inc's strong earnings growth, we will eventually see FDI and FPI flows coming in a big way, irrespective of what happens to the currency.

Has the market priced in all the negatives?

Saluja: 2008 posed a very big systemic risk related to some financial institutions who were taking excessive risk. But, that is not the current situation. The reasons

“(Market) valuation looks high and if something untoward was to happen, then you could see a correction.”

ASHISH KEHAIR

for the current volatility and uncertainty are well known — be it the Russia-Ukraine war and its impact on energy prices, and the fact that Europe and the U.S. are facing recessionary headwinds. If these economies have a recessionary phase with increasing interest rates, one can imagine what will happen. So, it's just a matter of time before the commentary moves back to growth. The reasons for inflation, too, are well-known — with all the supply side disruption that took place, the Chinese smartly took advantage by exporting inflation because clearly there is no China alternate strategy, expect for a China plus-one strategy. No country, within a year or two, can reach the size and scale of manufacturing that China has. Further, the Russia-Ukraine war has only compounded the situation in terms of energy costs. But this situation can't continue for long as, otherwise, it will end up bankrupting many economies. Hence, I would like to believe that the market has priced in most of the negatives.

Kehair: There is no clear signal right now. But if you were to look at the markets philosophically at any point in time, there are always factors which are positive and negative, and those factors tend to get priced in. If there is an unknown which crops up, then obviously whatever you price in, goes off the table. On a relative basis, the valuation looks high and if something untoward was to happen, then you could see a correction. But one can never really time the market

and hence, you need to follow an asset allocation process. The only thing in your control is how are you positioned in the market — aggressive, neutral or cautious. That is the only thing you can calibrate. So, from a stance perspective, we are in a neutral to cautious tilt right now. Had we been 10-15% cheaper, if something untoward were to happen, then the fall would've been less sharper.

Taparia: We all pretty much have a consensus on what the global scenario is and the things working in India's favour. Most of us are following a ladder-up approach, in terms of investments. Interest rates are moving upwards and there may be another hike. So, our advice to clients would be to keep locking in gains on the three- and five-year bucket on the fixed income side. We are slightly cautious about equities. But for which way the war could turn, all other factors are pretty much priced-in.

Usually, the combination of a low interest rate and low inflation environment is a good time to invest in equities, but now in a rising interest rate and high inflationary scenario, is there a case for changing tack and investing in hard assets such as real estate?

Saluja: Actually, research shows otherwise — it's not necessary that when interest rates are low, it's the best time to invest in equity. Yes, mathematically, your valuations go up because you are discounting at a lower

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₹3,33,000 CR

Client Portfolio Mix 2023*

	Debt	Domestic Equity	Offshore Equities	Real Estate/REITs/InvITs	Alternatives	Liquid
Aggressive	13%	57%	6%	7%	5%	11%
Balanced	32%	43%	5%	7%	5%	8%
Conservative	51%	28%	3%	7%	5%	6%

Outlook 2023

Favoured sectors	Banks & Financial Services	Capital Goods
Avoid sectors**	Oil & Gas	Consumer Staples

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**THE FIRM DOESN'T SEE MUCH UPSIDE OR ROOM FOR GROWTH IN THESE SECTORS, BUT WOULD REFRAIN FROM CLASSIFYING THEM AS 'AVOID'

Expected Return

Indian Equity	Indian Debt	Foreign Equities [^]	Alternatives ^{^^}	Gold ^{^^^}
11-13%	7.5-8%	10-12%	10-18%	NA

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rate. But in a high interest rate scenario — not the one that we are going through caused by supply side disruptions — but, usually, high interest rates, at times, correlate to strong economic growth, which is really a demand-oriented inflation. When interest rates go up, your discount premium goes up and that impacts valuations. That's what is going on in the market. From a trailing one-year forward earnings perspective, we are only quoting at 18.8 times, which is close to the long-term average. Consensus is expecting 15% earnings growth this year and another 15% next year. So, we are not expensive relative to other emerging markets.

So, is there a strong case to invest in real estate?

Saluja: Of course, inflation causes money to move towards hard assets, including real estate and we've seen the run up over the past two years. While in the short term, high interest rates will have an impact, but given the demand mismatch in India, real estate will remain a strong long-term story. While prices, in the interim, may tend to inflate owing to liquidity or high demand for a specific area, on the whole, we continue to remain bullish on this asset class.

Gumashta: While we are positive about real estate, I feel the time right now is to look at fixed income.

Taparia: On the residential side, Mumbai, Bangalore, or Delhi, prices are pretty much at the highest. In fact, prices in Gurgaon have doubled. The Covid triggered

“Interest rates are moving up. Keep locking in gains on the three- and five-year bucket on the fixed income side.”

ANIRUDHA TAPARIA

the need for people to move into bigger houses and, besides, with a lot of business exits and companies getting listed, the first thing a person does with the money is to invest in a house. On the commercial side, during Covid there are renegotiation of leases downwards. But a look at Embassy and Mindspace quarterly results show that rentals are edging up. DLF is delaying its REIT because they are waiting for another six months to a year to leverage on the full potential of an escalation in rentals before hitting the market.

Kehair: For the first time in 20 years, the gap between the mortgage rate and the rental yield was the

JULIUS BAER

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NA

Client Portfolio Mix 2023*

	Debt	Domestic Equity	Offshore Equities	Alternatives	Liquid
Aggressive	15%	55%	10%	20%	0%
Balanced	35%	40%	10%	10%	5%
Conservative	55%	25%	5%	5%	10%

Outlook 2023

Favoured sectors	BFSI	Healthcare	Cement	Consumer Discretionary	Capex Based
Avoid sectors**	Oil & Gas	Metals	Mid-cap IT	Consumer Staples	

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Expected Return

Indian Equity	Indian Debt	Foreign Equities^	Alternatives^^	Gold^^^
12-14%	6-7%	8-12%	10-15%	NA

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narrowest. The heady concoction was enough to fire up the real estate market. We have seen sales velocity going through the roof over the past two years, partly supplemented by stamp duty cuts, Covid-fuelled demand for bigger houses and an element of capital gains driven by exits in start-ups. But I would be cautious about expecting a similar kind of return in residential estate and it may be better to play this segment through developer stocks or real estate funds, since taking a price call on a property may not fetch the desired level of return. On the other hand, commercial real estate is a different story as lease rentals tend to move in tandem with interest rates. Commercial real estate is the only asset which, technically, not only behaves as fixed income but also gives you an inflation hedge because of a built-in rent escalation clause.

Does it make sense to invest overseas, given the valuation differential between the U.S. and Indian stocks?

Taparia: India, on a price-to-earning perspective, is closer to its 10-year trailing average of 21-22x trailing basis, but on a P/B basis it is a different story especially when it comes to large-caps, which are trading at 2.8x-3.2x, while mid-caps are quoting in 2.5x-3.1x range. So, one needs to be slightly cautious about the market and keep dry powder ready for the next few quarters or so. From an overseas point of view, the U.S. market has corrected 35-38% with Dow Jones and the S&P showing flattish returns over the past five years. As a

result, the U.S. market does look attractive. However, I see opportunity in Indian USD bonds as their yields have spiked up.

Gumashta: While valuations in the U.S. are attractive, the percentage of money that clients can take overseas is very small compared to their net worth. Focusing on the domestic economy makes more sense as a \$20 jump in oil prices can have a different implication in these economies with winter setting in.

Khair: Domestic fixed income looks good as it allows you to lock in reasonably good deals right

“It’s time to be cautious on equities... With yields becoming attractive, investors can start looking at fixed income.”

ASHISH GUMASHTA

ASK WEALTH

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₹75,000 CR

Client Portfolio Mix 2023*

	Debt	Domestic Equity	Offshore Equiries	Alternates	Gold
Aggressive	10%	65%	10%	15%	0%
Balanced	50%	35%	5%	5%	5%
Conservative	75%	20%	0%	0%	5%

Outlook 2023

Favoured sectors	Tech & Digital 2.0	Manufacturing	Financial Services	Auto/Auto Ancillaries	Non Disc. & Disc. Consumption
Avoid sectors**	Commodities	Real Estate	-	-	-

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Expected Return

Indian Equity	Indian Debt	Foreign Equities^	Alternatives^^
15-18%	6.5-8.5%	10-12%	15-18%

^FOREIGN EQUITIES EXPECTED RETURNS INCLUDE EXPECTED CURRENCY IMPACT FOR INR INVESTORS. ^^ALTERNATIVES INCLUDE PE/VC FUNDS ACROSS TECH, REAL ESTATE & OTHER GROWTH SECTORS



DEUTSCHE BANK

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₹19,000 CR

EXPECTED RETURNS MENTIONED BY THE FIVE FUNDS ARE ONLY INDICATIVE RANGES FOR THE RESPECTIVE BROADER ASSET CLASSES. THESE ARE NOT GUARANTEED ASSURANCES FOR ANY PARTICULAR PRODUCT OR INDEX AND THEREFORE SHOULD NOT BE CONSIDERED AS RESEARCH VIEW OR ADVICE FOR MAKING ANY INVESTMENT DECISION. INVESTMENT RETURNS CAN FALL SIGNIFICANTLY, INCLUDING LOSS OF CAPITAL.

Client Portfolio Mix 2023*

	Debt	Domestic Equity**	Alternates	Liquid
Aggressive	20%	60%	15%	5%
Balanced	45%	40%	10%	5%
Conservative	72%	18%	5%	5%

Outlook 2023

Favoured sectors	Banks & Financial Services	Auto	Industrials
Avoid sectors***	Metals	Energy	-

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Expected Return

Indian Equity	Indian Debt	Foreign Equities^	Alternatives^^
12-14%	7-7.5%	10-20%	10-12%

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now. I agree with Anirudha that dollar bonds of Indian corporates are fetching higher dollar yields than domestic yields and by selling dollar-rupee forward, one can fetch 12-13% gain in rupee terms. AAA credit looks extremely good. As far as equities are concerned, we are bullish — from a long-term perspective — on India. We went underweight on equities six-seven months back, but may look to go neutral or overweight in the event of a correction. We've also been deliberating on opportunities in the U.S., given that once the tide changes, the U.S. is an animal which can't be contained. They are innovators of the world, and they create firms which are world class with strong cash flow and low leverage. But the problem is the limitation on investing abroad.

Saluja: The way to invest in real estate is through funds as that is where you are trying to get a portion of the developer's margin. Investing directly in hard real estate assets have never given good returns on an XIRR basis (returns on investments done over multiple transactions), barring a few exceptions. Though there are limits on global investing, over the past four to five years we have consciously kept 5-10% of our client's portfolio allocated to the U.S. market as they are some really good tech companies. Also, over the past five years we've seen an average rupee depreciation of around 3-5%, which also adds to your return. However, our belief is that India remains a better

bet. In India, over a five-year period, the majority of the return came over the past couple of years. In fact, historically, over the past couple of decades, all equity returns have come in seven years with the remaining 15 years fetching average to poor returns.

What about precious metals such as gold?

Saluja: In a highly inflationary environment, where money is getting printed, there can be some allocation towards gold. But, from a short-term perspective — six months to a year — with rising interest rates and bond yields, gold, which doesn't create any yield, will not be in favour. So, we are underweight on gold, for now. But

“We expect gold to do better at least for a year with a 10-12% kind of return... We ask clients to allocate 5% to gold.”

ATINKUMAR SAHA

“The way to invest in real estate is through funds as that is where you are trying to get a portion of the developer’s margin.”

RAJESH SALUJA

from a long-term perspective, given that global debt is three times of global GDP — \$280 trillion debt on \$90 trillion GDP — gold will play a role.

Kehair: We have a similar view. There may be a technical rally as over the past 20 years, gold prices have moved up in spurts — a seven-eight year lull, followed by a 30-50% rally. But, right now, the conditions don’t seem conducive enough to warrant a serious allocation.

Saha: Our house view is that given the geopolitical crisis, inflation and the rate hike cycle, we expect gold to do better at least for a year with a 10-12% kind of return. But from a long term, we’re not expecting the asset class to give the kind of return one would get in fixed income. We normally ask clients to allocate 5% to gold and that would be our stance even now.

Taparia: As an asset class over a 15-year period, gold has given a compounded return of 6-6.5%. When interest rates rise or the dollar strengthens, gold loses its sheen. So, for now, we are neutral on gold.

Gumashta: We are neutral at this point as interest rates are moving up.

How do you see the New Year panning out for investing, and what would be the key risk?

Saha: In the first half, global economies — the U.S. and Europe — will see a mild recession, and towards the second half, there could be a revival. Emerging markets will still do better with India fetching around 6% kind of a growth, followed by China offering over 5%. Though equity markets could see a marginal correction, it will still be a good opportunity for investors to be in. In debt, as rates go higher, it could offer better

returns. Alternatives, which is a smaller part of the total portfolio, will give those one-off opportunities which people should bank on. Fund of funds overseas will give us opportunities as markets there will see further correction. REITs will be a good option as well. Inflation is the biggest risk. If it goes up further, developed economies will be forced into a more tightening phase, which will impact growth in India as well.

Gumashta: One risk to watch out for is the current account deficit which is 5% of our GDP and if it goes up, it can impact our currency. Thus far, the RBI has said 60% of the currency’s loss was due to revaluation. So, while we are okay with a nine-month export cover, we should keep an eye on the deficit. In fixed income, there are opportunities in AAA instruments. In equities, take some profit if there is a rally. In private equity, we’ve still not seen a correction because there are still too many global funds chasing businesses. But next year will be a good year to build a PE allocation. Metals and commodities will be wait and watch,

Kehair: We will keep allocating more to fixed income as long as interest rates keep going up. Equity, we maintain our cautious to neutral stance unless there is a correction. We will closely watch the U.S. markets to add more there. Dollar fixed income remains attractive. We don’t look at PE separately and it remains part of the equity allocation. Gold is always an insurance allocation. The joker in the pack is the combo of current account deficit and the balance of payment position.

Saluja: Next year will be a good one for all asset classes not just in India but also globally because the commentary from central banks and governments will move from inflation to growth. It’s just a matter of time, it could take six to eight months, but the market will get a sense before and people will start looking at equities. In fixed income, given the rates are high, it will be a good opportunity to lock in some yields. There are some exciting opportunities on the alternate side, both in private equity and real estate. India will be in a good space with a confluence of positive factors coming its way. The only big risk is geo-political.

Taparia: Over the next few months, for both equity and fixed income, we advise a ladder-up approach. Fixed income yields are high and offer a good three- to five-year window for lock-in. In the alternative space, with cheap money gone, the men and boys have got separated. Though the alpha will be there, it has to be restricted to 1% in the portfolio. The risks are the three Cs — current account deficit, crude and currency. ■