

**Date:** 03/06/2022

Dear Investor,

Hope all is well at your end.

The NSE benchmark index continued to be volatile in May 2022 reflecting the global volatility. The index was down after the low of 15783 during the month. The FPI continued the selling spree due to inflation and Fed rate increase worries. The Q42022 results displayed mixed outlook, with some with margin pressures and some of them unable to give guidance which made market nervous. Though many companies passed on the increased costs and cut their production costs. We believe that good business would be less affected and offers good opportunity.

### **Inflation fever**

Overall, we believe world cannot sustain this high inflation and hence proactive steps are being taken to curb inflation which shall be reflected in equity markets too. RBI and Government both are taking steps to curb inflation. RBI has taken steps by an unusual mid-month meeting in May when meeting was due on June 6, to raise repo rates. Similarly, Government has taken various steps to curb inflation such as reduce the excise on fuel, imposed export duty on steel, restriction on sugar exports, duty free import of oil seeds like soya bean and sunflower.

Globally also US administration is planning to reduce tariffs on imports from China to ensure the commodity prices cool down besides the monetary policy actions. China lockdown is also ending which shall get streamline in supply chains.

### **Good Monsoon progress visible**

The IMD has predicted the normal South West monsoon and it is very significant with economic outlook of rural India depends on rainfall for Agri output. Though this is an early forecast and it's only by July that we get a good idea about the spread and timing of rainfall. The hope is rural demand will also get support. This should assist in big way to cut the food prices inflation.

### **What should investors do now at 16000 Nifty-50 levels?**

We have time and again seen that fear and greed takes us to the extremes on both sides of the market especially during periods of gloom and boom. What we are seeing now is extreme fear among the investors which is again not without reason when we have war clouds looming and all commodities shooting over the roof. However, we need to know that every war comes to an end and commodity prices are not sustainable at current levels for long as sharp decline in demand would bring down prices to normalized levels. Whether we see normalization in 1 month or 3 months or 6 months, time would tell but it would surely happen. Now if we look at the valuations of the market, based on FY23 expected earnings of around Rs 880 on an average, we are currently trading at 18x P/E and on a Rs 1000 EPS of FY24 we are trading at 16x P/E. By all measures these are not expensive valuations and if one has the stomach to weather the current volatility in the global markets, we see no reason why one cannot look at equity returns over the next 2 years which would reflect the earnings growth of FY22-24. We recommend investors to remain invested through this current turmoil and use additional liquidity and cash flows if any to top-up their existing equity allocations with a view of next 2 years. We should see the current turmoil as an instrument for bringing back



markets to comfortable valuation levels from the recent highs and giving investors an opportunity to build their long-term portfolio.

**Portfolio Positioning**

We recommend investors to remain invested through this current turmoil and stated earlier use additional liquidity and cash flows if any to top-up their existing equity allocations with a 2-year view. We should see the current turmoil as an opportunity as valuation correction from the recent highs and give investors an opportunity to build their long-term portfolio. While our investments approach has been of bottom-up, we continue to rationalize our portfolio continuously, track the portfolios liquidity and add wherever we feel comfortable on growth and valuations. Wishing you the best from KRIIS team and stay safe.

**Thanks with Regards,  
CA Rakesh Doshi  
Principal Officer & Fund Manager  
KRIIS – The Portfolio Management Company**