



# Asset X: Investment Strategy

December 2024



# Key highlights

“Asset X” is a multi-asset strategy that aims to highlight the most important signals in the financial markets, across the major asset classes. We strive to marry clarity of thought with brevity. We live in dynamic times, as geopolitics, politics, monetary policy, and global growth continue to shape up the world. Our goal is to create strategies for long-term.

## Continue staggered addition to domestic equities

The correction can be used as opportunity to build portfolios. We support a 50% equity allocation for moderate risk appetite investor, 60% of which can be in large caps and remaining in SMIDS

## Mid & Long duration bond mix is better positioned

A portfolio with 3–5-year bonds and long duration bonds, a 60:40 mix could be ideal

## Precious metals may still have more runway available

Silver could continue to outperform Gold

## In Foreign Equities, US is a stable bet, China has been our strong tactical call

Combination of low valuation, growth stimulus and flows make China an interesting tactical investment avenue, US is a strong and stable allocation with Trump victory only bolstering it. A 70:30 split between US and China may provide right diversification

## On INR there is a mild depreciative bias

But expect RBI to limit it

## Unlisted Equity has become favorable

after recent tax announcements. There’s some sector rotation in place in this category

## Commercial RE is improving

Growth is primarily driven by GCC and Flexible Office space while India focus business continues to anchor

# India Equity: Continue Staggered Addition

The earnings growth has slowed but pockets of opportunity continue..

	Top line (% YoY)		EBITDA (% YoY)		PAT (% YoY)	
	Q1FY25	Q2FY25	Q1FY25	Q2FY25	Q1FY25	Q2FY25
Auto	10	4	23	-1	19	-3
Cement	-2	-5	-6	-27	-19	-54
Chemicals	2	6	1	12	-11	0
Consumer services	10	11	11	9	-8	1
Durables	18	12	23	-8	27	-11
Energy	11	0	5	-3	1	3
Real estate	18	20	56	18	98	30
FMCG	6	8	9	6	9	5
Industrials	8	13	27	25	21	14
<b>IT</b>	<b>5</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>9</b>	<b>11</b>
Metals & Mining	0	-4	27	4	5	-3
<b>Pharmaceuticals</b>	<b>10</b>	<b>9</b>	<b>20</b>	<b>18</b>	<b>25</b>	<b>17</b>
Power	13	5	8	2	18	3
<b>Private banks</b>	<b>11</b>	<b>14</b>	<b>13</b>	<b>15</b>	<b>5</b>	<b>7</b>
<b>PSU banks</b>	<b>5</b>	<b>14</b>	<b>3</b>	<b>26</b>	<b>17</b>	<b>36</b>
Non lending financials	44	44	54	62	33	32
NBFC	20	23	22	23	16	11
<b>BSE500</b>	<b>7</b>	<b>6</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>-1</b>

\*Note: Figures for BSE 500 are calculated based on all stocks  
Source: Capitaline, Nuvama research, Ionic Wealth, Data available as on Dec,2024

In the last 6 months, value and low volatility has performed better as factors, we suggest 60% low vol + 40% momentum allocation

Months	Value	Low Volatility	Quality	Momentum	NSE200
<b>1M</b>	1.3%	-1.1%	0.1%	1.2%	1.8%
<b>3M</b>	-3.8%	-5.7%	-6.0%	-5.8%	-3%
<b>6M</b>	12.3%	9.1%	7.2%	2.9%	8.8%
<b>12M</b>	28.5%	22.5%	22.8%	40.8%	27.4%

Note: We have used Nifty 50 Value index, Nifty 100 Low Volatility 30, Nifty100 Quality 30, Nifty200 Momentum 30 as representative of factors

Given the macro environment (low growth, high inflation) and high valuations that have prevailed in the last 6 months, low vol + value has performed relatively better.

Note: Past performance is not an indicator of future performance  
Source: Bloomberg, Ionic Wealth, Data available as on Dec,2024

## Our Hypothesis

Some correction has played out, markets can be range bound for a bit, but this continues to be a good time to add equity

## Drivers

Valuations, earnings, global and domestic macros, rate cut cycle, domestic growth, strength of dollar and the US economy

## Risks

Sudden risk-on momentum, coming back of FIIs, weakening of dollar

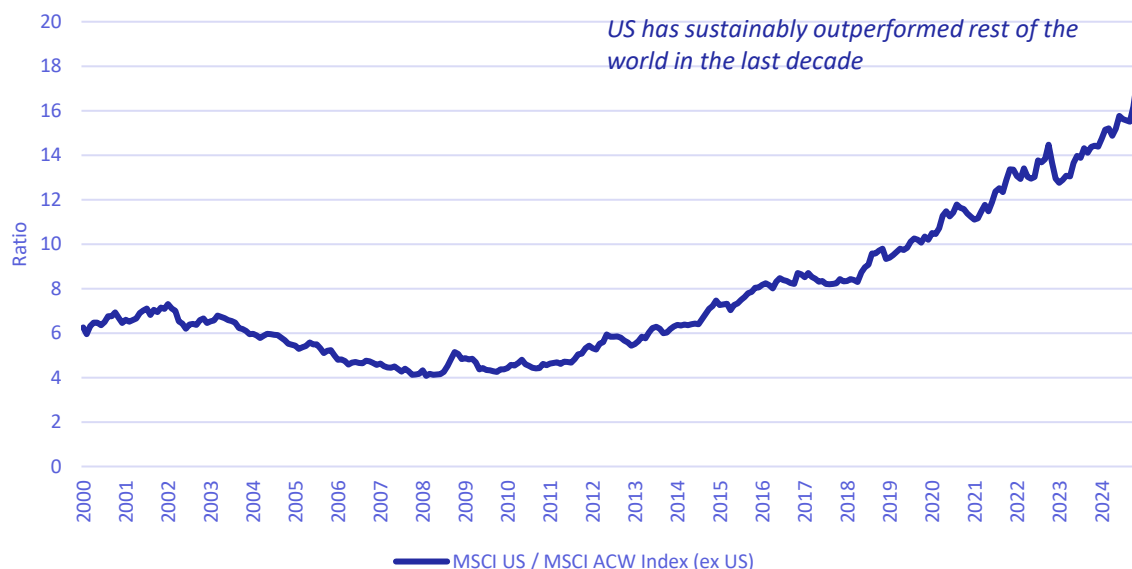
## Data to watch

Earnings, interest rates, geopolitics, sentiments, FII and DII flows, domestic demand

# Global Equities: Stable US, Tactical China

US: Good earnings + robust economy makes US a stable portfolio allocation

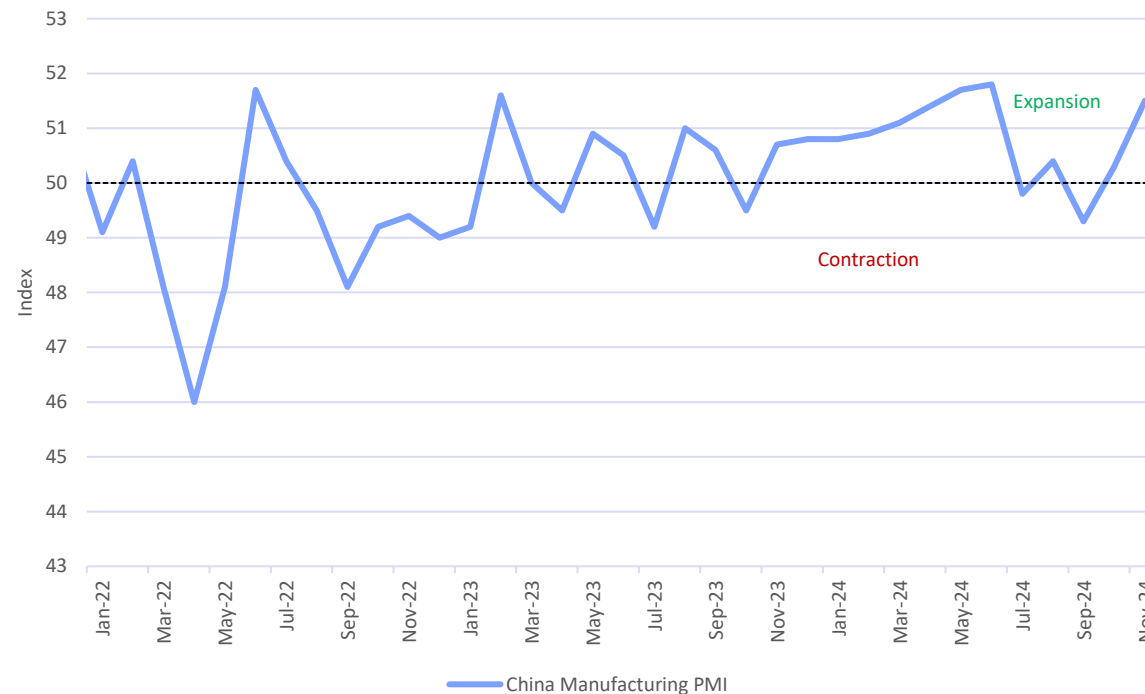
S&P 500 Earning Growth	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25
	9%	7.6%	11.8%	9.8%	12.6%	17%



Note: ACWI (ex US) – All countries weighted Index (ex US)  
Source: Bloomberg, Ionic Wealth, Data available as on Dec,2024

China: Cheap Valuation, revival in momentum with stimulus, re-iterating our Sep 05, 2024 tactical call

We believe China will unfold more fiscal stimulus when the Trump policy uncovers. The turnaround in the economy will keep equities attractive



Source: Bloomberg, Ionic Wealth, Data available as on Dec,2024

## Our Hypothesis

US is a stable bet but China is a strong tactical call given measures to revive economy

## Drivers

Cheap Chinese valuations, uptick in data, Chinese stimulus to revive its economy

## Risks

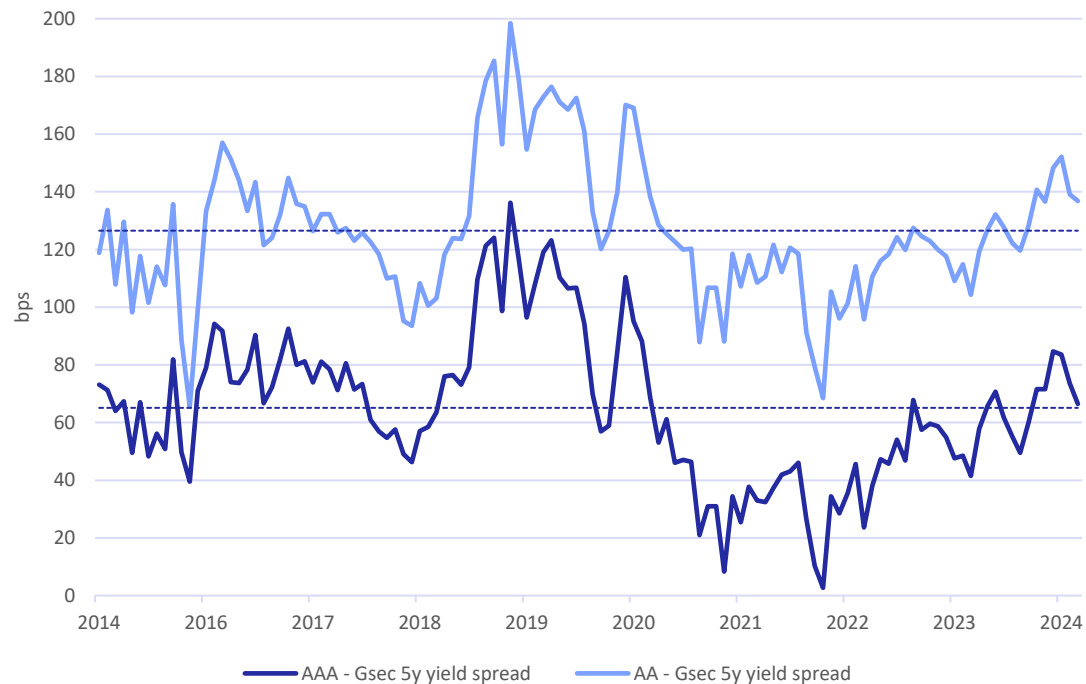
Growth not picking up, Trump's victory and tariffs in ways worse than market's expectations

## Data to watch

Monetary and fiscal policy of China, rest of the world moves towards US

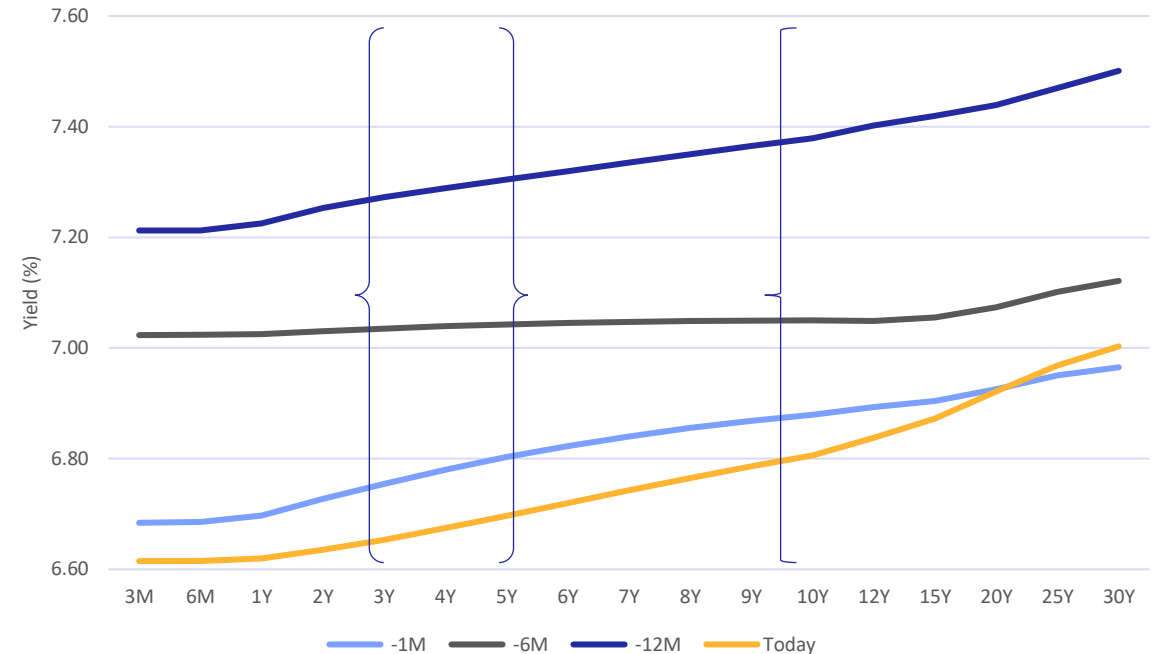
# India Debt: Mix of Medium Term And Long Term Debt

AA spreads are relatively high and offer good opportunities in the medium term...



Source: Bloomberg, Ionic Wealth, Data available as on Dec,2024

...but the long duration hypothesis remains intact given higher demand, lowering of twin deficit and India entering the rate cut cycle



Source: CMIE, Ionic Wealth, Data available as on Dec,2024

## Our Hypothesis

Medium duration is a sweet spot, long duration will play out in a 12 month+ time frame

## Drivers

Increased demand, onset of global rate cut cycle to eventually reflect on India, higher spreads

## Risks

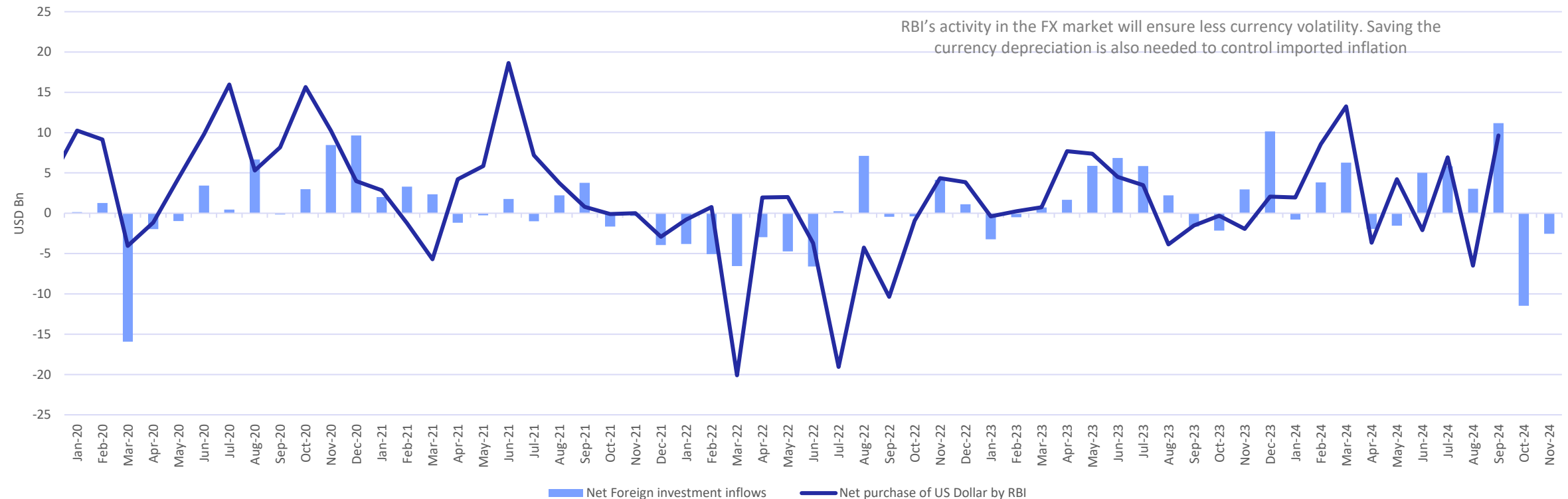
Domestic/US growth & inflation remaining higher, geopolitics

## Data to watch

RBI policy, high frequency data, crude oil, more FII inclusions

# Currency: Expect INR To Be Range Bound, With Mild Depreciative Bias

FII's have withdrawn record ~USD 14 bn which led to pressures on INR. This prompted RBI to sell forex reserves which slipped from an all time high of USD 704 bn on Sep 27 to USD 656 Bn on Nov 22



Source: Bloomberg, Ionic Wealth, Data available as on Dec, 2024

## Our Hypothesis

INR is expected to be range bound with mild depreciation, but no outsized depreciation

## Drivers

RBI action, cushion from FX, FII flows as Dollar Index weakens, bond indices inclusion

## Risks

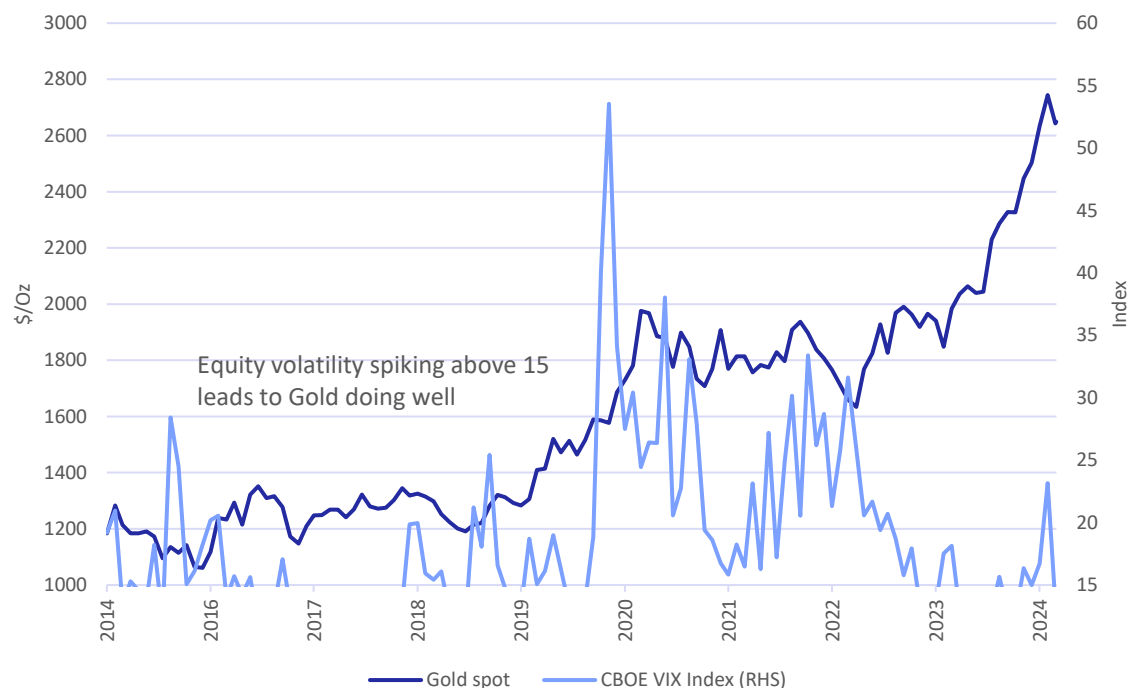
Dollar strength, complete risk off and drying of EM liquidity

## Data to watch

FX reserves, flows, DXY, geopolitics, inflation differential, yield movements

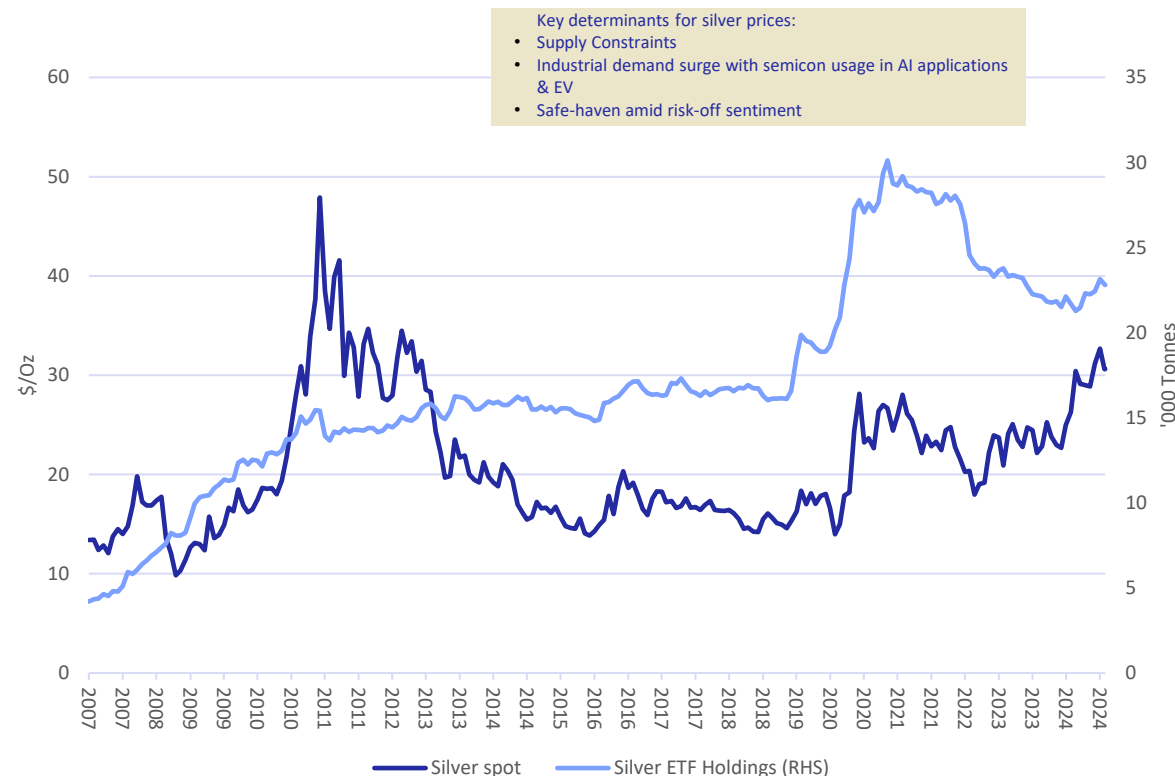
# Commodities: Positive Precious Metals, Silver May Have More Space

Given that some equity volatility is expected as Trump policy framing starts, Gold still has more space. Separately, if inflation comes back (given strong US growth, early Fed cuts), Gold may offer a good hedge



Source: Bloomberg, Ionic Wealth, Data available as on Dec,2024

...Silver is likely to be resilient in the current macro landscape



Source: Bloomberg, Ionic Wealth, Data available as on Dec,2024

## Our Hypothesis

Precious metals may have more upside left, Silver could possibly benefit more than Gold

## Drivers

Chinese demand, hedge against inflation and geopolitical risk

## Risks

Further dollar strength, growth improving for good without inflation

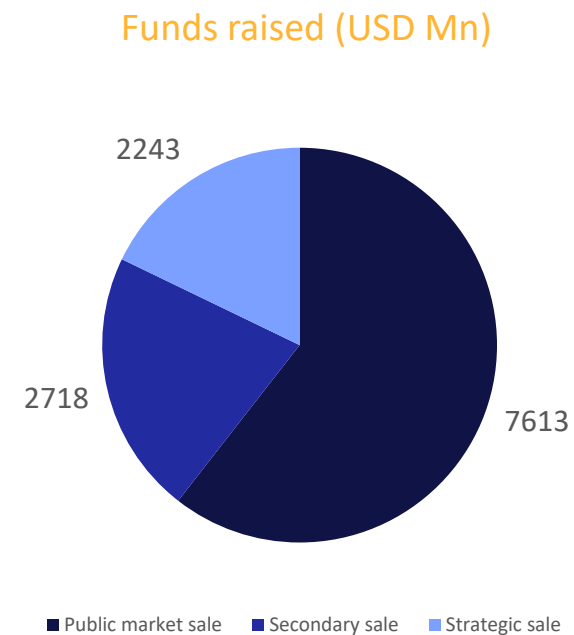
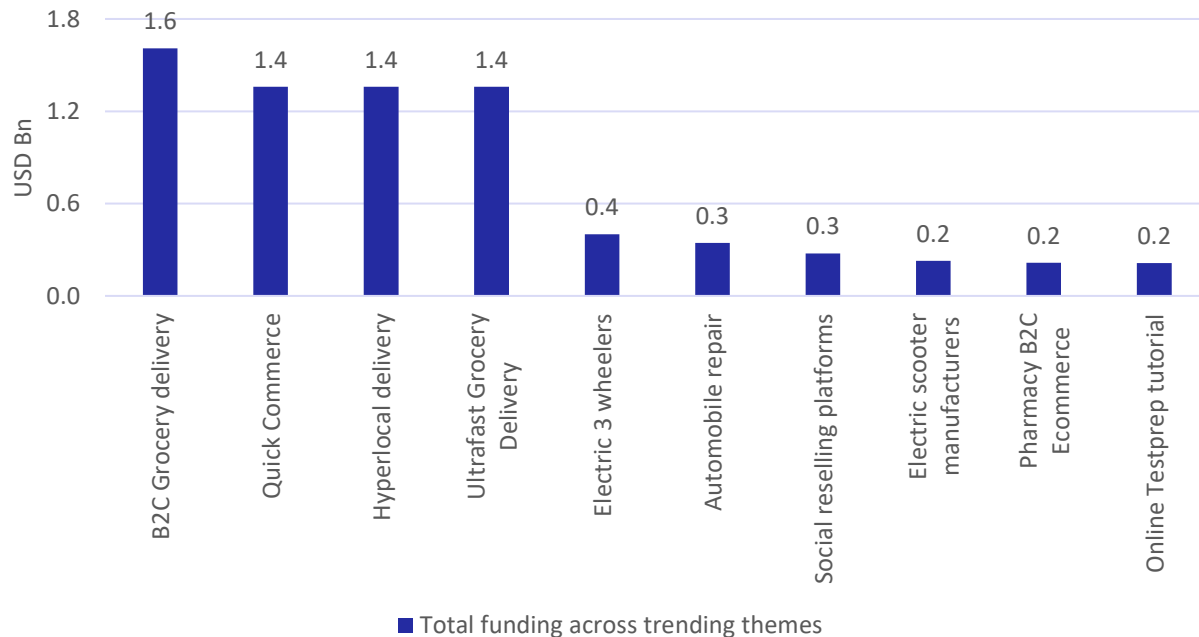
## Data to watch

Sentiments, DXY, demand from Chinese central banks for Gold, industrial demand for silver

# Unlisted Equities: Ecommerce Remains Popular, Public Markets Offering Good Exits

USD 28 Bn has been raised in CY 24 with median funding of USD 1.5 Mn, surging 88% from USD 0.8 Mn in CY 23

Public market sale emerged as the preferred method for PE/VCs to exit their investments. In H1FY24, market listings accounted for 101 exit deals, significantly surpassing other exit strategies



Note: Data for CY 24 (YTD)

Note: Data for Jan-July 2024

Source: TracXn, Ionic Wealth, Data available as on Dec,2024

Source: Venture Intelligence, Ionic Wealth, Data available as on Dec,2024

## Our Hypothesis

Unlisted Equity is likely to benefit in select pockets

## Drivers

Favourable taxation, reduced future expectation in listed

## Risks

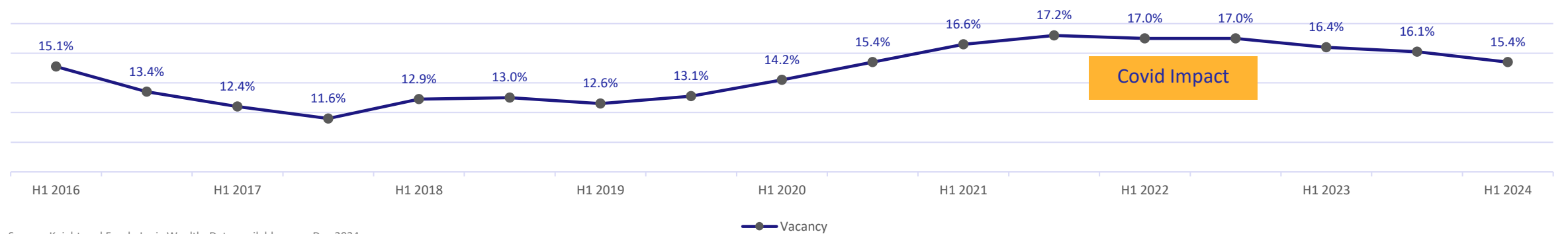
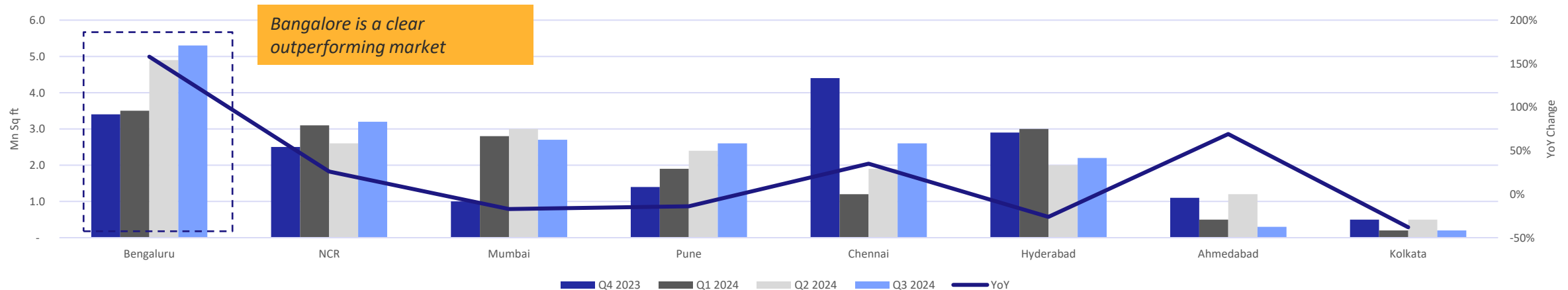
Opaque valuations, liquidity squeeze

## Data to watch

Liquidity, rate cut cycle, operational efficiencies

# Real Estate: Commercial Real Estate Is Improving

In Q3 2024, pan India leasing of commercial real estate grew by 18% YoY and scaled a record high of 19 Mn sq ft



Source: Knight and Frank, Ionic Wealth, Data available as on Dec,2024

### Our Hypothesis

Commercial Real estate is set to do well, with Bangalore being the market of choice

### Drivers

Growth is primarily driven by GCC and Flexible Office space while India focus business continues to anchor

### Risks

Saturation of demand, worsening macro environment, liquidity squeeze

### Data to watch

Rental levels, vacancy, transaction volumes etc.



*introducing*  
**ACTIONABLE IDEAS**  
FOR EXECUTION OF OUR STRATEGY



# Actionable ideas for execution of our strategy



## Continue staggered addition to domestic equities

The correction can be used as opportunity to build portfolios. We recommend 50% equity for moderate risk appetite investor, 60% of which can be in large caps and remaining in SMIDS

### Large Cap

- DSP Top 100 Equity Fund-Reg(G)
- Invesco India Largecap Fund(G)

### Flexi Cap

- HDFC Flexi Cap Fund(G)
- Motilal Oswal Flexi Cap Fund-Reg(G)

### Mid Cap

- Motilal Oswal Midcap Fund-Reg(G)

### Small Cap

- Kotak Small Cap Fund(G)
- Nippon India Small Cap Fund(G)

### Equity PMS

- Alphagrep Multi Factor Quant

# Actionable ideas for execution of our strategy



Mid & Long duration bond mix is better positioned

A portfolio with 3–5-year bonds and long duration bonds, a 60:40 mix will be ideal

## Corporate Bonds

- Aditya Birla SL Corp Bond Fund(G)
- Kotak Corporate Bond Fund(G)
- Tata Corp Bond Fund-Reg(G)

## Long Term Bonds

- ICICI Pru Long Term Bond Fund(G)
- Kotak Long Duration Fund-Reg(G)
- Mirae Asset CRISIL IBX Gilt Index Fund-Reg(G)

# Actionable ideas for execution of our strategy

Precious metals still have more runway available

Opt for Gold and silver for commodity allocation

## Precious Metals

- SBI Gold-Reg(G)
- ICICI Pru Silver ETF FOF(G)

In Foreign Equities

US is a stable bet, China can be tactical

## China-Tactical Call

- Edelweiss Greater China Offshore Funds

## US Call

- SBI International Access - US Equity FoF



# Portfolio and Deployment Strategy

Deployment Strategy	Scope	
	Stagger	One Shot
Existing Portfolio	No Action	Allocation to US equity
New Portfolio and Incremental Flows	Large Cap with Defensive Bias	Mid and Long Duration in debt
		Allocation to Precious Metals

## Key Points:

1. Equity allocation to be done basis corrections, look to deploy the entire amount by March End.
2. Look at equal allocation to Gold and Silver
3. US equity is a strategic call, hence needs to be executed across portfolios

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