



Sanctum view

January 08, 2020

Investment Strategy

The Momentum Continues

After an eventful start to the year 2021 with a new Covid strain, renewed lockdowns, and the siege of the US Capitol Hill by protestors, more positive than negative news have emerged over the last few weeks. The new US President has taken over the office, the Covid vaccination program is picking up steam, we are close to a new US fiscal stimulus package, earnings season has been encouraging and global central banks continue to provide policy support. These developments have been supportive of risk assets like equities which have carried over the momentum of 2020 into 2021 as well.

All eyes are on the world's biggest-ever vaccination campaign in the history of mankind. More than 124 million doses have been administered across 73 countries so far. While the vaccination program in countries like India has just begun, countries like Israel have already inoculated more than one third of their population with at least one of the two doses. Even in the US, about 9% of the population has received at least one dose. At the current rate, the US would be able to cover more than 75% of its population with two doses in an estimated 11 months. The rate of vaccination is only likely to pick up and hence a large part of population of few countries could reach immunity by late first half or early second half of this year itself.

Country	Dose Administered (in Million)	% of Population Given	
		1+ Dose	2 Doses
US	38.5	9.1%	2.5%
China	31.2	-	-
EU	15.9	2.6%	0.9%
UK	11.5	16.4%	0.8%
Israel	5.4	37.5%	21.9%
India	5.0	-	-
UAE	4.0	-	-
Brazil	3.2	-	-

Notwithstanding a brief correction in the last few days of January 2021, global equities continued their strong performance of 2020 in the first few weeks of 2021 as well. Emerging equities, especially China and other parts of Asian ex-Japan led gains.

Performance of Key Equity Indices	1 Month	1 Year	3 Year	5 Year
S&P 500 Index	-1.1%	15.2%	9.6%	13.9%
NASDAQ Composite Index	1.4%	42.8%	20.8%	23.2%
Shanghai Stock Exchange Compos	0.3%	17.0%	0.0%	4.9%
Nikkei 225	0.8%	19.2%	6.2%	9.6%
NSE Nifty 50 Index	-2.5%	14.0%	7.3%	12.5%
MSCI Global Index	-0.5%	15.1%	5.9%	11.4%
MSCI AC Asia Pacific Index	2.0%	23.0%	3.5%	10.9%
MSCI Emerging Markets Index	3.0%	25.2%	2.0%	12.4%

Source: Bloomberg, Sanctum Wealth
Data as of 31st January 2021

The latest US earnings season for the quarter ended December 2020 (Q4 2020) has been encouraging so far. As of 5th February 2021, 53% of S&P 500 companies have reported their actual results, 82% of have reported positive earnings surprise and 76% have reported a positive revenue surprise. The Bloomberg consensus now expects a positive earnings growth (+2%) in Q4 2020 compared to a decline (-10%) at the start of 2021.

Sharp Upgrades in S&P 500 EPS Estimates



Source: Bloomberg, Sanctum Wealth

The US treasury yields have been on the rise since the start of the year on expectation of a rise in inflation and an imminent tapering by the US Fed. However, the US Fed chair Powell highlighted that it is too early to talk about tapering. This should allay concerns of the market.

India Macro

Given the tight fiscal space and lot of policy announcements last year, not much was expected in this year's union budget. But the Finance Minister surprised with a growth-oriented budget. The budget increased outlay for infrastructure, manufacturing and healthcare. Creation of asset restructuring company to acquire and manage bad loans; privatization of public sector banks were also big, positive announcements. Overall, the budget was clear in intent, transparent and pro-growth. Please refer our note "[The Energizer](#)" for more details on the budget.

In line with expectations, the RBI in its first monetary policy of the year kept rates unchanged and maintained accommodative stance. While the RBI announced the normalisation of CRR over two tranches (March and May 2021), it reiterated its commitment to maintaining an ample amount of liquidity to support growth. The RBI assessed that economic growth is improving but needs constant support. It also assessed that inflation has eased but upside risks persist, and core inflation remains elevated.

Bond yields have moved higher since the budget. While fiscal deficit was expected to be high, the INR 80,000 crore additional borrowing to be done in the current fiscal year and the lack of a clear OMO calendar has made markets nervous.

Indian equity saw some correction heading into the budget as foreign investors turned sellers. However, with a pro-growth budget and more importantly with a lack of negative surprise on the tax front, equity markets rebounded sharply. Better than expected earnings results have also supported the rally.

Quarterly Results – Earnings Upgrades Continue

As we entered yet another earnings season the sustainability of the positive demand and margin trends seen in the quarter ended September 2020 (Q2FY21) was under the spotlight. Results for the quarter ended December 2020 (Q3FY21) so far have been encouraging. Of the 30 Nifty companies that have reported results so far, profits have grown by 22% y/y (on weight-average basis) vs expectations of a 5% growth. 60% i.e., 18 out of 30 companies have reported a beat on profit estimates while only 5 have missed estimates. All sectors in the Nifty, barring Industrials and Energy reported a year over year growth in earnings. Cyclical sectors like Metals and Cement along with Information Technology and Consumer led the growth.

Demand momentum has continued post-festive season as well which is reflected in the Q3FY21 earnings. Further, the management commentaries on demand across sectors have also been upbeat. Consequently, earnings have seen massive upgrades in Q3FY21. The 12 Month forward Nifty EPS has been revised upwards by more than 13% over the last 3 months.

Nifty EPS Estimate Have Also Seen Upgrades



Source: Bloomberg, Sanctum Wealth

In addition to the recovery in topline, margins remained strong as cost-saving measures initiated during lockdown remained in place. As highlighted in our annual outlook – “[Opportunity in Adversity](#)” we expect some of the cost savings to be permanent leading to sustainability of margin tailwinds and higher profitability even in the coming quarters.

In our annual outlook, we also highlighted that recovery in key economic sectors suggests that private capex is about to begin. With strong earnings by cyclical sectors and a pro-growth budget, our conviction on the revival in private capex has gained strength.

Both, Nifty and NSE500 Reported Strong Growth in Earnings and Revenue

	Sales YoY		Operating Profit YOY		Net Profit YOY		Operating Margin		Net Margin	
	NIFTY50	NIFTY500	NIFTY50	NIFTY500	NIFTY50	NIFTY500	NIFTY50	NIFTY500	NIFTY50	NIFTY500
Consumer Discretionary	10.2%	11.6%	31.0%	29.5%	54.7%	47.8%	17.2%	16.7%	6.5%	6.4%
Consumer Staples	20.2%	8.3%	14.5%	15.5%	15.1%	18.4%	25.2%	15.2%	16.6%	9.6%
Energy	-10.6%	-8.1%	9.1%	11.9%	21.2%	23.3%	13.5%	11.1%	6.5%	5.2%
Financials	2.6%	8.8%	6.2%	12.2%	5.6%	193.6%	37.9%	38.9%	15.6%	11.8%
Health Care	12.8%	12.0%	80.9%	44.4%	262.0%	131.7%	24.9%	25.3%	14.1%	15.0%
Industrials	-1.8%	-2.3%	8.2%	8.8%	4.9%	10.9%	20.0%	18.7%	6.9%	6.5%
Information Technology	6.0%	6.1%	16.7%	17.2%	15.8%	16.2%	29.9%	28.9%	19.7%	18.9%
Materials	17.4%	13.0%	64.0%	64.0%	147.1%	141.0%	27.9%	28.9%	12.9%	13.4%
Real Estate	NA	-1.6%	NA	20.3%	NA	89.7%	NA	36.0%	NA	21.4%
Communication Services	24.2%	21.8%	34.1%	33.6%	36726.5%	387.1%	45.6%	42.9%	20.4%	18.6%
Utilities	4.0%	3.9%	10.0%	11.0%	15.5%	25.7%	34.9%	34.1%	13.7%	9.0%
Index	1.1%	4.1%	15.8%	20.3%	28.5%	75.7%	24.9%	25.1%	11.6%	10.1%

Source: Bloomberg, Sanctum Wealth

Please note that index data is based on simple average and not weighted average.

Portfolio Strategy Commentary and Actions

Given our view on the economic recovery and revival of private capex cycle, we have added a few pro-cyclical stocks in our portfolios over the last few months. While we have added cyclical to the portfolio, our investment philosophy favours business leaders and challengers that have strong business models. We have therefore refrained from adding high beta stocks with inferior business models to generate returns.

However, as high beta stocks rallied sharply over the last month our portfolios underperformed last month. Even at the cost of short-term underperformance, our discipline of buying high-quality stocks remains unabated. We believe, in the long run, businesses with market leadership, lean balance sheet and run by superior managements would be definite winners.

Performance as on January 31, 2021	1 Month	3 Month	6 Month	1 Year	CAGR		
					2 Year	3 Year	Since Inc.*
Sanctum Indian Olympians	-5.2%	11.9%	21.2%	11.2%	15.6%	11.1%	11.0%
NSE 100 Index	-2.5%	16.7%	22.5%	13.7%	11.8%	6.5%	10.3%
Relative to NSE 100 Index	-2.8%	-4.8%	-1.3%	-2.5%	3.8%	4.6%	0.7%
Nifty Index	-2.5%	16.8%	23.1%	14.0%	12.2%	7.3%	10.6%
* Since Inception Returns are from 16-Sep-16							
Sanctum Indian Titans	-4.3%	14.5%	20.3%	12.8%	17.9%	6.2%	12.2%
NSE200 Index	-2.1%	17.5%	23.8%	14.0%	11.8%	5.8%	12.5%
Relative to NSE200 Index	-2.2%	-2.9%	-3.5%	-1.2%	6.1%	0.4%	-0.4%
Nifty Index	-2.5%	16.8%	23.1%	14.0%	12.2%	7.3%	13.3%
* Since Inception Returns are from 18-Nov-16							
Sanctum Smart Solutions	-4.6%	12.3%	14.5%	14.1%	14.6%	3.4%	7.9%
NSE200 Index	-2.1%	17.5%	23.8%	14.0%	11.8%	5.8%	10.8%
Relative to NSE200 Index	-2.5%	-5.2%	-9.4%	0.1%	2.9%	-2.4%	-2.9%
Nifty Index	-2.5%	16.8%	23.1%	14.0%	12.2%	7.3%	11.7%

* Since Inception Returns are from 03-Nov-16

All returns are on TWRR basis, after fees and expenses

Technical Commentary

The markets reacted positively to the Budget with Nifty rallying 9.5% last week to close at 14,924. Intra-day Nifty crossed the psychological level of 15,000 for the first time ever, however, failed to sustain about it.



Source: Falcon7

The rally has been broad-based ever since the correction seen late last month. After the sharp run-up, the index may consolidate at current levels as it has touched a key resistance around the 15,000 levels. Thus, crossing and sustaining above 15,000 remains key. A break above could suggest a further rally towards 15,351 and then 15,630. On the downside, the previous high of 14,753 will act as immediate support for the market. Below this next support level is seen at 14,336.

Bank Nifty led gains last week with a gain of 16.7% to close the week at 35,655 after hitting an intra-week high of 36,615. Friday closing suggests that the index could see some consolidation in the near term. The immediate support is now seen at 34,000, below this the next support is seen at 32,500. However if Bank Nifty moves above 36,615 we could expect the momentum to continue towards 37,100 and then towards 37,940. Even as benchmark indices may remain sideways we could see stock specific actions.

Conclusion

Equity

The key drivers of our outlook for 2021 have remained largely unchanged. Earnings, liquidity, opening up of economy led by covid vaccination remain key drivers for equity. So far earnings have been better than estimated, global liquidity remains intact and the vaccination program remains on track.

We also spoke about a larger theme rotation in the equity markets with cyclicals potentially making a significant comeback. A pro-growth budget and good earnings by cyclicals reaffirms our thesis. As highlighted early we have already made some changes in our portfolio by incorporating some cyclical ideas. We will continue to make adequate adjustments in the portfolio to reflect these views.

Fixed Income

Our fixed income views also remain unchanged. A barbell strategy with a combination of low duration fund at one end, carefully selected higher yielding debt or opportunistic direct bonds investments remains the recommended strategy. We have been suggesting REITs and INVITs as alternatives for long term investors. The recent Brookfield REIT IPO which was oversubscribed 8x (HNI category 11.8x) highlights increasing investor interest as well as the relevance of these class of instruments in portfolios.

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