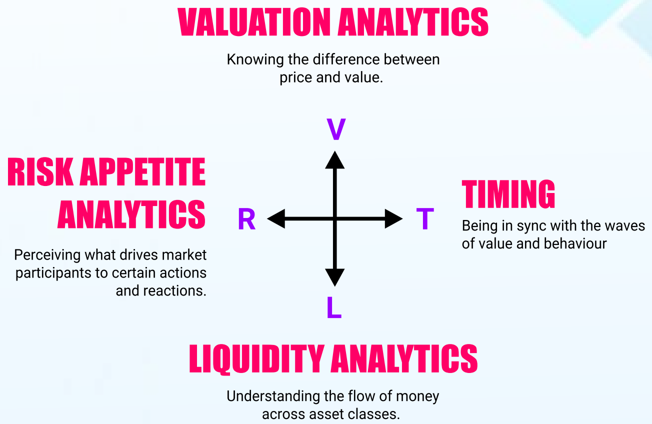

quant®

multi asset, multi manager

The Markets are at an Inflection Point

quant's VLRT Framework comprises of – Valuation Analytics, Liquidity Analytics, Risk Appetite Analytics and Timing. Our view for May 18, 2021 – June 18, 2021 below is a continuation of Vol.1 Issue.1 of our Predictive Analytics Newsletter published in February:

The bird's eye view

After a recent spike in Global Risk Appetite, it has finally begun cooling-off. This has been accompanied with a decline in global Liquidity; this combination is unfavorable for global equities. quant Global Complacency Indicator for US equities is at a new life-time high, this is also reflected in the recent fall in VIX (which hit a low of 15). Our Predictive Analytics tools still endorse that between 2018-2023, volatility will remain elevated. Hence, quant Global Research believes that VIX reversal has already begun & has the potential to rally further with cooling-off in a few trading sessions. Therefore, we believe that the formation of a global trading top is on the horizon. However, both, our medium-term as well as long-term outlook is constructive for EM equities, particularly, for India.

Our VLRT framework in conjunction with Predictive Analytics envisions a risk-off environment for global equities in the near-term. This will, in-turn, have its own psychological impact on global financial markets.

To conclude, the VIX should recover from its recent level of 15% and our Predictive Analytical indicators further endorse a rise of VIX in the near-term. The unexpected return of inflation will create havoc in both “risk-off” and “risk-on” asset classes globally, leading to massive spikes in the US 10-year bond yields, thus endorsing our VEP thesis.

What's the catch?

Equity:

The quant Complacency Indicator for US equities has hit a new life-time high; we still believe that this vulnerability will lead to a rise in global volatility indices in the near-term. The recent fall in US equities has shaken the confidence of global investors. We strongly believe that the ongoing pull-back rally is giving another opportunity to prune down exposure towards US equities.

Coming to India, the quant Greed Indicator has touched its Jan 2008 top for the 30 most admired stocks, a significant portion of the Indian equity market. Additionally, our Risk Appetite & Liquidity indicators for India are showing minor weaknesses. Hence, we tread a cautious line in the near-term and believe that a buy on dips strategy will remain effective from both a medium-term and long-term standpoint.

Currency:

After a decent rally between February & March, DXY has corrected after touching a high of 93.43. We believe that DXY will not fall below 89.30-89.50. With this background, there exists reason to believe that the near-term rally witnessed in Asian currencies & equities may fizzle out.

Precious Metals:

After consolidating for the past few months, Gold has rallied further in the month of May. We still believe that it has the potential to rally further, however, a steep rally is ruled out as other Macro parameters are unsupportive of the same. We remain constructive both from a medium & long-term perspective, as we believe that both Gold and Silver will be the best asset class to own in the Volatility Expansion Phase (expected to last up to 2023). Additionally, our view is that Silver & Platinum will outperform Gold in CY2021 with Silver being the leading outperformer.

Our Investment Strategy

With this expected risk-off backdrop, we have pruned our exposure towards high beta stocks and sectors and consequently increased our exposure towards the current defensive sectors such as Pharmaceuticals, Healthcare, FMCG and select Banking stocks. The budget proposals have endorsed our view that this is the time to identify stocks and sectors that are currently under-owned, under-researched and under-valued. We believe that PSU stocks have the potential to generate Alpha as they best qualify our current market hypothesis.

Guided by our Dynamic Money Management practices and coupled with our VLRT Framework, we will be able to navigate our way through the expected tides of volatility as equity markets correct & consolidate due to changing macros.