V L R T

VALUATION ANALYTICS
Knowing the difference between price and value.

LIQUIDITY ANALYTICS
Understanding the flow of money across asset classes.

RISK APPETITE ANALYTICS
Perceiving what drives market participants to certain actions and reactions.

TIMING
Being in sync with the waves of value and behaviour

quant®
multi asset, multi manager

VLRT OUTLOOK

In Vol.1 Issue.1 of our Predictive Analytics Newsletter published in February 2021, we had showcased that the markets were at an inflection point due to the peaking out of global risk appetite. We expected a correction across all the asset classes to be led by crypto currencies. This expected risk-off cycle played out quite well with the exception of global equities. During this entire risk-off environment, the impact on global equities was bare minimum as only bouts of volatility were felt, that too of small magnitude.

At present, we believe that the markets have forayed into the early stages of a risk-on environment. This is reflected in a bottom formation for crypto currencies (Bitcoin in particular), which we believe, are a leading indicator of global risk appetite. The 10-year US yield has also bottomed out at 1.126. Furthermore, there are early signs for the peaking out of the Dollar Index (DXY).

We also believe that precious metals, which were in the correction and consolidation phase since August 2020, will start gathering momentum. 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). Hence, one can increase their exposure to precious metals as an asset class. Additionally, we expect Silver to outperform Gold in CY2021.

Our view is also that the NYMEX Crude has peaked out on July 6, 2021, at US$ 77/bbl. Going forward, we expect a pull-back rally, however, in the near-term we cannot rule out a sharp correction of US$10/bbl – US$12/bbl in crude prices before they bottom out around the US$ 60/bbl mark. This will be followed by the bottoming of other base metals, Copper in particular. Overall, we expect the commodities rally to gain steam from mid-August by when global risk appetite is expected to further increase.

On the whole, global liquidity has been declining for the past few months; this has been coupled with a slowdown in the real economy, Asia in particular, thanks to the highly infectious Delta variant of Covid-19 which has forced countries to impose fresh restrictions and lockdown measures. Countries such as Taiwan and Vietnam that were largely unaffected by the virus up to this point, have been severely plagued by the Delta variant.

The quant Complacency Indicator for the US has made a fresh 52-week high, thus, we continue to believe that the vulnerability of US equities remains elevated. Furthermore, we believe that the vulnerability factor is most present in constituents of the Nasdaq index. Any sharp decline in US equities will definitely have a snowball effect on global equities in the short-term. We still believe that the Value theme will dominate global equities with global growth stocks becoming market performers as and when their perception analytics parameters peak out.

Coming to India, the quant Greed Indicator touched its Jan 2008 top for the 30 most admired stocks, a significant portion of the Indian equity market, in Feb 2021. Since then, large cap indices have gone through a correction and consolidation phase. We foresee a continuation of this trend in the coming weeks. During this phase, new stocks and new sectors will emerge as leaders; these leaders will drive forward the next leg of risk appetite. At present, our Risk Appetite & Liquidity indicators for India are still showing minor weaknesses. However, we anticipate a reversal of these of the next few weeks mirroring the changes in global risk appetite indicators. Hence, we believe that a buy on dips strategy will remain effective from both a medium-term and long-term standpoint.

Our Investment Strategy

Our Money Flow Analysis indicates that for the next one quarter, sector rotation calls shall play a key role in generation of alpha. Furthermore, we anticipate value stocks to gain momentum after their recent correction during the risk-off environment.

Guided by our Dynamic Money Management practices and coupled with our VLRT Framework, it is our endeavor to identify the right sectors and securities at their inflection points, thus, navigate our way through the expected tides of volatility as equity markets correct & consolidate due to changing macros.

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