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Market View and Portfolio Positioning

(PGIM India Midcap Opportunities Fund and PGIM India Diversified Equity Fund)

The equity markets globally and in India have seen a massive correction due to the uncertainties associated with the global macro linked primarily to coronavirus and also the volatility associated with crude oil.

The issue with coronavirus is the uncertainty with regards to the time it will linger, fatality rates and the fear of the unknown, the issue is two-fold:

1. The mortality rates: Clearly, the infection curves are parabolic and one needs to be disciplined en-mass to bring down the curve. Can it be done? Clearly countries like China, Korea and Taiwan have already more or less successfully addressed it. Hence, mortality is not a big issue. In fact, what is not getting highlighted is that, a large number of patients are recovering and coming out
2. The second issue is more pertinent to the economy. The remedial measure of isolating oneself is creating havoc with logistic chains and overall businesses. Even if a country can come out of the problem in one quarter, like China or Taiwan, the economic data points for that quarter and the subsequent number could be very debilitating. China retail sales numbers were down 20% and industrial production was down 13.5% which hasn't happened in a very long time. This will be the case with the overall global economy for couple of quarters. Hence, the reaction of the equity markets which are discounting 1-2 quarters of weak economic data. In hindsight one can argue, that the valuations were stretched, earnings were weak, but the reality is valuations are now below the 10year average in case of India.

Additionally there is the issue of the volatility of crude oil prices. A \$30 fall in crude saves the government approximately \$50bn per year or 1.5% of the GDP, which is a big number. Globally, there are many countries which are exporters of energy and their economies will definitely get impacted negatively. India is fortunately an importer, almost one third the import bill is energy. The fall helps the current account deficit, supports the currency and strengthens the balance sheet of the government. The government can pass on the fall in prices to consumers which increases their savings and spending power or the government can retain it, create a buffer in its finances; just in case the divestment targets are not met next year and can spend on infrastructure and gross fixed asset formation. The second would help kick start the investment cycle and create jobs hopefully.

Portfolio Positioning:

In the PGIM India Midcap Opportunities Fund and the PGIM India Diversified Equity Fund, we have stuck to good businesses with strong operating cashflows and very low debt.

Financials:

The Diversified Equity Fund and the Midcap Opportunities Fund have a decent underweight position. There has always been a question, why the Diversified Equity and the Midcap Opportunities Fund have an underweight position on financials. These give phenomenal returns when the economy is doing well, but the stress is higher in a slower economy and can potentially hurt the portfolio in a down cycle. A slower economy, impacts businesses, stretches the working capital cycle and can potentially impact their repayment capacities, which in turn may hurt certain banks and NBFCs. The way to deal with this is to invest in quality businesses. Both the funds have invested in quality financials and have placed a much higher importance on quality, even if it is available at higher valuations. As valuations correct and prices settle down, we will look to reduce our underweight positioning.

We have a underweight position in financials, metals and capital goods.

Both the funds have decent exposure to cement, pharma, chemicals and agro-chemicals and discretionary consumption.

Outlook:

It seems currently, the markets are likely to remain choppy. We have already started seeing earnings cut happening in the Nifty. Over the next 3 months, as visibility on earnings and the outlook of coronavirus stabilises, one will see the markets bottom out and be ready for the next leg of growth.

Till January, we were of the view that the downside was limited to around 10-15%, and hence one doesn't need to time the market and one could invest in a lumpsum. Frankly, the spread and impact of coronavirus has surprised us, as it has done the business and investment community. In such a scenario, given a couple of quarters of disruption, one can spread out investments over the next 3 months to 6 months in the form of periodic SIPs

Stay safe and happy investing.

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PGIM India Diversified Equity Fund

(Multi Cap Fund - An open ended equity scheme investing across large cap, mid cap, small cap stocks)

This product is suitable for investors who are seeking*

- Capital appreciation over long term.
- To generate income and capital appreciation by predominantly investing in an actively managed diversified portfolio of equity and equity related instruments including derivatives.
- Degree of risk – MODERATELY HIGH

* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.



investors understand that their principal will be at moderately high risk.

PGIM India Midcap Opportunities Fund

(Mid Cap Fund- An open ended equity scheme predominantly investing in mid cap stocks)

This product is suitable for investors who are seeking*

- Capital appreciation over long run.
- To achieve long term capital appreciation by predominantly investing in equity and equity related instruments of mid cap companies.
- Degree of risk – MODERATELY HIGH

* Investors should consult their financial advisers if in doubt about whether the product is suitable for them.



investors understand that their principal will be at moderately high risk.

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