Trust Line
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For Private Circulation
1ST MAY 2022

MONTHLY VIEW

FROM THE FUND MANAGER DESK

What are the learnings for investors from Fed's previous balance sheet reduction exercise in 2018/19?

Taper is behind, but tightening is ahead. That is a subtle one-liner that captures what to expect from Fed going forward. On taper, US Fed stuck to its schedule. It began the program in early Jan and quickly finished it by winding down new bond purchases to zero by end of March'22. Now it is onto the next, rate hikes and balance sheet shrinking. With monetary tightening in terms of balance-sheet reduction, expected to begin by Jul-Aug, it will not be out of place to peep into what happened in the previous stimulus cycle to get a sense of what lies ahead. Looking back, in the earlier Fed stimulus cycle (post Global Financial Crisis), though taper started in 2013, it wasn't until late 2017 that the Fed really started taking serious steps to shrink its balance sheet. For the uninitiated, taper refers to winding down the size of the fresh bond purchases while balance sheet reduction refers to allowing those earlier purchased bonds to mature without repurchases. As is well known, the later has a much bigger impact on the market as the excess stimulus liquidity is pulled out of the markets by allowing the bonds to mature without repurchases. That's how Fed scales down its balance sheet size after every stimulus cycle.

This time too, Fed has an ambitious plan to arm down its pandemic stimulus by planning to shrink its balance sheet by a sizable scale in the coming months. As per some estimates, it may, in all likelihood, start with 25Bn dollars a month from Jul-Aug, slowly accelerate to 95Bn and end the entire unwinding by 2023 December. If that happens, one is talking about taking out over 1.7tn+ dollars of liquidity out of the system in 18/19 months beginning July/Aug. To put that in perspective, it will be nearly thrice the amount that was pulled out in the previous cycle in 2018/19 i.e. about 660Bn dollars were pulled out as part of balance sheet reduction program from Jan'2018 and Aug' 2019.

By any scale, this is a massive unwinding. The world had not witnessed such a large-scale winding-down any time in the past. Of course, relative to what was pumped during pandemic (near 5 trillion dollars from April'20 to Mar'22), the scale of unwinding may not seem sensational. Given that the Fed's balance sheet expanded from 4 trillion to near 9 trillion dollars in this period, a gradual reduction over the extended period is probably the best outcome

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one could hope for. Yet, markets are naturally worried whether FIIs will ever come back to emerging markets in this period when Fed is busy pruning its balance sheet. Given this huge overhang of liquidity challenge for the foreseeable time, it may seem realistic to assume that FIIs are unlikely to return any time soon, esp. after their massive exodus from India since Oct'21. For the record, they have pulled out over 23 billion dollars (net sales) since then.

It is precisely here, where a peep into the past liquidity cycle could throw some interesting insights into how FIIs behaved in a similar situation. Let us go back and look at the period between Jan'18 and Aug'19. In this period, Fed reduced its balance sheet by over 660bn dollars, by pulling out an average of 30bn dollars every month (exact amount varied from low of 16bn to as high as 61bn in different months). It helps further to split this period into two to understand how FIIs behavior changed over the time of the unwinding. In the initial part, as the Fed unwinding started, FIIs started pulling out in Feb'18 and accelerated their pace during the mid-year to reach the peak sometime in Sep-Oct'18. FIIs pulled out over 6.5bn dollars in this period. But, what happened post that was more interesting. Until this period, Fed's unwinding was about 30Bn dollars per month, which it later increased it to 38Bn dollars per month from Jan'19 until Aug'19. Ironically, after the increased quantum of monthly unwinding from Fed, FII flows reversed into inflows and there was massive net inflows of over 13bn dollars in the period between Jan'19 and Aug'19. Not to forget that in this period, over 300bn dollars was pulled out by Fed to reduce its balance sheet. So, what does one conclude from this? Is there co-relation between Fed's unwinding and FII flows? Of course, there is a co-relation in the initial period, but not long after. More importantly, what is more interesting is that the inflows in the later part were twice the money that left in the initial part.

Having said this, it is also important to keep in mind that no two cycles will be same. While the broad pattern may be similar, exact point at which the tide will change for FII flows could be difficult to predict. But what is more important to understand is that the FII money will come back much sooner than Fed's timeline for unwinding. Not only it will be sooner, but it will be much larger than what went out. This is one reason why some seasoned investors are expecting a melt-up (bull- run) for Indian markets next year (2023). From this perspective, the current weakness, which is likely to continue for few months on account of Fed's rate-hike and balance-sheet-shrinking overhang, is a great opportunity for long-term investors to lap up their positions, esp. on those sporadic panic days which will come often for a while.

Happy Value Investing!!!

ArunaGiri. N

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CORPORATE NEWS

- **Wipro** announced the acquisition of Rizing Intermediate Holdings, a global SAP consulting firm, for a consideration of Rs 4,060 crore. The company stated that the acquisition will significantly expand its breadth of capabilities in helping businesses transform into intelligent enterprises.
- **Dr Reddy's Laboratories** has entered into an agreement with Novartis AG to acquire the cardiovascular brand Cidmus in India. The acquisition cost is $6.1 crore. Cidmus is indicated for heart failure patients with reduced ejection fraction.
- **Sansera Engineering** has been awarded a contract for development, manufacturing and supply of connecting rods from a leading North American OEM for its upcoming project. The start of production would be from July 2025 and is expected to run over seven years. The approximate quantity for the contract is over 35 million connecting rods with an estimated revenue of over USD 400 Mn.
- **JASH Engineering** announced that its US subsidiary Rodney Hunt Inc has received an order worth USD 4.9 million from Lane Construction for Kansas city flood risk management project. This is the first part of the order and company is quite hopeful to get the second part also which is also quite large.
- **Entertainment Network India Ltd's** subsidiary Entertainment Network LLC has entered into a Brand and Content Licensing arrangement with Dallas – US based radio broadcaster – FA Radio International LLC ('FA Radio') to use the Company's trademarks and content. FA Radio operates Hindi/ Urdu language radio station currently branded as 'Azad FM'. It will now be rebranded as 'Mirchi'.
- **Multi Commodity Exchange of India (MCX)**, India's largest commodity derivatives exchange, and Chittagong Stock Exchange Limited (CSE), Bangladesh, signed a consultancy agreement to collaborate for establishment of the country's first commodity derivatives platform in Bangladesh.
- **Indoco Remedies Ltd.** announced that the USFDA has approved the ANDA Lacosamide Injection USP, 200 mg/20 mL (10 mg/mL) single-dose vials. Lacosamide injection is indicated forthe prevention and control of seizures. It is an anticonvulsant / antiepileptic drug. According to available IQVIA, sales data forVimpat® Injection is approx. USD 43.8 million, growing at 25%.
- **Tata Motors** has hiked the prices of its passenger vehicles by an average 1.1 per cent with immediate effect to partially offset the rise in input cost.
- **Insecticides (India)** has received patent for an invention titled 'Novel Granules and its pesticidal compositions' from Patent Office, government of India. This is valid for 20 years.
- **Indiabulls Real Estate Ltd** said it has completed a capital raise of Rs 865 crore at Rs 101.10 per equity share through QIP. It will utilise Rs 865 crore raised by issuing shares to institutional investors mainly for land acquisition and debt reduction.
- Invesco Developing Markets, the largest shareholder of **Zee Entertainment Enterprises**, is selling 7.8 per cent stake worth Rs 2,200 crore in the entertainment major via block deals. Invesco owns 18.8 per cent stake in Zee and has supported the merger between Zee and Sony Entertainment.
- **Tata Consultancy Services (TCS)** in an announcement said that it is expanding its strategic partnership with SBI Cards and Payments Services, to power the latter's next leg of digital transformation. TCS had helped the company transform its core cards sourcing platform and digitized a significant portion of the process. The future-ready, agile platform personalized customer experience and helped boost sales and retention.

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MACRO NEWS

- **The International Monetary Fund (IMF)** has cut its growth forecast for India for FY23 to 8.2 percent, warning that Russia's invasion of Ukraine would hurt consumption and hence, growth, by way of higher prices.
- **The fertiliser subsidy** is likely to touch an all-time high of Rs 1.65 lakh crore this financial year against the budget estimate of Rs 1.05 lakh crore due to an unprecedented rise in the cost of raw materials and fertilisers globally.
- Seeking to expand the taxpayer base, **Government** has widened the scope for filing returns even if a person's income is below the taxable limit and will cover those whose aggregate tax deducted at source (TDS) or tax collected at source (TCS) during a fiscal year is Rs 25,000 or more.
- **SEBI** came out with a new framework for evaluating risk level of commodities including gold and gold related instruments in which mutual funds are permitted to invest on risk-o-meter.
- **Power sector reforms: States could utilize just 28% of Rs 1 trn additional borrowing window in Fy22.** The Centre has granted additional borrowing permission of Rs 28,204 cr to 10 states to undertake stipulated reforms in the power sector in FY22, indicating reluctance of most of the states to take measures to improve the financial health of state power distribution companies (discoms). The objectives of granting financial incentives were to improve the operational and economic efficiency of the power sector, and promote a sustained increase in paid electricity consumption.
- **The Oil Ministry** has stopped making fresh allocation of natural gas from domestic fields to the city gas sector, threatening the viability of Rs 2 trillion investment planned in the sector besides leading to a hike in CNG and piped cooking gas prices to record levels
- Recovering from the pandemic-induced slowdown, residential real estate demonstrated inherent strength in the quarter ended March, with **pan-India housing demand** rising 6.7% from a year ago and 4.6% sequentially, showed Magicbricks' PropIndex report.

FUNDS FLOW DATA

Data as on 27th Apr 2022		
FUNDS FLOW DATA (Rs in Cr)		
Category	**MTD**	**YTD**
FII	(37,748)	(1,68,095)
DII	26,571	1,30,261
Total	**(11,177)**	**(37,834)**

DEBT & FOREX MARKET

Data as on 27th Apr 2022			
DEBT / FOREX MARKET			
Category	**Day**	**1 Mnth**	**3 Mnths**
10 Yr Yield	7.1	6.8	6.7
Re / US $	76.5	76.3	75.2

MARKET VIEW

Pressure from surging Dollar Index?

In spite of such a massive exodus of FIIs from Indian markets since Oct'21, last word is still not written on this. After a brief lull in the early April in FII selling, the pace of selling has accelerated once again. The loss of momentum in FII selling which we witnessed in early April proved to be transient, much to the dismay of the broader investment community. The recent surge in dollar index is adding a new dimension to the already pressured FIIs. Dollar index has hit a five-year high on 28th April to breach 103 level. If it sustains and moves beyond, it could be on its way to reach 20-year high. The last time when dollar index was over 103.5 was in 2003. The dollar has gained on expectations that the US Fed will be more hawkish in the coming period. The Fed is expected to increase rates by 50bps at its 3rd May policy meeting as well in subsequent meetings in June-July. Besides that, one has the over-hang of sustained balance sheet reduction from Fed in the coming months.

Dollar index has surged by near 8% in this calendar year. This has caused jitters to currencies like Sterling, Euro and Yen. They are all hitting multi-year lows. The yen was last seen trading at 128.7 per dollar (as on 28th April) after hitting a 20 year low of 129.4 last week. Both Euro and Sterling are down by over 7% in this calendar year.

In this massive mayhem in currency markets, one would have expected a brutal slaughter in emerging market currencies. Nothing like that has been witnessed, at least so far. Yes, currencies have lost value in countries like Taiwan, Korea, India etc., but more in line with developed peers i.e. around 6 odd percent. In India's case, the fall is much lower at 3.8% in this calendar year. Improved growth visibility and comfortable forex reserves are the main drivers of this relative out-performance of currencies in select emerging markets. That said, if the dollar index continues to surge, even these out-performing currencies will come under increased pressure which in turn will put the local equities under renewed selling spree. Investors need to keep a close watch on the dynamics of dollar index to get a grip on where the markets are headed in the short-term for India, while the medium to long-term bullish outlook is still intact. Interesting times!

*We stay away from giving market outlook (except reporting the consensus view) as we believe that the short-term market movements are function of innumerable rational and irrational parameters and hence any attempt to predict the next market move would be a futile exercise. Hence, we would like to qualify the above consensus view on outlook with a clear caution that TrustLine does not have any specific view on the outlook and does not necessarily subscribe to that.

VALUE EXTRACTS

Value Extracts

- In this section of the newsletter, we attach an extract/write-up that we believe can add value to the readers from the ***"VALUE INVESTMENT"*** point of view or others that offer interesting perspective.
- Enclosed section carries an interesting article from Bloomberg Opiniontitled **"Rising Chaos Makes the Case for Just-in-Case Management"by "Adrian Wooldridge"**

"Every economic recovery since World War II has been preceded by a stock market rally. And these rallies often start when conditions are grim."

- Peter Lynch

The business world is in the process of adopting a revolutionary new philosophy — or perhaps having a new philosophy thrust upon it: just-in-case management. In the great age of globalization that started in the 1980s and entered its triumphant phase in the 1990s and 2000s, the twin watchwords of business were speed and efficiency. Today speed and efficiency must compete with security and resilience.

This new belt-and-braces world has been coming for some time. The climate crisis put a question mark next to efficiency. What is the point of creating the world's most cost-effective machine if you torch the planet in the process? Donald Trump's ill-tempered repudiation of the postwar consensus in favor of America First isolationism forced businesses to rethink their assumptions about tariffs, regulations and relations between the U.S. and European Union. Then the global pandemic forced them to rethink even more basic assumptions about office life. Now Vladimir Putin's invasion of Ukraine is completing the uncertainty revolution. Suddenly everything that business had taken for granted has been torn to shreds and replaced by a series of just-in-case questions.

The problems of war and pandemic reinforce each other. The war is sending markets gyrating while raising the long-term cost of inputs. It also raises the possibility of much worse to come if China sides with Russia and America imposes sanctions. The Chinese authorities recently imposed a lockdown on Shenzhen, a port city of 17.5 million people and one of the hubs of the high-tech economy, to contain the spread of the highly infectious omicron strain of Covid-19. Foxconn Technology Group, the Taiwanese electronics firm that is Apple Inc.'s primary iPhone assembler, was among dozens of manufacturers forced to suspend operations for a while.

The most obvious change is from just-in-time to just-in-case manufacturing. JIT manufacturing was introduced in Japan after World War II, most notably by Toyota Motor Corp., to reduce the amount of capital tied up in idle capacity. The innovation replaced "push" manufacturing, whereby you had large stores of parts sitting next to the plant, with "pull" manufacturing, whereby you kept minimum inventories on hand and then replenished them with new deliveries from suppliers whenever you needed to.

This system of just-in-time manufacturing went global from the 1980s onward in two ways. Western companies had to adopt Japanese manufacturing techniques if they were to compete with Japanese companies in terms of cost and efficiency. And companies sourced their products in the far corners of the world in a restless search for the best combination of price and quality: Orders for components in Detroit sent signals to suppliers half a world away in Shenzhen.

The problem with JIT is that when it breaks down, problems cascade around the world: Ports pile up with containers, trucking companies are overwhelmed by orders, factories are buried under a backlog of goods and, on the other side, frustrated consumers are unable to get their hands on new cars or fridges or electronic equipment. A McKinsey & Co. survey of senior supply-chain executives in July 2020 found that 91% had encountered problems with suppliers, and 93% planned to increase resilience across the supply chain. Now the Ukraine War is driving the same lesson home with renewed force: Having a first-class supplier in China or Eastern Europe is pointless if the supply chains might well be cut by war or plague.

The result is a rush from just-in-time to just-in-case. JIC might involve one or all of the following alternatives: establishing back-up suppliers; looking for suppliers closer to home ("local to local" is a new buzz phrase); forming partnerships with suppliers of critical components, as Ford Motor Co. and General Motors Co. have done with chip-makers; or else increasing your inventories, perhaps even abandoning JIT for the old world of large warehouses sitting next to factories. A survey by McKinsey in Nov. 2021 found that 61% of companies had increased their inventory of critical products and 55% had made sure that they had at least two sources of raw materials. Warehouse costs are escalating as the sector struggles with shortages of labor, materials and space.

The new philosophy of just-in-case extends well beyond supply-chain management, however. Bosses who had grown complacent about the inevitability of globalization must suddenly confront a plethora of just-in-case questions. What do they do if the oil price stays well above $100 a barrel? Or if a hostile power seizes one of their employees (the Russians recently threatened to arrest employees of multinational companies if they criticized the invasion of Ukraine)? Or if a new and even more deadly pandemic strikes (epidemiologists worry that global warming may bring tropical diseases such as Ebola to Europe)? Or if NATO is dragged into a war with Russia? Or if China becomes a hostile power? The only thing they are certain about is that the old way of doing things will need to be rethought.

What will this new world of just-in-case management look like — apart from angst-ridden and dispiriting? The obsession with "lean" (cutting waste out of manufacturing) will be replaced by a tolerance of "fat." Much more redundancy will be built into manufacturing systems. That in turn will add to price pressures as companies tie up capital with inventories or spend money on taking out insurance in the form of back-up suppliers. Supply chains will shorten as companies calculate that a dependence on Asia for crucial parts is too risky. Just-in-case will inevitably add to all the other pressures to expand the role of the state as the greatest guarantor of security, with France's President Emmanuel Macron already declaring that "the state will have to take control of several aspects of the energy sector," Hungary banning

VALUE EXTRACTS

grain exports and Argentina and Turkey increasing their control over local food supplies.

The best guide to the new just-in-case business world is provided by Intel Corp.'s decision to build giant new chip plants in the Old World — one in Ohio, one in Arizona and one in Magdeburg, in eastern Germany. This is designed to reduce European and American dependence on chip-making in Taiwan, the world's biggest manufacturer of silicon chips but also a geopolitical hotspot, with Xi Jinping regarding it in much the same way that Putin regards Ukraine. Even before Putin's invasion of Ukraine, Patrick Gelsinger, who took over as Intel's CEO just over a year ago, set himself the goal of raising the U.S.'s share of global chip production to about 30% over the next decade, from 12% today, and Europe's share to 20% from 9%.

This is obviously good news for some Western workers: Magdeburg will get 3,000 long-term high-tech jobs and 7,000 construction jobs. For taxpayers, not so much. The U.S. and the European Union are promising to stump up a combined $100 million to subsidize domestic chip-making and make up the difference between the cost of producing chips in Asia and the cost of doing so back home. Subsidy wars have a way of feeding on themselves as blocks compete to produce favored goods. They also have a way of stifling innovation as companies devote ever more time to wooing politicians rather than improving their products.

The prospect of a closer relationship between business and government, with all the attendant rent-seeking and arm-twisting, may have many of us longing for the frictionless world of just-in-time business. That world is unlikely to return any time soon, not only because of plague and war but also because of climate change. There's always a chance that Putin will be toppled over the quagmire in Ukraine and that great plagues will prove to be a once-in-a-century phenomenon akin to the Spanish flu. But when it comes to the climate, just-in-case is the least that we can do.

- Article by Adrian Wooldridge

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Over the years we, at TrustLine, have gained rich domain expertise by focusing and specializing in Portfolio Management Services (PMS) / Alternative Investment Fund (AIF). Unlike our competition, we are a unique firm focused only on Asset Management Services (PMS / AIF). This sets us apart and gives us a competitive advantage in the Fund Management space. At TrustLine we believe, the quality of "Research" is fundamental to delivering out-sized returns. When research is complemented by contrarian investment approach, the rewards can be dis-proportional. This forms the foundation of our investment choices and stock selection in our core PMS & AIF business. Our disciplined practice of this "Value Investment" principle has enabled us to deliver superior risk adjusted returns with significant out-performance over bench-mark indices.

With a client retention rate in excess of 95%+, we have grown as an organization through strong references, primarily driven by solid track record of building wealth across good and bad market cycles, through focused and disciplined approach to investing.

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