Eastern Financiers

Brave New World

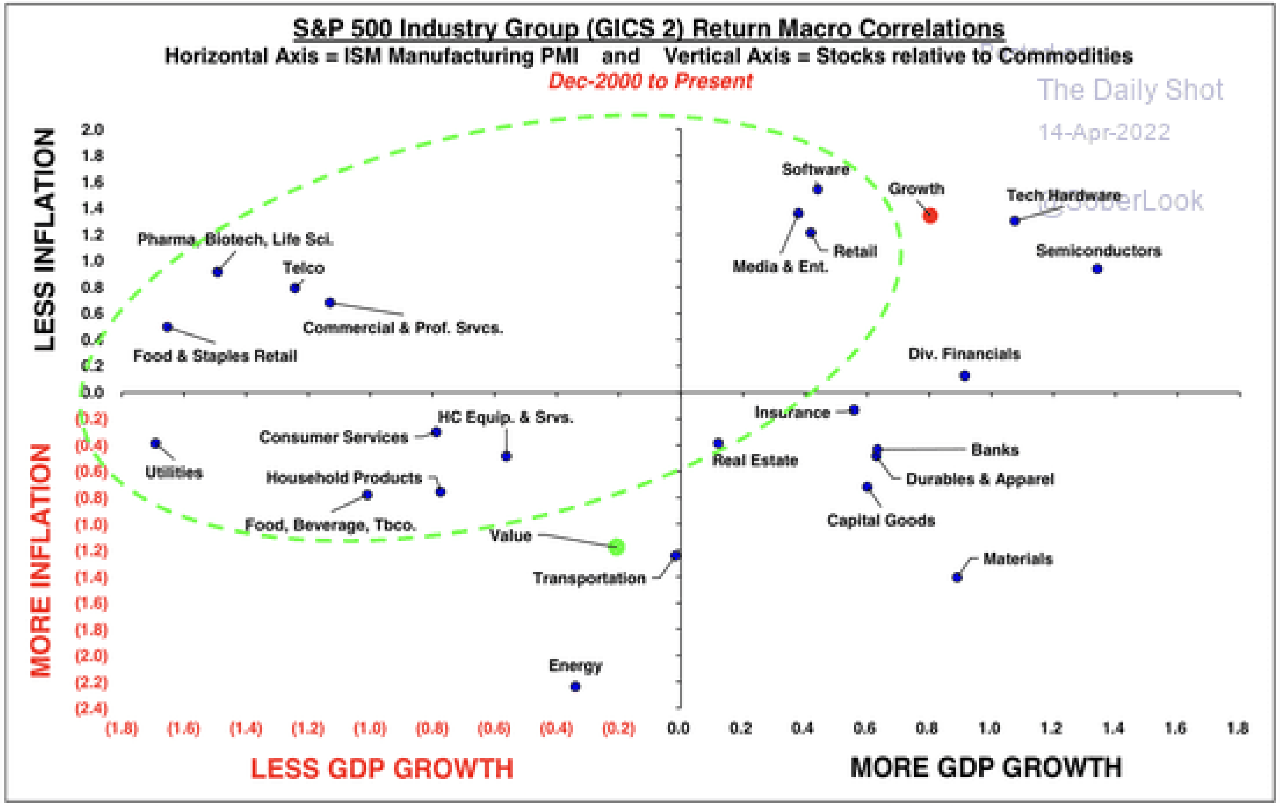
Edition 13

Equity sector performance during different macro conditions

- Although equities in general have performed quite poorly in high and rising inflation environments, there are potential areas that have historically performed better at the sector level.
- High growth stocks tends to underperform in a US rate hiking cycle with inflation scares leading to investors rotate away from high-multiple tech stocks and into sectors that hold up better in a rising rate environment. Those include financials, energy as well as industrials and real estate.
- For instance, the energy sector, which includes oil and gas companies, is one of them. Such firms beat inflation 71% of the time and delivered an annual real return of 9.0% per year on average.

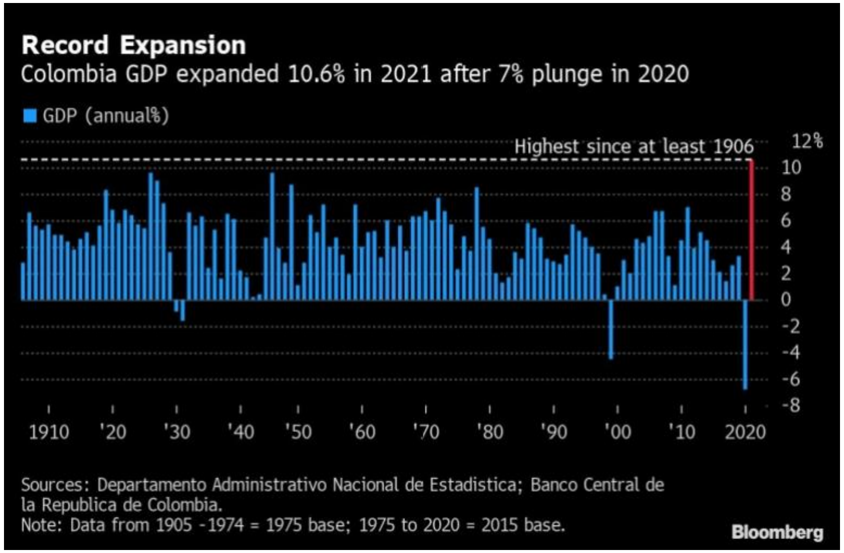
- 2010-2020 was all above asset light + growth model. We believe next decade is all about asset heavy companies i.e., essentially industries which are capex intensive and see operating leverage kick in as volume increases. Prefer "Asset owners" for this decade.

There are ETFs listed in US focused on Real Asset Investing – RAAX available for investment by Indian resident investors.



Source: Bloomberg data, Stifel.

Colombia : This LATAM country grows at the fastest pace since past 115 years



If this decade is all about high commodity prices then commodity centric regions like LATAM should see positive impact as they boost exports (with currency depreciation of 2021 as an added advantage) and public revenue.

Latin America Could Be Among the Winners in 'New World Order', BlackRock CEO Says

In analyzing the current global political and economic panorama, Larry Fink offered some forecasts of who could best take advantage of the context generated by the war in Ukraine

Why the UAE's Latin America push makes perfect economic sense

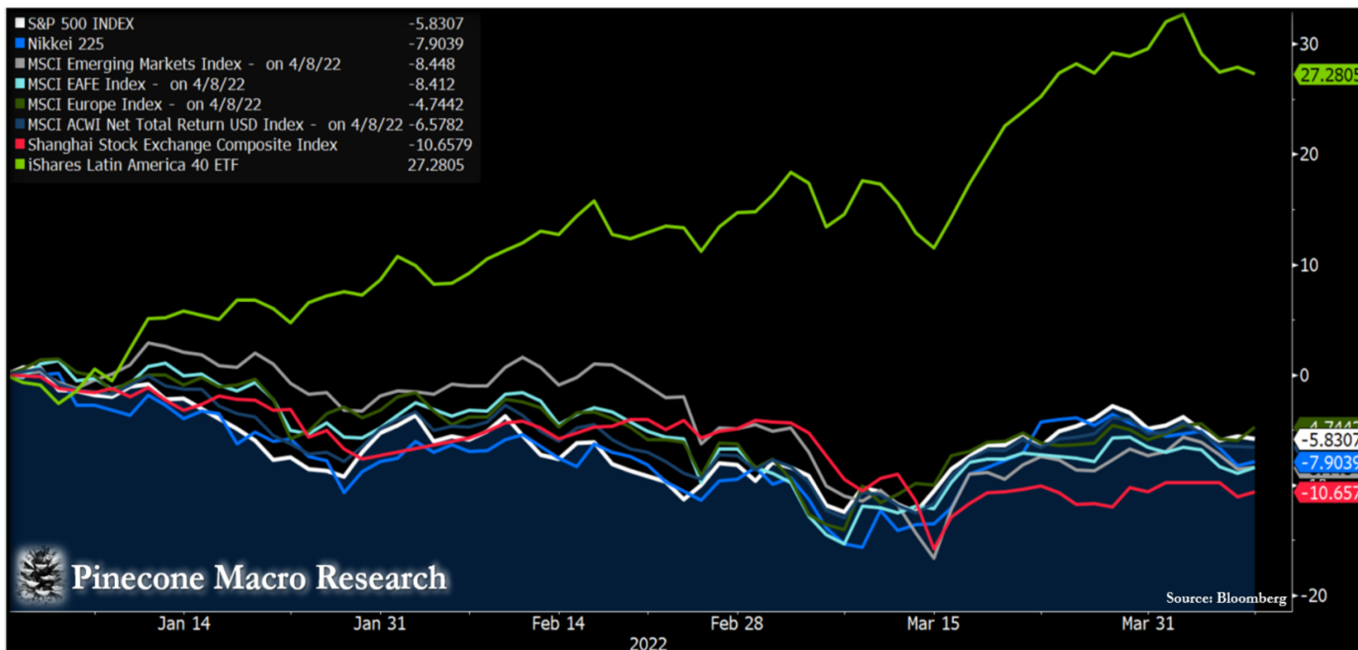
DP World already has established a presence on the continent with its ports

Economy | Business and Economy | Bloomberg

Record expansion: Colombia's economy grows the most in 115 years

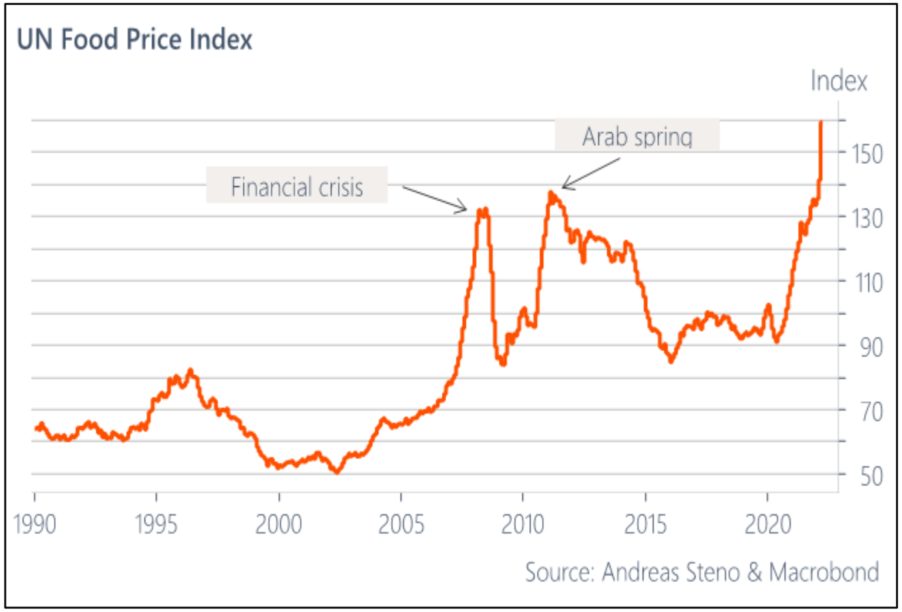
A consumption boom and soaring prices for basics like oil, coal and coffee caused gross domestic product to rocket 10.6 percent in 2021.

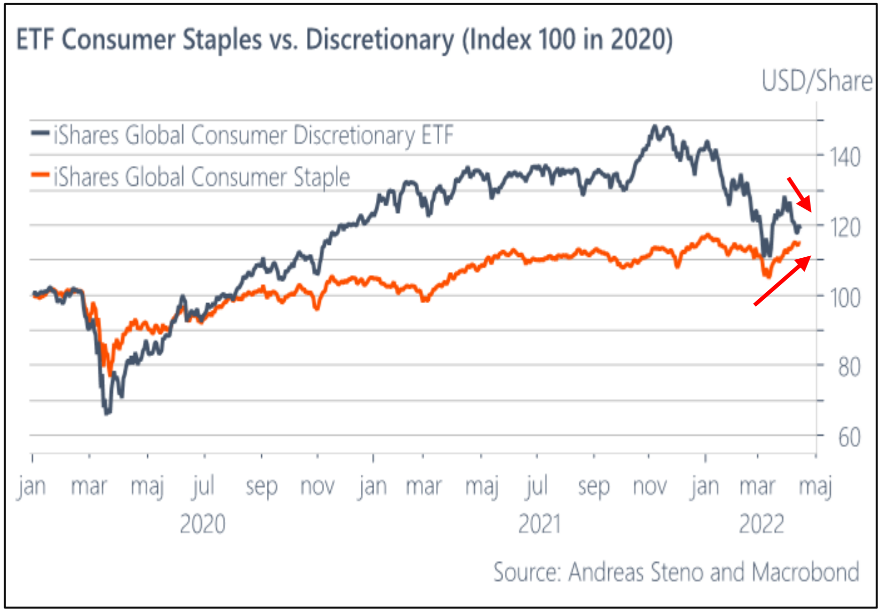
There are ETFs listed in US focused on Latin American markets – LATAM available for investment by Indian resident investors.



Inflation hits the Grocery store

- The current supply squeeze is one of the worst seen ever. The disconnect between demand fundamentals and food and energy prices is simply eye-catching.
- The FAO's gauge of global prices has jumped about 75% since mid-2020, eclipsing levels seen in 2008 and 2011 that contributed to global food crises. Last month's surge helped prices round out a seventh straight quarterly gain, the longest such run since 2008.
- The weekly earnings in U.S. are now running below trend, when you adjust for the most recent price trends, which is a massive change in scenery when compared to 2020 and 2021.
- When necessities turn more costly, it simply means people will stop buying discretionary stuff soon. This also means that the price on everything you need will remain high, but the price on everything you don't need will start dropping soon.
- Will this lead to disinflationary trends on non-essentials in H2-2022 in to 2023?

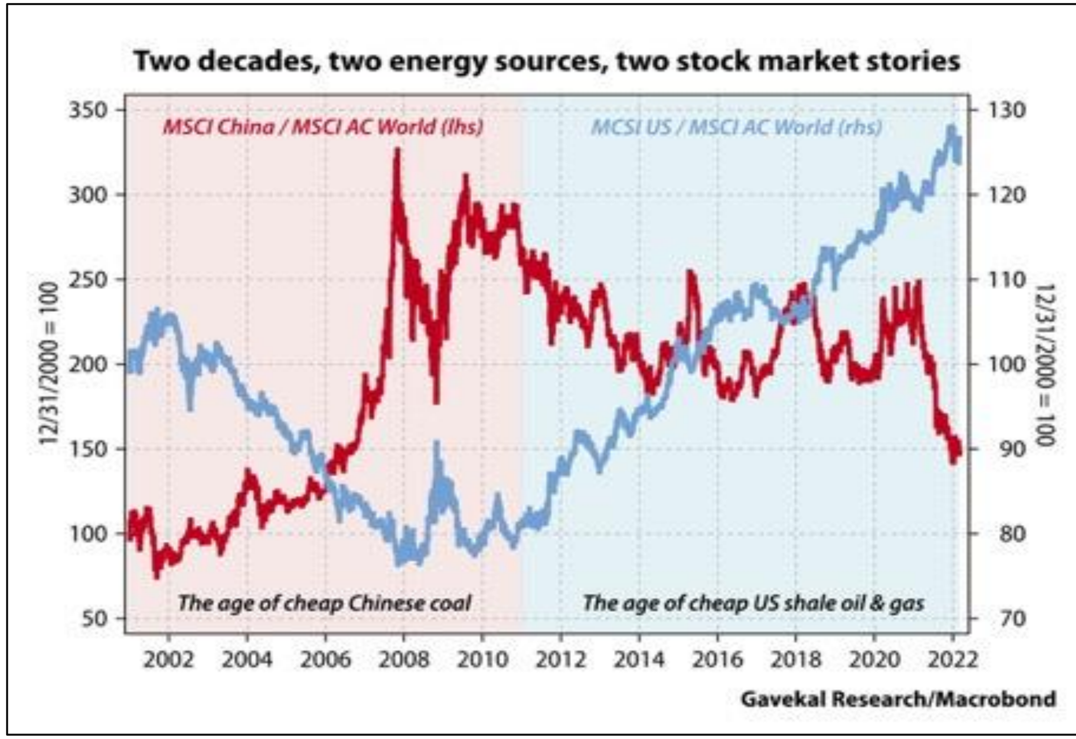




There are ETFs listed in US focused on agriculture & related companies – DBA available for investment by Indian resident investors.

Economic Activity is energy transformed

- Ultimate resource which acted as decision maker for global liquidity flow was 'Energy'.
- Until 2000 – 2010 middle east and developing countries like China dominated era of cheap fuel which in turn reflected in their Stock market returns.
- However, past decade saw tables turned as massive US shale oil & gas exploration which led them to be energy independent. US equity index has seen unparallel journey upwards since then.
- But, after destroying much capital, the shale revolution is now over as witnessed by rising prices (on the rise even before the Ukraine invasion) and lower production.



US shale revolution was perhaps most important macro event of past decade

US shale boom leads to low energy prices + **US shale boom leads to strong US$** = **Low US inflation** → **Low US interest rates**

Very expansionary monetary policy from the Fed

↓

Massive US growth stock outperformance

There are ETFs listed in US focused on Energy Investing – OIH available for investment by Indian resident investors.

Will Fed rate hike be fast paced?

Current inflation prints of ~8.5% is the highest reading seen since the past 40 years. Market expectations are like the last time, Fed would hike rates to combat inflation, although this might lead to rise in unemployment with recession fears. Three reasons on why this time is different -

- With the highest inflation numbers on record, last seen 40 years ago, the Fed cannot raise rates sharply like it did in 1980 to fight inflation as even modest increase will impact US Debt/GDP simultaneously affecting both US interest expense outflow and tax receipts with lower GDP prints due to rate hike induced recession.

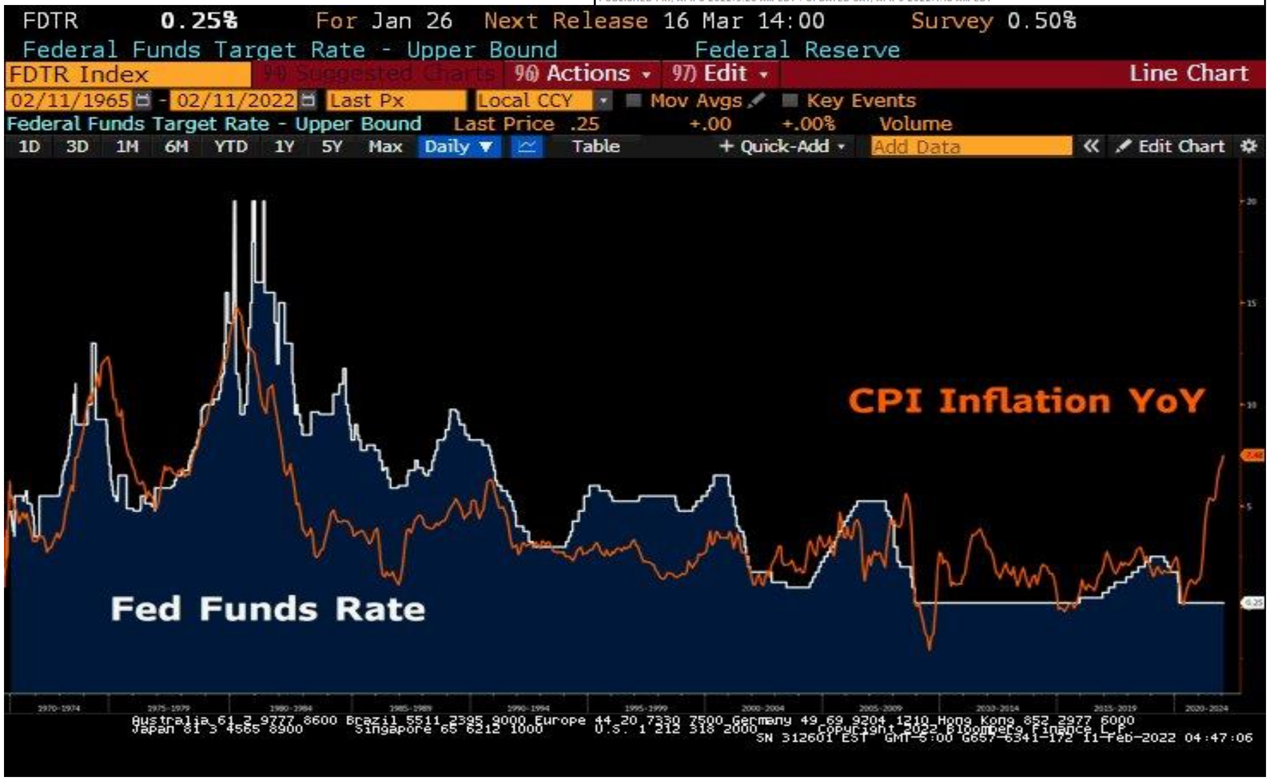
- U.S. is data driven economy and latest numbers indicate that consumer spending has been slowing down *(Consumer spending is ~70% of US GDP)*


THE BOTTOM LINE

As inflation bites and America's mood darkens, higher-income consumers are cutting back, too

PUBLISHED FRI, APR 8 2022·9:26 AM EDT | UPDATED SAT, APR 9 2022·1:18 AM EDT

- Fed minutes mention that they were prepared for 50 bps hike last time but had to trim this down due to situation in Ukraine. Will global instability rise due supply side issues after Russia sanction and will this force the reserve currency to slow down on the pace of hike (Egypt is dependent on wheat from Russia/Ukraine, Europe on energy imports from Russia)



While 50 bps of hike in May seems priced in, but Fed will keenly watch consumer spending data before talking about a June hike

Team

Mr. Ritesh Jain
Director

Master of Business Economics (MBE)
Executive MBA - Haskayne School (Calgary)

He has held many senior leadership roles including CIO – BNP Paribas Mutual Fund, where he was responsible for managing US$1.2 billion of AUM and also has served as the CIO of Tata Mutual Fund, where he was responsible for managing AUM of 6 billion.

In 2019, LinkedIn rated him among the top three influencers in the world of Economy and Finance. He is also a recipient of numerous national and international awards in the field of fixed income and equity investments.

Ms. Chanchal Agarwal
Head - Products

Chartered Accountant
CFA Charterholder

She brings with her about 12 years of Industry experience spanning across verticals like Family Office Investment Advisory, Equity management, Investment banking, etc.

In 2020, AIWMI recognized her amongst the ‘Top 100 women in Finance”. She has featured in the Audio talk series ‘Show me the Money’ by Meghna Pant (available on Audible Suno). Her article reflecting on ‘What stops women from investing’ was published in The Hindu Newspaper.

Management

Mr. Ajoy Agarwal
Founder, Chairman & Managing Director

One of the pillars of the Indian investment advisor's fraternity.

Over the last five decades, his contribution to the growth of financial literacy is immense, led by un-biased, focused and disciplined approach with strong emphasis on ethics and creating a sense of ownership amongst the employees.

Mr. Abhishek Agarwal
Director

Having started his career at the grass-roots level of the financial services industry, his dedication and strategic planning has enabled EF to enter into several remote towns across Eastern India, thus spreading its wings with a large network of company-owned branches.

Mr. Ambrish Agarwal
Director

Aiming to change the speculative, traditional ways of trading by developing a sustainable, investment-based dealing platform.

His contribution helped catapult EF into the league of players actively catering to the discerning Institutional and High Net worth investors who are well aware of global developments and thus very demanding.

Thank You

Get In Touch

Registered Office
Eastern Financiers Limited
102, 104 & 210 Lords, 7/1, Lord Sinha
Road, Kolkata, India - 700 071

Contact Us
(033) 40006800

Write to us
research@easternfin.com

Disclaimer

The above material is neither investment research, nor investment advice.

This document may contain confidential, proprietary or legally privileged information. It should not be used by anyone who is not the original intended recipient. If you have erroneously received this document, please delete it immediately and notify the sender. The recipient acknowledges that Eastern Financiers Ltd ("Eastern") or its subsidiaries and associated companies, as the case may be, are unable to exercise control or ensure or guarantee the integrity of/over the contents of the information contained in document and further acknowledges that any views expressed in this document are those of the individual sender and no binding nature of this shall be implied or assumed unless the sender does so expressly with due authority of Eastern or its subsidiaries and associated companies, as applicable. This document is not intended as an offer or solicitation for the purchase or sale of any financial instrument / security or as an official confirmation of any transaction.

Investment Disclaimer

Investment Products are not obligations of or guaranteed by Eastern Financiers Ltd or any of its affiliates or subsidiaries, are not insured by any governmental agency and are subject to investment risks, including the possible loss of the principal amount invested. Past performance is not indicative of future results, prices can go up or down. Investors investing in funds denominated in non-local currency should be aware of the risk of exchange rate fluctuations that may cause a loss of principal.

This document does not constitute the distribution of any information or the making of any offer or solicitation by anyone in any jurisdiction in which such distribution or offer is not authorized or to any person to whom it is unlawful to distribute such a document or make such an offer or solicitation.