

May 18, 2022

## Portfolio Commentary

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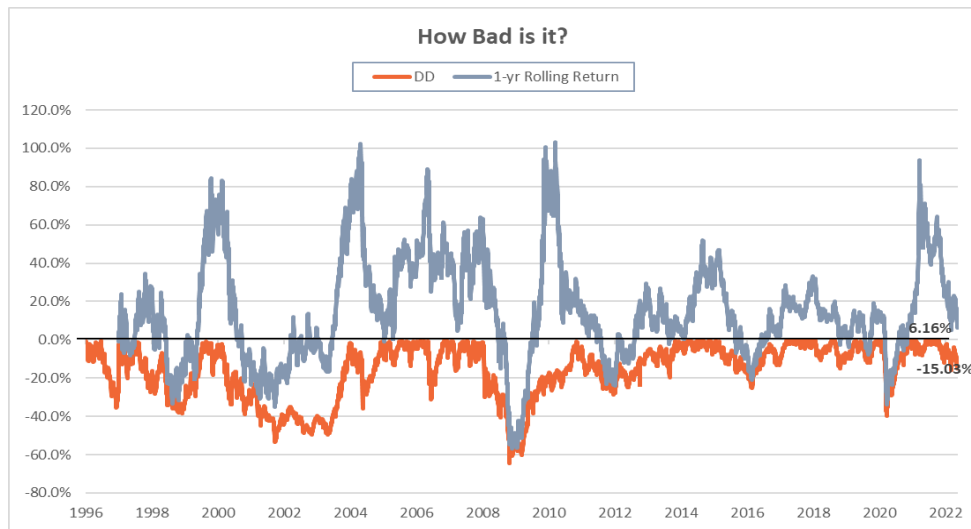
### “Light at the end of the tunnel?”

The much talked about “**Market Correction**” – It’s finally here and it’s not the first time.

Both globally and domestically markets are struggling to hold up. Optimism is gradually turning into despair and most market leaders of the previous rally are breaking down. There is no denying that we are in midst of global uncertainty, and it might test investors’ patience going further as well. While the market mood is rather sombre, the good news is that it doesn’t last forever. The question is whether the proverbial light at the end of the tunnel is in sight.

### The depth

Since 1996, the Indian markets have had plenty of dips (<10% drawdown), a few corrections (10-20% drawdown), 7 minor bear markets (20-40% drawdown), and 2 major bear markets (>40% drawdown).



Source: NSE, Sanctum Wealth Research

In the last 26 years, if we add up the instances when the rolling 1-year return of the index moved below –10%, there were 17 occasions when that happened. Most of these occasions were pre-2008 and only 3 post the global financial crisis.

With their printing presses, the Central Banks have significantly tamed the beast in the last decade and a half. Referring to the chart above, the depth of the corrections has also significantly reduced post-2008. Drawdowns of 20% became our worst-case scenario. Even the deep COVID fall was more like a blip than a serious bear market.

The maximum drawdown in the current fall of 2022 has been 16%, which is lower than the falls the markets have seen in similar situations in the past. If we use history as our baseline, we are likely to see some more pain before we see a respite from the falling market.

### The length

Since 1998, all the drawdowns had varying lengths. The median time markets spent to hit the correction/ bear market bottom was 102 days and rescaling previous highs took 233 trading days. Therefore, historically, the market spent a third of its correction time falling towards the low, and the rest of the time it spent shedding the hangover and crawling back to previous highs.

Period	Drawdown from peak	Days to Bottom	Days to new high	% days spent in bottoming out	Reason for the fall
1996-1997	-35%	118	257	45.9%	Tight liquidity, high interest rates and poor earnings
1997-1999	-38%	324	479	67.6%	Fiscal Weakness, political instability, Asian Financial Crisis and Russian debt default
2000-2003	-53%	396	963	41.1%	Dot com bust, 9/11 attacks
2004	-36%	86	209	41.1%	Political shuffle
2006	-31%	24	120	20.0%	Inflation, Interest rate hikes
2007	-16%	16	66	24.2%	Inflation, rate hikes
2008-2013	-65%	198	1,468	13.5%	GFC
2015-2016	-25%	245	500	49.0%	Bank NPAs, Chinese slowdown, Brexit, Fed rate hikes, Fed Tapering
2018	-15%	40	157	25.5%	Higher US yields, fed rate hikes, higher crude
2020	-40%	45	202	22.3%	COVID
2021-2022	-16%	96	??	??	Inflation, Fed Tapering, Rate Hikes, War
<b>Average</b>	<b>-35%</b>	<b>149</b>	<b>442</b>	<b>35%</b>	
<b>Median</b>	<b>-36%</b>	<b>102</b>	<b>233</b>	<b>33.3%</b>	

Source: Sanctum Wealth Research

Short-term market dips are fierce and snappy that don't last for more than a few months. Medium term corrections that happen due to a confluence of routine factors like rate hikes, inflation, and mild geopolitical tensions tend to be a little sticky, yet last less than a year (250 trading days).

The deeper and long ones tend to have structural issues (economic or otherwise) but lead to large vengeance rallies (100%+) after throwing the worst at investors.

So, where does the current correction belong? - Certainly not in the third category. In fact, we are very constructive on India's long-term prospects on the back of structural tailwinds.

### What's bothering the market??

The markets are currently bogged down by a multitude of factors:

- Inflation that's caused by supply chain and logistical issues, war, and excessive money supply.
- Central Banks are raising rates to tame inflation, which would increase the cost of borrowing.
- Earnings are pressured by margin contraction led by input cost pressures.
- Fear of demand getting knocked if the prices continue to stay elevated.

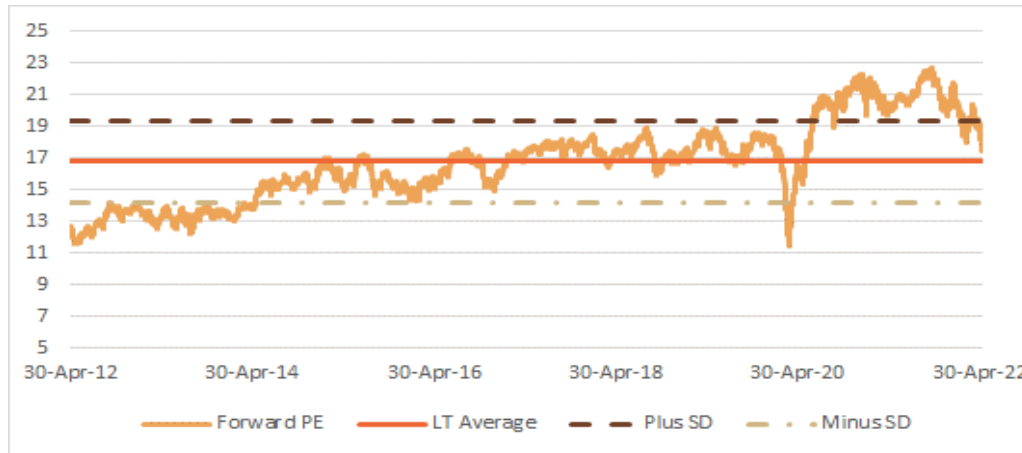
Though all the above factors are dominating mainstream media, some positives that can't be overlooked are:

- Corporate balance sheets are a lot less leveraged than they were five years ago.
- Banks' credit cost is under control and Balance sheets are awash with liquidity to lend.
- The investment cycle is picking up led by lower taxes, and PLI schemes.
- India is being looked at as a serious candidate for manufacturing for the world as the global corporates are getting increasingly uncomfortable with their huge reliance on China.
- Demand for IT exports is quite robust.
- With all-time high direct and indirect tax collection, government fiscal situation is relatively comfortable.
- Foreign exchange reserves are robust.

- Given the price hikes by companies, margin headwinds will become margin tailwinds as the supply-chain issues get solved.

Topping it up is the valuation, which is far more reasonable now than a few months ago.

#### Nifty PE



Source: Bloomberg, Sanctum Wealth Research

The market has a robust discounting mechanism, and it discounts whatever it could foresee well in advance. By that logic, a lot of the known negatives may be getting factored into the price.

#### The million-dollar question – Is it time to put more money?

It's been said a zillion times but worth iterating, "timing the market is a futile exercise". So, we can't make all-or-nothing decisions at any point in time in a correction.

As stated earlier, fundamentally, the markets may be discounting a lot of negatives already. Since markets don't move in a linear fashion it provides an opportunity to invest in long-term themes during such volatile periods. In our various communications, we have highlighted our positive stance on multi-year themes of manufacturing opportunities, real estate's cycle turning, and formalization of the economy.

But how should we approach the topping up?

The best thing to do is to have a guarded approach with a conviction list of stocks to buy at lower levels and take stock-wise actions as the prices unfold.

At Sanctum PMS, the core of our investment philosophy is investing in themes and businesses that are in a multi-year structural uptrend. These trends, generally, don't get shaken by short-term market corrections. We focus on investing in leaders or to be leaders within the themes and keep our stocks and price levels ready at such opportune times. We jump right in when we see the desired price levels and try to keep our heads clear of the noise while focusing on individual opportunities as they unfold.

As the Oracle of Omaha, Warren Buffett constantly advocates, that "it is wise for investors to be fearful when others are greedy, and greedy when others are fearful." Currently, the market's balance is tilted towards fear, and we advise investing in a staggered manner over the next few months to benefit from the opportunity.

### Performance of In-house PMS Strategies

Performance as on April 30, 2022	1 Month	3 Month	6 Month	1 Year	CAGR			
					2 Year	3 Year	5 Year	Since Inc.*
Sanctum Indian Titans	-0.5%	-1.2%	-4.5%	23.3%	32.9%	20.0%	13.7%	15.4%
NSE200 Index	-0.9%	-0.6%	-2.3%	18.7%	34.0%	14.4%	12.5%	14.8%

\* Since Inception Returns are from 18-Nov-16

Performance as on April 30, 2022	1 Month	3 Month	6 Month	1 Year	CAGR			
					2 Year	3 Year	5 Year	Since Inc.*
Sanctum Indian Olympians	-1.3%	-1.4%	-5.6%	14.8%	24.9%	13.8%	13.6%	12.0%
NSE100 Index	-1.2%	-0.5%	-2.4%	18.0%	32.1%	13.7%	12.6%	12.6%

\* Since Inception Returns are from 16-Sep-16

Performance as on April 30, 2022	1 Month	3 Month	6 Month	1 Year	CAGR			
					2 Year	3 Year	5 Year	Since Inc.*
Sanctum Finedge	-3.5%	-4.7%	-8.8%	NA	NA	NA	NA	-5.3%
NIFTYFINSER	-3.0%	-6.7%	-11.5%	NA	NA	NA	NA	-1.1%

\* Since Inception Returns are from 04-Aug-21

Performance is calculated using Time Weighted Returns, net of fees and expenses. Returns over 1 year are compounded annually, Returns for less than 1 year period are absolute. Please note that the performance information provided above is not verified by SEBI. Please note that past performance is not a guarantee of future performance.

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