

Book partial profits in silver and gold funds to rebalance portfolio

Diversify internationally, continue SIPs in equity funds, and move towards medium and shorter-duration debt funds

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The performance of various asset classes over the past year, the war in West Asia and the consequent surge in fuel prices, a shift in interest rate outlook, and several other factors require a recalibration of investment portfolios as the current financial year draws to a close. Do-it-yourself investors without a financial planner may follow the road map given below.

Equity MFs: Muted returns

Equity mutual funds (MFs) have delivered muted returns over the past year. While the markets had recovered by the end of February, the outbreak of the Iran war and the subsequent surge in oil prices triggered a sharp fall in returns. "The current war has hurt the macro environment because oil above \$90 affects the current account deficit, inflation, and raw material costs," says V Srivatsa, executive vice-president — equity, UTI Asset Management Company (AMC).

The *Bloomberg* consensus estimate for earnings per share (EPS) growth for next year stands at 13 per cent. "This could face downgrades because of higher crude and derivative prices," says Srivatsa.

The war needs to end early for the market to stabilise. Even after the conflict ends, recovery may take time. "Markets will need to absorb earnings cuts arising from disruption in crude, gas, and related products," says Srivatsa.

What should investors do? Investors should continue their systematic investment plans (SIPs) despite the low returns. "Those who have become underweight on equities should right-weight gradually through SIPs and systematic transfer plans (STPs)," says Vishal Dhawan, founder and chief executive officer (CEO), Plan Ahead Wealth Advisors.

"Investors whose goals are five to six years away should use this period to build strong equity



Precious metals in the lead

(Data as on March 26)

Fund category	Average returns (%)			
	1-year	3-year	5-year	10-year
Silver	128.39	46.81	NA	NA
Gold	64.59	33.59	25.06	16.40
Midcap	6.91	22.41	18.68	17.46
Medium duration	6.89	8.02	7.38	7.31
Money market	6.72	7.34	6.28	6.72
Liquid	5.90	6.55	5.63	6.09
Smallcap	3.51	18.93	19.35	17.54
Largecap	1.25	15.02	12.42	13.29
Long duration	0.11	6.39	5.32	7.43

Note: Returns are for direct plans. Above 1-year returns are annualised. Source: Morningstar Direct

exposure," adds Arnav Pandya, founder, Moneyeduschool.

Stick to a diversified equity portfolio with a mix of large-cap, mid-cap, and small-cap funds. Maintain exposure to both domestic and international equities.

Debt for stability

Shorter- and medium-duration funds outperformed over the past year, while longer-duration funds lagged. Interest rates remained range-bound with the Reserve Bank of India staying on pause and global uncertainties keeping long-end yields volatile. "Geopolitical risks, higher state development loan (SDL) supply, and recent crude price volatility did not allow a clear, sustained fall in yields, which is needed for long-duration and gilt funds to perform," says Devang Shah, head — fixed income, Axis MF.

Accrual is the main driver of returns. "Short- and medium-duration funds benefited from high carry at the front and belly of the curve, surplus liquidity, and limited mark-to-market swings," says Shah.

Move towards shorter-duration funds: Investors must have exposure to debt funds for stability, income,

and diversification. Rising oil prices could reignite inflation. "Make two- to five-year corporate bond strategies your core debt allocation. These segments offer favourable risk-reward," says Shah.

Reduce exposure to long-duration debt funds. "Avoid large directional bets on long-duration or gilt funds purely on expectations of rate cuts," says Shah. Retain some exposure to them if you expect rates to decline over the long term, provided you have the requisite horizon.

Long-term investors should keep about 80 per cent in shorter-duration debt funds and 20 per cent in longer-duration debt funds, says Vishal Dhawan.

Commodity funds: Blockbuster returns

Gold and silver funds outperformed over the past year. "Continued central bank buying, persistent geopolitical uncertainty, and rising investor interest in precious metals as a hedge supported gold," says Vikram Dhawan, head of commodities and fund manager, Nippon India MF.

Silver benefited from investment demand and its strong industrial link-

age to energy-transition themes. "Falling real interest rate expectations, strong exchange-traded fund (ETF) inflows, and momentum-driven participation amplified price moves," says Vikram Dhawan.

Returns may moderate: The outlook remains positive. "The structural drivers remain intact, but returns may normalise after an exceptionally strong phase," says Vikram Dhawan. Silver could come under pressure if industrial demand weakens.

Do not chase past performance: Returns from precious metals are lumpy. "Commodities can go through sharp and sudden mean reversion phases even within strong bull markets," says Vikram Dhawan.

Add gradually during weak phases and rebalance during strong ones. Continue allocating to gold and silver as long as total exposure stays within 15 per cent of the portfolio (around 10 per cent in gold and 5 per cent in silver).

Rebalance portfolio

Many investors would be overweight on gold and silver. "The massive asset allocation drift caused by the triple-digit returns in silver and high gains in gold needs to be corrected," says Abhishek Kumar, Sebi-registered investment advisor and founder, Sahaj-Money.com. Book partial profits to restore the original asset allocation. Kumar suggests that the money obtained should be deployed in equity and shorter-duration debt funds.

"Portfolios that are equity-heavy, especially towards small caps, need to be rebalanced," says Pandya.

Global markets were more stable than the domestic market over the past year. Investors should put around 20 per cent of their equity portfolio in global funds to get the benefit of geographical diversification.

Pandya suggests that investors should check the quality of fund holdings and switch in case of sustained underperformance. Finally, if the volatility induced by the war is causing you to lose sleep, reduce equity exposure.