



Investor Insights & Outlook

FEBRUARY 2023

KEY HIGHLIGHTS & MARKET DEVELOPMENTS

EQUITY

- Indian markets continued to trade with weakness during February as front-line indices NIFTY and Sensex corrected about 2% and 1% respectively; Bank Nifty also corrected by 1%; Volatility remained high on account of the uncertainty around Adani's debt raising abilities.
- FPIs remained net sellers withdrawing about Rs 11,000Cr from equity markets.
- Globally, US Fed remained hawkish as inflation continued to remain at elevated levels, potentially ruling out rate cuts even in second half of CY2023.

DEBT

- The 10-year benchmark yield of 7.26% 2032 settled at 7.44 % in Feb'23 vs 7.37% in Jan'23.
- Due to inflation expectations and the overnight rate, the short end of the curve may now be more attractive to investors. Specifically, most of the 1-3-year part of the curve is trading between 7.50-7.75%, with an overnight rate of 6.50%.
- Debt markets experienced an increase in yield across the yield curve, largely due to higher-than-expected CPI/WPI/PPI readings in both the US and India.
- In January 2023, CPI inflation came in at 6.52%, exceeding expectations of 6.00% and surpassing the RBI's tolerance range of 2-6%. Similarly, US CPI was reported at 6.40%, compared to an expectation of 6.20%.

MARKET OUTLOOK

EQUITY

Indian markets have remained subdued for consecutive months now, triggered by the Hindenburg report, which has hampered the overall market sentiment. In our view, given the exposure of mutual funds to the subject Group, it is more a sentimental impact than any systemic impact on Indian markets.

While, short term uncertainty remains specially in the rising interest rate scenario, we believe the valuations for equities look attractive for medium to long term as growth prospects for the Indian economy continue to look positive.

We remain bullish on Banks as the credit growth continues to be strong. Pharma continues to lag the market, but the valuations continue to remain favourable. Further, with sharp correction being witnessed in mid and small cap space, we believe staggered buying / SIPs in these funds may be an optimal strategy for medium term. However, we need to remain alert to the pressure on inflation in India on account of insufficient or delayed rainfall.

DEBT

The recent release of meeting minutes by the Monetary Policy Committee (MPC) indicates that the committee is worried about rising inflation and four out of six members voted in favor of a 25 basis point hike in interest rates at the next policy meeting. However, two external members disagreed and wanted a pause to see the impact of recent monetary policy tightening and to evaluate the risk of weaker growth outlook.

On February 24th, the US released two data points, Personal Spending data and PCE data, which suggest a strong surge in inflation. This is seen as negative news for the bond market as it becomes difficult to predict future rate cuts or pauses. As a result, US bond yields have surged and are currently hovering around 3.94%.

The market is closely watching factors such as the movement of the rupee against the USD, crude oil prices, UST yields, CPI prints, and system liquidity, all of which can influence interest rates. In the medium term, the persisting apprehension regarding the all-season demand for bonds is likely to exert a considerable influence on bond yields.

Short-term investors should consider investing in ultra-short-term funds, low-duration funds, and short-term AAA fixed deposits. Those with a longer investment horizon may consider target maturity funds. Our preferred view is to remain at the extremely short end to capture interest rate rises in the future.

06 Mar 2023

Market Update

Nifty	17711
Sensex	60224
10Y G-Sec	7.41%
USD INR	81.74
Gold	55878 (Rs/10gm)
Brent	86.18 (\$/bbl)
Repo Rate	6.50%
Reverse Repo	3.35%

Product Recommendations

Equity

Nippon India Pharma Fund
Kotak Emerging Equity Fund
ICICI Pru Technology Fund
Mirae Asset Large Cap
ICICI Pru Banking & Financial Services Fund

Debt

ICICI Pru Equity Savings Fund
DSP Nifty SDL Plus G-Sec Jun 2028 30:70 Index Fund
IDFC Gilt 2027 Index Fund
Kotak Nifty SDL Apr 2027 Top 12 Equal Weight Index Fund
HDFC Ltd Fixed Deposit
Bajaj Finance Fixed Deposit

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