Investor Insights & Outlook

AUGUST 2023

06 Sep 2023

Market Update

Nifty	19611
Sensex	65880
10Y G-Sec	7.21%
USD INR	83.26
Gold	60000 (Rs/10gm)
Brent	90.60 ($/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
- ICICI Pru Balanced Advantage Fund

Debt

- ICICI Pru Equity Savings Fund
- ICICI Pru Corporate Bond Fund
- Bandhan Dynamic Bond Fund
- Kotak Dynamic Bond Fund
- HDFC Ltd Fixed Deposit
- Bajaj Finance Fixed Deposit

Contact

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KEY HIGHLIGHTS & MARKET DEVELOPMENTS

EQUITY

- In August, market volatility increased, and broader indices corrected 1.5% to 2.5% mainly on account of profit booking by institutions and FIIs.
- Despite volatility, mid and small cap stocks witnessed continued momentum followed by pharma and IT sector.
- After persistent buying for five consecutive months, the FIIs turned net sellers in the Indian equities last month.

DEBT

- On August 31, 2023, the 10-year benchmark 7.26% GS 2033 bond settled at 7.16% from 7.17% on July 31, 2023, with intermittent volatility observed throughout the month.
- India's Consumer Price Index (CPI) inflation accelerated to 7.44% in July 2023, breaching the RBI's upper tolerance band of 6%.
- The Indian government collected Rs 6.53 lakh crores in gross direct taxes in the ongoing fiscal year, up 15.7% year-on-year as of August 10, 2023.
- Rising retail inflation in July and August, driven by surging vegetable prices, led the Monetary Policy Committee (MPC) to stress the importance of monitoring the situation, considering the risk of El Nino and uneven rainfall.
- The government is committed to maintaining the fiscal deficit target of 5.9% of GDP, supported by robust tax and non-tax collections, to meet spending requirements and compensate for any shortfalls in disinvestment proceeds, according to the Finance Secretary.
- India's economic growth likely accelerated to 7.7% in the April-June quarter, marking the fastest annual pace in a year, driven by robust service sector growth, strong demand, and increased government capital expenditure.

MARKET OUTLOOK

EQUITY

After a streak of robust FII inflows, the Indian markets took a breather last month as the flows remained subdued. Investor confidence increased as a result of positive GDP growth data and higher-than-anticipated domestic manufacturing PMI data, but overall gains were constrained by the country's widening monsoon deficit and persistent FII selling.

There has been a rally in the mid-cap and small-cap stocks on the back of healthy buying by domestic HNIs and foreign portfolio investors (FPIs), strong earnings growth in quality companies and improving economic conditions. We believe that it is prudent to book partial gains on every rise and allocations can be made to select large-cap companies that offer value.

Given the upside potential backed by strong earnings growth outlook and the improving structural drivers, we believe that Indian equities remain preferred over other Asian peers and that the risk-reward trade-off looks attractive. However, the near-term volatility cannot be ruled out.

In this context, we continue to believe that investors should remain well diversified with a focus on quality.

DEBT

In line with consensus expectations, the RBI maintained a status quo on policy rates. The G-sec yield remained range-bound during the month, with volatility influenced primarily by global news flows. It began with expectations of hawkish global central banks and concerns over food inflation due to erratic rains and El Nino worries. While a sharp rise in vegetable prices did result in higher-than-expected inflation, concerns about China's growth, lower-than-expected global inflation numbers, and expectations of global central banks approaching peak rates helped bring domestic yields down.

Our assessment suggests that India is operating in a positive growth environment with moderate inflation. Currently, the yield curve is relatively flat, offering modest carry on the longer end. Looking ahead, the RBI is likely to adopt a balanced approach towards headline inflation and core inflation, which indicates a prolonged period of pause. We anticipate the RBI will remain in a neutral stance regarding rate decisions.

For investors, we recommend focusing on the 1-year to 3-year duration range to minimize duration volatility and better manage risk. More aggressive investors may consider allocating a larger portion of their portfolio to dynamic duration funds.