Investor Insights & Outlook

JULY 2022

02 August 2022

Market Update

Nifty	17345
Sensex	58136
10Y G-Sec	7.19%
USD INR	78.60
Gold	51254 (Rs/10gm)
Brent	99.70 ($/bbl)
Repo Rate	4.90%
Reverse Repo	3.35%

Product Recommendations

Equity

ICICI Pru Value Discovery Fund
ICICI Pru Banking & Financial Services Fund
Kotak Emerging Equity Fund
Mirae Asset Large Cap
Kotak Infrastructure and Economic Reform Fund

Debt

ICICI Pru Equity Savings Fund
Axis Crisil SDL 2027 Debt Index Fund
IDFC Gilt 2027 Index Fund
IDFC Dynamic Bond Fund
HDFC Ltd Fixed Deposit

Contact

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KEY HIGHLIGHTS & MARKET DEVELOPMENTS

EQUITY

- After consecutive months of selling by FIIs, they finally turned net buyers of Indian equities in the month of July on the back of reversal of dollar strength and a less hawkish commentary on inflation and interest rates.
- The frontline indices – Nifty & Sensex too rose about 9% each for the month. Bank Nifty outperformed with 12% rise and the broader markets too witnessed strong buying from June lows. Global markets turned around as well.
- Domestically, Indian economy continued to be on strong footing as visible from the buoyant GST collections. Fiscal deficit numbers for the quarter Apr-June too came below market estimates, indicating the inherent strength of Indian economy. Oil too softened on the possibility of global recession.

DEBT

- European Central Bank (ECB) surprised markets by increasing its benchmark rate up by 50 basis points, which was higher than the expectations of 25 basis points.
- Federal Reserve officials raised interest rates by 75 basis points for the second straight month as the Inflation in US has surged to its highest in over 40 years.
- On the domestic monsoon front, cumulative rainfall has been 6% below long-term average.
- Yield of the 10- year benchmark 6.54% 2032 settled at 7.32% in July 22 compared with 7.45% in June 22.
- Commodity price pressures have eased in recent weeks owing to recessionary fears and expectations of tighter monetary policy by Fed.

MARKET OUTLOOK

EQUITY

As they say, all good things come to an end, well so do bad things. July marked the end (or at least a pause) of the relentless selling by FIIs in the Indian equity markets. This coupled with domestic institutional and retail buying meant that Indian markets rose considerably from the June lows.

Despite some rises from the bottom, we remain positive on markets from medium to long term perspective, Whilst, global inflationary pressures and geopolitical tensions may bring in volatility in the short run, we believe that India is well poised to outperform most global economies, which are reeling under the pressure of recession.

Our top sectorial pick continues to be Banks & NBFCs, Auto (& auto ancillaries), Capital goods and Manufacturing. After the recent correction, Pharma also looks attractive for entry in a staggered manner.

DEBT

We expect India's rate hike cycle to be relatively less aggressive vis-à-vis the Fed, given the uneven domestic economic recovery, and higher inflation tolerance levels. However, the current Inflation trajectory calls for another hike in the repo rate in August policy despite inflation having peaked in India to ensure that inflation stays within the RBI's target range of 2-6%. A hike may also be necessary to protect the INR so that the interest rate differential is narrowed. Further, we believe that while inflation may have peaked, its moderation is likely to be gradual. During the month, bonds largely traded with a negative bias due to a surge in US-Treasury yields. However, the market witnessed a softening in yields due to a sharp decline in US-Treasury yields after a rate hike of 50 bps by ECB for the first time in 11 years. Additionally, softening in crude oil prices also supported market sentiments.

Going forward, the movement of rupee against the dollar, crude oil prices and movement of US treasury yields will be closely tracked. Further, the upcoming RBI policy meet scheduled in first week of August will dictate the trend in the near term.

We recommend investors looking for accruals to consider Gilt Index Funds with medium duration (3-4 years); however, investors with a slightly higher risk appetite could consider investing in Dynamic Duration Debt fund as they offer higher risk-reward.