Investor Insights & Outlook

SEPTEMBER 2022

07 Oct 2022

Market Update

Nifty	17315
Sensex	58191
10Y G-Sec	7.46%
USD INR	82.40
Gold	51838 (Rs/10gm)
Brent	98.45 ($/bbl)
Repo Rate	5.90%
Reverse Repo	3.35%

Product Recommendations

Equity

ICICI Pru Banking & Financial Services Fund
Kotak Emerging Equity Fund
ICICI Pru Technology Fund
Mirae Asset Large Cap
ICICI Pru Pharma Healthcare & Diagnostics (PHD) Fund

Debt

ICICI Pru Equity Savings Fund
Axis Crisil SDL 2027 Debt Index Fund
IDFC Gilt 2027 Index Fund
Kotak Nifty SDL Apr 2027 Top 12 Equal Weight Index Fund
HDFC Ltd Fixed Deposit

Contact

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KEY HIGHLIGHTS & MARKET DEVELOPMENTS

EQUITY

- September was a month of two halves for equity markets – bullish first half on back of good GDP data & FII buying and a very weak second half on back of higher than anticipated inflation numbers and hawkish tone of US Fed
- Nifty corrected about 3.5% for the month, while Bank Nifty underperformed and fell ~5%; similar negative trend was also seen in mid and small cap space
- Despite the correction, Indian equities fared better than most global peers
- RBI hiked the repo rate by 0.5%, in-line with the market expectations

DEBT

- Yield of the 10- year benchmark 6.54% 2032 settled at 7.39% in Sep 22 vis-à-vis 7.18% in Aug 22
- The RBI policy was along expected lines in terms of action with the MPC (monetary policy committee) delivering a 50bps hike, taking the repo rate to 5.90%
- RBI lowered its real GDP growth projection to 7.0% from 7.2% for FY2022-23 on back of geopolitical tensions and tightening global financial conditions
- Inflation projection was retained at 6.7% for FY 2022-23 basis the assumption that crude oil prices will lower from USD 104 per barrel to USD 100 per barrel in H2: FY 2022-23
- RBI continues to prioritise the withdrawal of accommodation to ensure that the medium-term inflation rate remains within a range of +/-2% of the target rate of 4% while sustaining growth
- RBI also pointed at the resilience of the domestic economic activity in the context of a challenging global environment

MARKET OUTLOOK

EQUITY

Going by most estimates, the Indian economy is expected to outperform most other economies in the next few years owing to a strong domestic demand, China+1 and Europe+1 manufacturing opportunities. Consequently, the overall trend for Indian equities remains positive for next few years, even as geopolitical factors (such as Russia-Ukraine conflict) and macro indicators (inflation, rate hikes etc.) may result in volatility in intermittent periods.

Therefore, in our view, buy on dips strategy is optimum for current scenario, wherein any significant dips can be bought for medium to long term investment horizon. Sector - wise, we continue to like Pharma and IT. The valuations for most pharma names are attractive and the risk reward seems favourable. On other hand, while IT may continue to face headwinds in short term, but the price correction virtually limits significant downside from current levels. Domestic consumption, banking & manufacturing remain other long term bullish trends.

DEBT

The bond markets were volatile, but closed near pre-policy levels of around 7.40%. The G-sec yield curve remained relatively flat, which continues to make the 3-to-5-year portion of the yield curve appear appealing. The Rupee’s volatility and a delay in the inclusion of bonds in indices may diminish the good FPI trend of the past two months. Despite weakening global growth, the RBI appeared optimistic about the growth numbers as it increased growth projections for the upcoming quarters as the outlook for aggregate demand is positive, with rural demand catching up and urban demand expected to strengthen further during the typical second half of the year upturn.

We continue to favour staggered investments in GILT/SDL with medium term as yields rise, both from an initial accrual standpoint and a possible capital gains perspective.