Investor Insights & Outlook

APRIL 2023

03 May 2023

Market Update

Nifty	18090
Sensex	61193
10Y G-Sec	7.01%
USD INR	81.86
Gold	61790 (Rs/10gm)
Brent	72.91 ($/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
ICICI Pru Corporate Bond Fund
Bandhan Dynamic Bond Fund
Bandhan Gilt 2027 Index Fund
Kotak Nifty SDL Apr 2027 Top 12 Equal Weight Index Fund
HDFC Ltd Fixed Deposit
Bajaj Finance Fixed Deposit

Contact

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KEY HIGHLIGHTS & MARKET DEVELOPMENTS

EQUITY

- Indian equity markets started the new financial year on a very strong footing.
- Frontline indices Nifty & Sensex rose about 4% each; Bank Nifty and Mid & Small cap index outperformed the broader markets.
- FIIs net invested about 5,711 Crores in equities in April, while DIIs invested about 2,216 Crores.
- Indian economy continued to show growth as GST collections witnessed record collections in April'23.
- Global markets also showed resilience as inflationary pressures started to ease.
- US Fed meeting scheduled in first week of May remains a key immediate trigger for markets.

DEBT

- In April 2023, the 10-year benchmark yield corrected by 21 bps, settling at 7.11% compared to 7.32% in March 2023, after the Reserve Bank of India (RBI) delivered a much-awaited pause and kept the repo rate at 6.5%, against the street expectation of a 25-bps hike.
- The growth estimate for FY24 remained at 6.5%, while inflation was projected at 5.2%, showing no significant deviation from the February estimates.
- The RBI has proactively emphasized sound financial conditions in India, with light and clean balance sheets and prudent regulations.
- During the presser, Governor Das clarified that it was a pause, not a pivot. However, he also mentioned that the Weighted Average Call Rate (WACR) had moved from 3.32% in Mar'22 to 6.52% in Mar'23, resulting in an effective rate hike of 320 bps. This quantum of rate hike requires a pause to evaluate its impact on the economy.

MARKET OUTLOOK

EQUITY

Indian equity markets rose in April after a volatile March caused by a global banking crisis. While the frontline indices showed strong traction on the back of FII buying, the broader markets witnessed even higher optimism. The annual year results for most large corporates showed strong earnings momentum (except IT which continued to reel under some pressure), as the inflationary pressures started to ease off, resulting in higher margins.

We believe that we are nearing the end of interest rate hike cycle. As a result, we expect some positive inflows to emerging equity markets including India, which augers well for equity market returns in the short to medium term. Sector wise, we continue to like IT and Pharma as valuations continue to look attractive. Post the strong run, we believe the Banks may witness some profit booking, while we expect some catchup in mid and small caps as these have underperformed the large caps over the last year and the risk-reward seems favourable from the current levels

DEBT

In April 2023, the Reserve Bank of India (RBI) announced a much-awaited pause, deciding to keep the repo rate at 6.5%, instead of hiking it by 25-bps as expected by the street. The RBI's stance remains "focus on withdrawal of accommodation." By staying non-committal, the RBI has left room for any new surprises that may arise in the future, which has not been uncommon this year.

The global debt markets, specifically, have experienced a sharp turn in the last few days, following the recent failures of Silicon Valley Bank (SVB) and Signature Bank in the US, which have raised fears of contagion risk spreading across the financial sector.

For the past two years, debt markets in India and globally have been under pressure, as central bankers hike interest rates to combat record high inflation. However, as we approach the end of the rate hike cycle and yields are up significantly, during this hike cycle the RBI has raised repo rates by 250 bps since May 2022 until February 2023 from 4.0% to 6.5%.

Recently, the global central bankers, particularly the US Federal Reserve, continued with their hawkish stance.

On the domestic front, the repo rate of 6.5% offers real rates of 1.20%, which falls within the RBI's target range of 1%-2%, with the CPI for FY 23-24 projected at 5.3%. Additionally, the fall in commodity prices, particularly crude oil prices, has improved the inflation outlook. As a result, the market participants believe that the RBI will maintain the status quo on the benchmark Repo rate in its upcoming policy meeting and the foreseeable future. The terminal repo rate is expected to remain at the current rate of 6.5% in the near term.

We recommend that investors consider taking advantage of lumpsum investment opportunities. Both accrual funds and duration funds offer investment opportunities. 2023 could be the year of the comeback for debt markets in India as well as globally. Aggressive investors may consider allocating a higher amount to dynamic mutual funds or long duration funds, while conservative and moderate investors may invest by allocating a higher amount in medium-term funds/corporate bond funds.