Investor Insights & Outlook

JUNE 2023

04 July 2023

Market Update

Nifty	19389
Sensex	65479
10Y G-Sec	7.11%
USD INR	82.52
Gold	59220 (Rs/10gm)
Brent	75.64 ($/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
Kotak Dynamic Bond Fund
HDFC Ltd Fixed Deposit
Bajaj Finance Fixed Deposit

Contact

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KEY HIGHLIGHTS & MARKET DEVELOPMENTS

EQUITY

- Indian equity markets scaled record highs in June; Nifty and Sensex gained about 3.5% each for the month.
- Rally was much broad based as mid and small caps outperformed the frontline indices.
- FII continued to buy equities and deployed 27,000Cr+ during the month (aided by multiple bulk deals).
- Global markets also showed strength as inflation pressures continued to ease; however, US Fed continued to give mixed signals w.r.t future rate hikes.

DEBT

- The 10-year benchmark 7.26% GS 2033 bond settled at 7.11% on May 31, 2023, compared to 6.99% on May 23.
- In its second policy for FY 23-24, the Monetary Policy Committee (MPC) of the RBI decided to maintain the policy repo rate under the liquidity adjustment facility (LAF) at 6.50%.
- The RBI revised its forecast for CPI inflation for FY 23-24 to 5.1%, down from the estimate of 5.2% stated in the April 2023 policy. CPI inflation decreased to 4.7% in April 2023, the lowest reading since November 2021, as mentioned in the RBI minutes.
- The Bank of England's Monetary Policy Committee (MPC) voted 7-2 to raise its main interest rate from 4.5% to 5%, the highest level since 2008. This rate increase is the largest since February 2023.
- Fitch Ratings has raised its growth forecast for the Indian economy for the current fiscal year to 6.3% from the previous estimate of 6%. This revision is based on robust growth in the first quarter and strong momentum expected in the near term.
- The World Bank has maintained its April forecasts, projecting India's growth at 6.3% for FY23-24, which is expected to increase to 6.4% in FY24-25. For FY 25-26, the World Bank has projected a growth rate of 6.5%.

MARKET OUTLOOK

EQUITY

Given the strong run up, our view has turned cautious on equity markets. While we remain positive from a medium to long term perspective, we believe that the markets may see some short-term weakness as the global macros (US Fed decision w.r.t interest rates, inflation, and Ukraine-Russia conflict) continue to remain an overhang. Further, we expect an increased uncertainty in the later part of the year as we build up to the impending Indian General Elections. There is a strong case to book profits on every rise.

Sector wise, our positive view on IT has started to yield results as many of the stocks in the sector have shown strong performance in the last few months. Several healthcare/pharma names have also shown strength in the recent rally. We continue to maintain our positive view on these sectors, while we expect some profit booking in Banks. In addition, consumption companies which have seen sharp correction from the highs offer favourable risk reward from these levels on a selective basis.

DEBT

In June 2023, bonds remained stable in the first half of the month. However, they strengthened due to external factors, such as comments made by Federal Reserve Chair Jerome Powell. Powell stated that policymakers anticipate the need for higher interest rates to curb US growth and control inflationary pressures, despite keeping rates unchanged at their recent meeting. The Federal Open Market Committee took a break from their series of interest rate hikes, marking the first pause in 15 months, leaving rates within the range of 5% to 5.25%.

The yield on the 10-year Treasury bond may continue to face pressure from external factors and the risks associated with the El Niño effect, which could potentially impact inflation in the upcoming months. The India Meteorological Department (IMD) has mentioned that India's stalled monsoon is likely to gain momentum in the next few weeks.

At present, robust demand and moderated raw material costs are assisting the regulator, giving the Reserve Bank of India leeway to maintain higher borrowing costs until inflation is firmly under control. We believe that the RBI will continue to observe an extended pause on rates, considering the decline in inflation. However, the impact of weather on food prices remains uncertain.

Furthermore, we anticipate that interest rates have reached a plateau and are expected to fluctuate within a range in the near future. In this context, active duration management proves useful.

Aggressive investors may consider allocating a higher amount to dynamic mutual funds or long duration funds. Conservative and moderate investors, on the other hand, may opt for medium-term funds or corporate bond funds, adjusting their investment allocations accordingly.