Investor Insights & Outlook

DECEMBER 2022

04 Jan 2023

Market Update

Nifty	18043
Sensex	60657
10Y G-Sec	7.32%
USD INR	82.75
Gold	55750 (Rs/10gm)
Brent	77.84 ($/bbl)
Repo Rate	6.25%
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 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
Bajaj Finance Fixed Deposit

Contact

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KEY HIGHLIGHTS & MARKET DEVELOPMENTS

EQUITY

- Despite some recovery in the last week, Indian markets traded with weakness during December.
- Frontline indices Nifty and Sensex corrected about 3.5% for the month.
- Domestic economic activity remained strong as evident from buoyant GST collections (which rose 15% YoY).
- Globally, China pivoted from its earlier stance of 'No Covid' policy and decided to open up the economy, resulting in sharp recovery in global commodities specially metals.
- US Fed continued to maintain its hawkish stance; Consequently US markets continued to face selling pressure and heightened volatility.
- Geopolitical situation remained delicate.

DEBT

- The 10-year benchmark yield of 7.26% 2032 settled at 7.31% in November 22 versus 7.28% in November'22.
- The year 2022 proved to be particularly difficult to forecast macro-events. In contrast to what the markets expected at the start of 2022, central bankers were forced to raise interest rates much more quickly than they had planned.
- Forecasting 2023 is expected to be similarly difficult on many fronts due to difficulties caused by shifting geopolitical dynamics, policy flexibility, a decreasing money supply, and commodity price movement.
- When it comes to post-covid management in India, our government has excelled despite the limitations of a developing market economy.

MARKET OUTLOOK

EQUITY

After months of strong outperformance, Indian markets showed first signs of correction during December. The downturn was sharp and quick, though some recovery was seen in the last week. On a calendar basis, India remained flat and stable despite a global meltdown in equities.

We continue to believe that markets will continue to trade with volatility dictated by global factors such as US Fed policy, Russia-Ukraine conflict and China's recovery. While the domestic economic activity continues to be strong and is expected to outperform amid a global recessionary environment, the markets may not remain isolated from such weak global scenario in the short term. However, we believe that any significant dips may be used to buy for medium to long term basis as the growth outlook for the economy remains strong. IT and Pharma remain our top picks for medium term, while domestic focused sectors such as financials, manufacturing, capital goods, and infrastructure are also attractive from a growth standpoint.

DEBT

Inflation has been the buzzword for 2022, as global inflation has reached multi-year highs, supported by both demand and supply-side factors. In the developed world, inflation has been much more out of line with its long-term trend than in emerging markets. Some of the inflationary risks are shifting right now. Supply-side constraints on goods inflation appear to be easing. Commodity prices have fallen, China is opening, and freight costs have dropped. Central bankers are likely to take a breather sooner than markets anticipate, but sufficient conditions for policy easing are unlikely in 2023.

Given this backdrop, we anticipate benchmark G-Sec to remain in the 7.20–7.60% range for 2023, as we approach the end of the rate cycle. Inflation has been trending around 6.50% for the entire year and is now expected to be within the 4%–6% range.

In terms of risks, commodity prices remain the most significant threat to inflation forecasts. Ultra-short-term funds, low-duration funds, and short-term AAA fixed deposits should be considered by short-term investors. Investors with a longer investment horizon may consider allocations in target maturity funds.