Investor Insights & Outlook

SEPTEMBER 2023

04 Oct 2023

Market Update

Nifty	19436
Sensex	65828
10Y G-Sec	7.23%
USD INR	83.25
Gold	57530 (Rs/10gm)
Brent	85.81 ($/bbl)
Repo Rate	6.50%
Reverse Repo	3.35%

Product Recommendations

Equity

Nippon India Pharma Fund
Kotak Emerging Equity Fund
Parag Parikh Flexi Cap Fund
Mirae Asset Large Cap
ICICI Pru Banking & Financial Services Fund
ICICI Pru Balanced Advantage 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

- September was a tale of two halves for equity markets – first half saw frontline Indices – Nifty & Sensex reaching record highs, while the second half saw a quick reversal from the highs; overall the indices ended about 2% higher for the month.
- Mid & small caps continued the positive momentum with heightened volatility towards the end of the month.
- FIIs continued to pull out money from markets for a second consecutive month with net outflow of about Rs 27,000Cr; however, the negative impact was somewhat mitigated by DII purchases.
- US Fed continued to maintain its hawkish stance, resulting in weakness in global markets.

DEBT

- On September 30, 2023, the 10-year benchmark 7.26% GS 2033 bond settled at 7.21%, up from 7.16% at the beginning of the month, amidst intermittent volatility.
- This increase in yield was driven by a surge in US Treasury yields following the Federal Reserve's hawkish rate guidance, exacerbated by continuous gains in global oil prices.
- Bond prices faced additional downward pressure as the government maintained its borrowing target for the second half of the fiscal year.
- Notably, the government introduced 50-year bonds for the first time to meet the demand for longer-duration securities.
- Earlier in the month, yields temporarily declined following JPMorgan's announcement that India would be included in its influential GBI EM index suite starting in June 2024.
- Furthermore, India remained on the watch list for potential inclusion in the FTSE Emerging Markets Government Bond Index, reflecting its growing significance in the global bond market.

MARKET OUTLOOK

EQUITY

Despite a strong positive start to the month, Indian equity markets ended the month on lacklustre note as global factors – inflation and hawkish commentary of the US Fed - resulted in continued selling by FIIs as the DXY continued to rise. However, the affect was not isolated to India but EMs as a whole. In addition, weak economic data from China and Europe also suggests a global slowdown, which hampered the market sentiment further.

Whilst we remain cautious at elevated market levels, we believe that there are still opportunities in certain pockets such as large banks, where the secular growth story is intact and the valuations are below/inline with long term averages. Further, we believe that Pharma and Chemicals (after recent fall) are at reasonable valuations for accumulation for medium to long term but cautious on mid-caps. Any further deep corrections should be used to accumulate well run businesses.

DEBT

In September 2023, the Indian debt markets experienced notable fluctuations, marked by intermittent volatility driven by various external factors. A significant influence was the surge in US Treasury yields following the Federal Reserve's hawkish stance, coupled with persistent gains in global oil prices, which pushed bond yields upward.

The Government's decision to maintain its borrowing target for the second half of the fiscal year had a direct impact, causing bond prices to decline. The Ministry of Finance reaffirmed its commitment to a market borrowing plan of Rs 6.55 lakh crore in the second half of fiscal 2024, introducing sovereign green bonds worth Rs 20,000 crore and pioneering 50-year bonds to meet demand for longer-duration securities.

In earlier developments, yields temporarily declined when JPMorgan announced India's inclusion in its influential GBI EM index suite from June 2024. Additionally, India remained on the watch list for potential inclusion in the FTSE Russell Emerging Markets Government Bond Index, signifying its growing importance in the global bond market.

Looking forward, the Reserve Bank of India (RBI) was expected to adopt a cautious approach, likely refraining from adjusting interest rates and instead using liquidity tools to manage market dynamics. This strategy allows time for the impact of previous rate hikes to permeate the financial system.

Global economic trends and central bank policies remained crucial factors affecting India's debt market landscape. For investors, we recommend focusing on the 1-year to 3-year duration range to minimize volatility and risk. More aggressive investors may consider allocating a larger portion of their portfolio to dynamic duration funds to seize potential opportunities.