TATA CAPITAL WEALTH

Market Outlook – July 2022

Macro Economic Update

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Inflation:

Consumer Price Index (CPI): Retail inflation based on CPI eased to 7.04% in May from an eight-year high the preceding month, on the back of the base effect and cheaper food prices. It was still the fifth straight month of headline retail inflation being above the RBI upper tolerance level.

Wholesale price index (WPI): WPI surged to a record high of 15.88% in May as crude prices rose and heatwave brought about a spike in prices of vegetables and fruits, strengthening the possibility of a further interest rate hike by the RBI. The WPI remained in double digits for the 14th consecutive month since April last year.

Deficit:

Fiscal Deficit: The fiscal deficit at the end of May stood at 12.3% of the annual budget target for FY23, mainly due to higher expenditure, as against 8.2% of the Budget Estimate (RE) of FY22 during the corresponding period. The country's fiscal deficit is projected at 6.4% of the GDP for this fiscal as against 6.7% for the previous year.

Trade Deficit: India's trade deficit swelled to a record $25.63 billion in June driven by imports of petroleum, coal and gold, and slow exports, raising concerns about a further slide in the rupee and a bigger current account deficit (CAD). India's merchandise exports in June rose 16.8% to $37.9 bn, while imports rose at a faster 51.0% to $63.58 bn.

IIP, Core Sector and PMI:

Index of Industrial Production (IIP) & Core Sector: Inidi's industrial growth, as per the IIP, stood at an eight-month high in April at 7.10% helped by a low base, pointing to a gradual and continuing recovery. Growth in the output of 8 core infrastructure sectors which make up 40.3% of IIP scaled a 13-month peak of 18.1% in May.

Manufacturing & Services PMI: India Manufacturing Purchasing Managers' Index (PMI) fell to 53.9 in June from 54.6 in May, the weakest pace of growth since last September amid price pressure. However, India's services activity touched an eleven-year high of 59.2 in June.

Inflation and Industrial Production Trajectory

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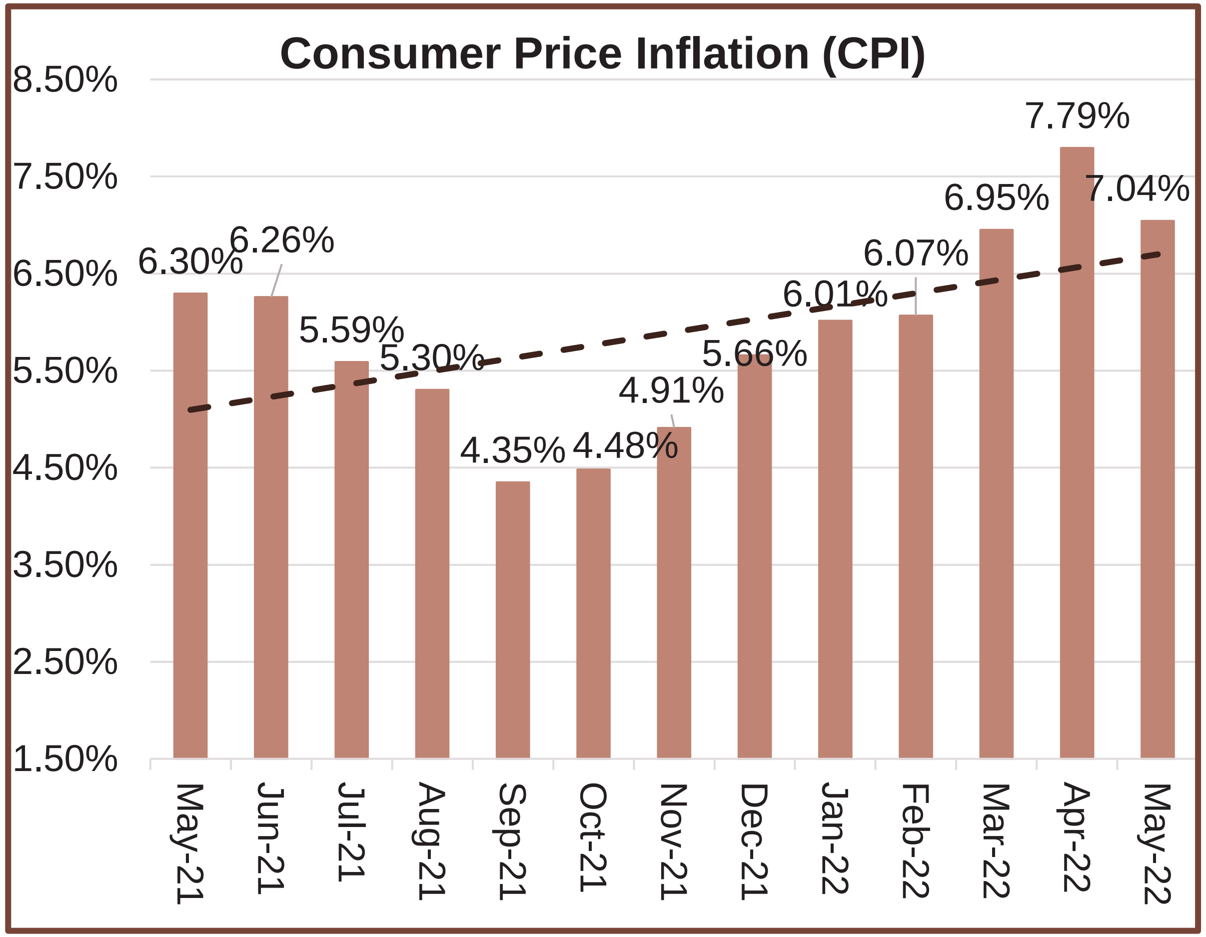
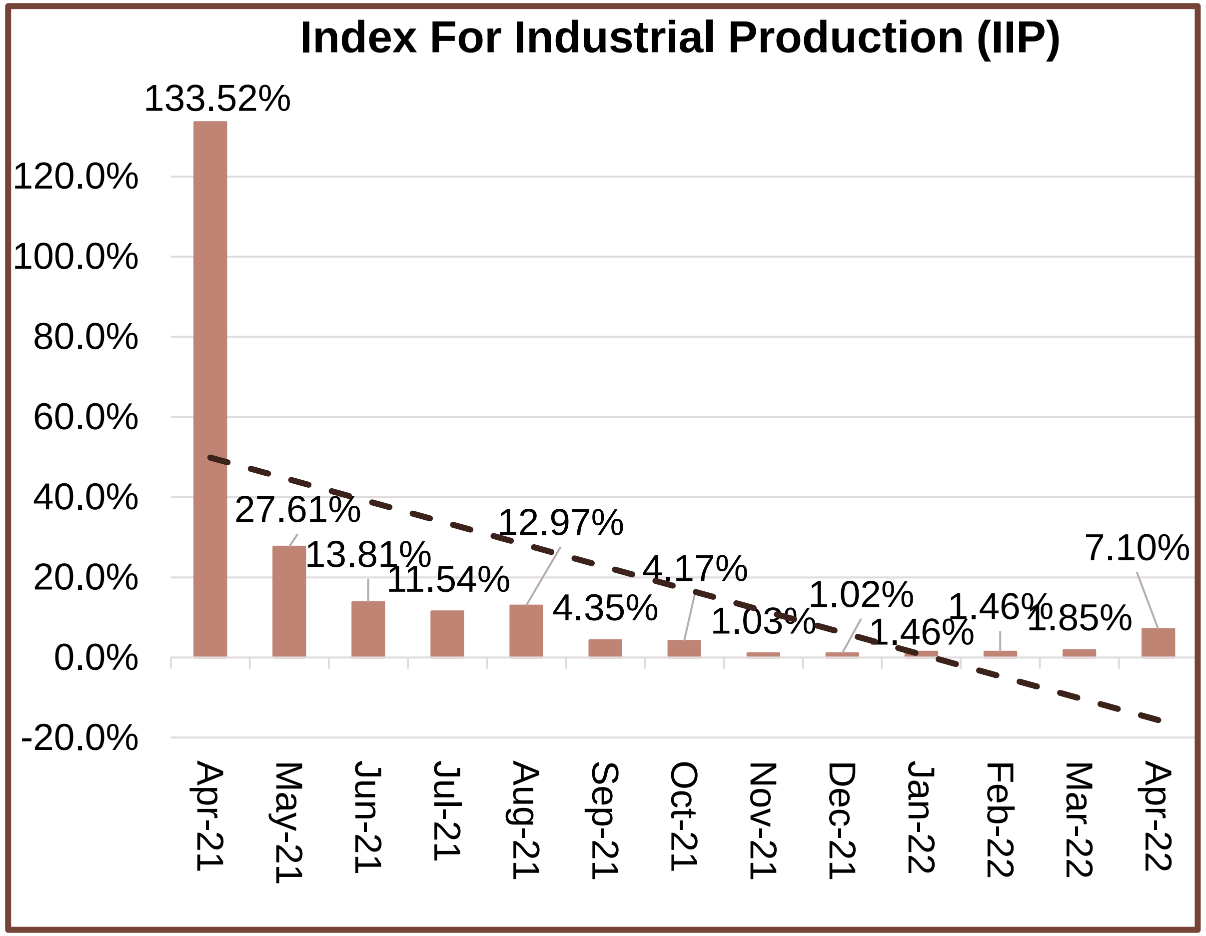
After being below the RBI upper tolerance level for July to December 2021; January to May 2022 witnessed inflation inching above the same.

Industrial Production accelerated in April ’22 to an eight month high on favourable base.





Source: DBIE, RBI

Macro Indicators

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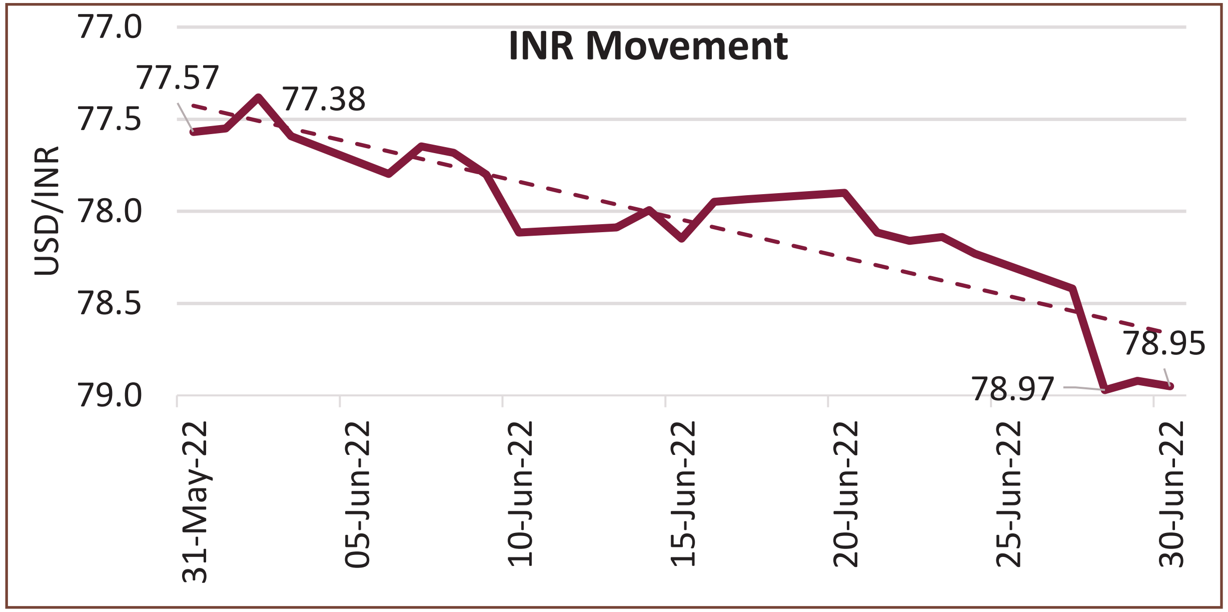
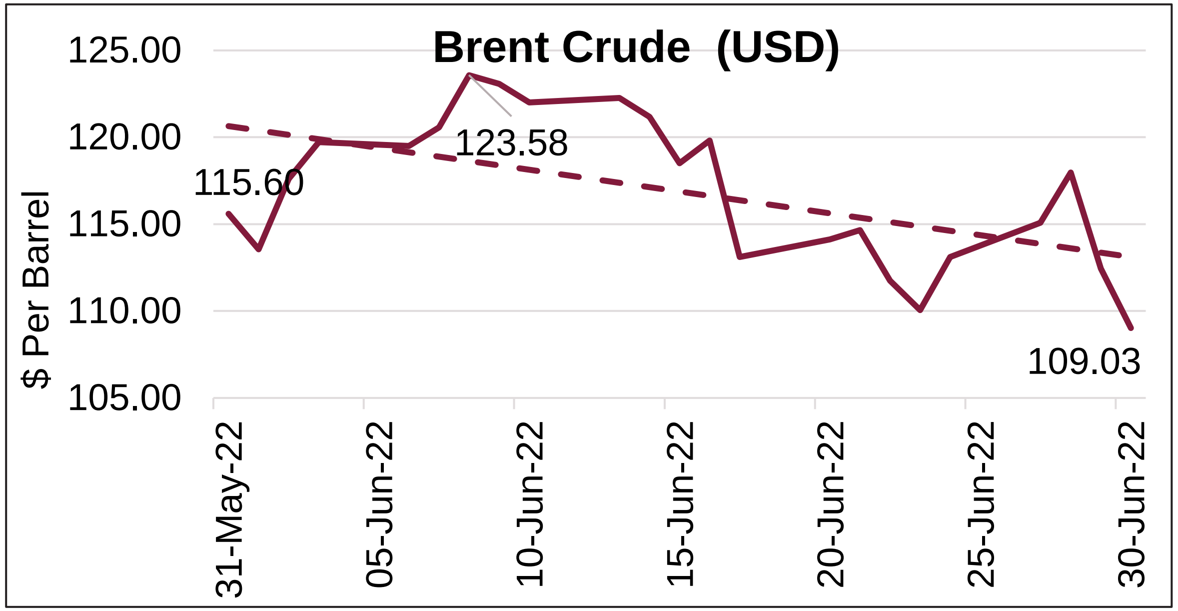
	Current	Month Ago	Quarter Ago	Year Ago
Economic Indicator				
Consumer Price Index (CPI)	7.04% (May-22) ↑	7.79% (Apr-22)	6.07% (Feb-22)	6.30% (Mat-21)
Wholesale Price Index (WPI)	15.88% (May-22) ↑	15.08% (Apr-22)	13.43% (Feb-22)	13.11% (May-21)
Industrial Production (IIP)	7.10% (Apr-22) ↑	1.85% (Mar-22)	1.46% (Jan-22)	133.52% (Apr-21)
GDP	4.1% (Mar-22) ↓	NA	5.4% (Dec-21)	2.5% (Mar-21)
Trade Deficit ($ bn)	25.64 (Jun-22) ↑	24.28 (May-22)	18.52 (Mar-22)	10.50 (Jun-21)
Commodity Market				
Brent Crude ($/barrel)	109.03 (30-Jun-22) ↑	115.60 (31-May-22)	107.91 (31-Mar-22)	75.13 (30-Jun-21)
Gold ($/oz)	1,807.30 (30-Jun-22) ↓	1,848.40 (31-May-22)	1,959.50 (31-Mar-22)	1,782.50 (30-Jun-21)
Silver ($/oz)	20.35 (30-Jun-22) ↓	21.78 (31-May-22)	25.29 (31-Mar-22)	26.40 (30-Jun-21)
Currency Market				
USD/INR	78.95 (30-Jun-22) ↑	77.57 (31-May-22)	75.90 (31-Mar-22)	74.37 (30-Jun-21)

Source: Currency & Commodity – Investing.com, Economic Indicators – DBIE, RBI & News Articles

↓↑ signifies positive movement over Q-o-Q ↓↑ signifies negative movement over Q-o-Q

INR and Brent Crude Performance





INR Performance: The **rupee fell by about 138 paise during the month of June 2022** to close lower at 78.95 up from 77.57 in May 2022 after touch a high of 77.38 in the beginning of the month to touching an **all-time low at the end of the month at 78.97**. The Indian rupee fell amid **weaker regional peers** and following **losses in the domestic equity market** as more **central banks raised interest rates** to control rising **inflation** from the fallout of the Russia - Ukraine conflict, raising the **fears of recession**. Further the **volatility in global crude oil prices** dampened market sentiments.

Brent Crude: Brent crude oil prices gyrated during the month of June 2022 as it rose to $123.58/barrel in the beginning of the month to **close at $109.03/barrel down by ~5.7%**. Initially during the month Brent Crude prices rose amid concerns over **potential supply disruption in Europe and Africa** and on expectation of rising demand as **China eases COVID restrictions**. However, later during the month prices fell as interest rate hikes from major central banks fueled worries about a **sharp economic slowdown**, which is likely to affect the demand outlook of the commodity. Nonetheless, concerns over tight supply due to **supply outages in Libya and political unrest in Ecuador** restricted the fall.

Source: Investing.com

Equity Market - Review

Equity Market Roundup - Key Takeaways

Performance: Markets **continued to be volatile during the month** as the Sensex touched a **low of ~50,921 level** mid month from a **high of ~56,433 level** in the beginning of the month and then to **close at ~53,019 level down by 4.6% for the month of June**.

Domestic factors that played out for the Indian markets:

- The early onset of **monsoon** in the country contributed to the upside. However, the **MPC** played a spoil sport as it increased the repo rate and focused on withdrawal of accommodation.
- **Domestic bourses mirrored weak global cues** initially as concerns for aggressive interest rate hike by Federal Reserve.
- **World Bank** reduced India's **economic growth** forecast for the current fiscal to 7.5% as rising inflation, supply chain disruptions and geopolitical tensions to taper recovery.

Global factors that shaped the graph of the Indian markets:

- At the beginning of the month sentiments were boosted by **hopes for less aggressive rate hike** by the U.S. Fed and ease in **COVID 19 cases in China**.
- Investor sentiments were dented on concerns of higher-than-expected **U.S. inflation and accelerated Eurozone inflation** data.
- **Global crude oil prices** came down on concerns that aggressive monetary policy tightening by the central banks across the globe which may push the world economy into **recession**.

Market witnessed **unceasing selling through FII**, however **high purchases by DII** supported the markets.

Outlook: Indian equities have witnessed fall in valuations across board, and slightly more in mid and small cap segment. Macroeconomic concerns of rising inflation, rising interest rates, fear of growth slowdown and pressure on corporate profit margins and the record selling from FPIs have been major cause of this deep correction. Investors are suggested not to time the reversal in any of the recent unfavourable dynamics and focus on the medium to long term potential of the equity markets. The important drivers for equity market will continue to be **earning growth of corporates,** global liquidity conditions and central banks actions. **We believe, market may remain volatile for the next few months, investors need to be cautious and invest in staggered manner and follow the prescribed asset allocation.**

Equity Dashboard – June 2022

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Index	Closing Value	1-Mth Return (%)	YTD Return (%)	1 Yr. Return (%)	Current Value - Trailing		
					P/E	P/B	Dividend Yield
S&P BSE Sensex	53,019	-4.58	-8.99	1.02	21.62	3.07	1.32
Nifty 50	15,780	-4.85	-9.07	0.37	19.50	4.03	1.41
Nifty 100	15,929	-5.00	-9.59	-0.19	19.54	4.05	1.51
Nifty 200	8,291	-5.20	-10.06	-0.42	19.67	3.88	1.49
Nifty 500	13,388	-5.18	-10.73	-0.64	20.05	3.85	1.44
Nifty Midcap 100	26,453	-6.49	-13.11	-1.92	20.57	3.04	1.34
Nifty Smallcap 100	8,445	-8.29	-25.19	-13.24	18.64	3.05	1.15

Data as on 30 June '22; Source: NSE and BSE

Markets **continued to be volatile during the month** as the Sensex touched a **low of ~50,921 level** mid month from a **high of ~56,433 level** in the beginning of the month and then to **close at ~53,019 level down by 4.6% for the month of June**. The movement of the market were governed by the following factors:

- Domestic Factors – The early onset of **monsoon** in the country also contributed to the upside. However, the **MPC** played a spoil sport as it increased the repo rate and focused on withdrawal of accommodation.
- **World Bank** reduced India's **economic growth** forecast for the current fiscal to 7.5% as rising inflation, supply chain disruptions and geopolitical tensions taper recovery.
- Global cues – At the beginning of the month sentiments were boosted by hopes for less **aggressive rate hike** by the U.S. Fed and ease in **COVID 19 cases in China**. Later, markets lost some sheen after accelerated **Eurozone inflation** data, higher-than-expected **U.S. inflation** data, along with fresh COVID lockdown restriction in China.
- **Global crude oil prices** came down on concerns that aggressive monetary policy tightening by the central banks across the globe which may push the world economy into **recession**.

Market witnessed **unceasing selling through FII**, however **high purchases by DII** supported the markets.

Index*	1-Mth Return (%)	YTD Return (%)	1 Yr. Return (%)
Auto	1.19	7.86	12.61
Energy	-2.34	6.36	18.33
FMCG	-2.83	-0.13	1.84
Oil & Gas	-3.14	2.94	11.41
Power	-3.77	16.81	47.60
Health Care	-3.83	-17.55	-15.57
Capital Goods	-4.12	-9.48	13.41
Telecom	-4.30	-13.72	14.19
PSU	-5.54	-1.58	3.04
Bankex	-5.94	-4.78	-2.22
IT	-6.03	-25.19	-6.05
Realty	-6.41	-20.12	11.95
Consumer Durables	-8.68	-22.49	-2.46
Metal	-14.08	-19.19	-16.68

*S&P BSE Sectoral Indices . Source: BSE

Equity Flow (Rs. Cr.)	1-Mth	YTD	1 Yr.
FII	-58,112	-283,405	-409,221
DII	46,599	230,994	328,494

Source: Moneycontrol

International Equity Market Performance

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2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022* (%)
U.S.-S&P 500 0.00	Germany 29.06	Japan 56.72	China 52.87	Gemany 9.56	U.K. 14.43	Hong Kong 35.99	India 3.15	U.S.-Nasdaq 35.23	U.S.-Nasdaq 43.64	France 28.85	U.K. -2.92
U.S.-Nasdaq -1.80	India 27.70	U.S.-Nasdaq 38.32	India 31.39	China 9.41	U.S.-S&P 500 9.54	India 28.65	U.S.-Nasdaq -3.88	U.S.-S&P 500 28.88	South Korea 30.75	U.S.- S&P 500 26.89	Hong Kong -6.57
U.K. -5.55	Japan 22.94	U.S.-S&P 500 29.60	U.S.-Nasdaq 13.40	Japan 9.07	U.S.-Nasdaq 7.50	U.S.-Nasdaq 28.24	U.S.-S&P 500 -6.24	France 26.37	U.S.-S&P 500 16.26	India 24.1	China -6.63
South Korea -10.98	Hong Kong 22.90	Germany 25.48	U.S.-S&P 500 11.39	France 8.53	Germany 6.87	South Korea 21.76	France -10.95	Germany 25.48	Japan 16.01	U.S.-Nasdaq 21.39	Japan -8.33
Germany -14.69	U.S.-Nasdaq 15.91	France 17.99	Japan 7.12	U.S.-Nasdaq 5.73	France 4.86	U.S.-S&P 500 19.42	Japan -12.08	China 22.30	India 14.90	Germany 15.79	India -9.07
France -16.95	France 15.23	U.K. 14.43	Germany 2.65	South Korea 2.39	South Korea 3.32	Japan 19.10	U.K. -12.48	Japan 18.20	China 13.87	U.K. 14.30	France -17.20
Japan -17.34	U.S.-S&P 500 13.41	India 6.76	Hong Kong 1.28	U.S.-S&P 500 -0.73	India 3.01	Germany 12.51	Hong Kong -13.61	U.K. 12.10	Germany 3.55	Japan 4.91	Germany -19.52
Hong Kong -19.97	South Korea 9.38	Hong Kong 2.87	France -0.54	India -4.06	Japan 0.42	France 9.26	South Korea -17.28	India 12.02	Hong Kong -3.40	China 4.80	U.S.- S&P 500 -20.58
China -21.68	U.K. 5.84	South Korea 0.72	U.K. -2.71	U.K. -4.93	Hong Kong 0.39	U.K. 7.63	Germany -18.26	Hong Kong 9.07	France -7.14	South Korea 3.63	South Korea -21.66
India -24.62	China 3.17	China -6.75	South Korea -4.76	Hong Kong -7.16	China -12.31	China 6.56	China -24.59	South Korea 7.67	U.K. -14.34	Hong Kong -14.08	U.S.-Nasdaq -29.51

Index used for each of the Equity Markets: China – SSE Composite, France – CAC, Germany - DAX, Hon Kong – Hang Seng, India Nifty 50, U.K. – FTSE 100, South Korea - Kospi

** Performance as on 30 June 2022. Source: Morning Star Direct*

Asset Class Performance

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2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022* (%)
Small Cap 113.92	Gold 23.17	Gold 31.82	Mid Cap 43.99	Intl 30.44	Small Cap 69.57	Small Cap 10.2	G-Sec 14.24	Small Cap 57.47	G-Sec 8.00	Intl 28.89	Gold 27.88	Small Cap 61.94	Gold 11.79
Mid Cap 110.55	Mid Cap 18.50	Bonds 6.92	Small Cap 37.94	Large Cap 6.76	Mid Cap 60.26	Bonds 8.63	Bonds 12.91	Mid Cap 54.53	Gold 7.87	Gold 23.79	Small Cap 25.02	Mid Cap 46.81	Bonds -3.04
Large Cap 75.76	Large Cap 17.95	G-Sec 5.29	Large Cap 27.53	Bonds 3.79	Large Cap 31.39	Mid Cap 8.41	Gold 11.35	Large Cap 28.74	Bonds 5.91	Large Cap 12.00	Mid Cap 24.13	Intl 24.76	G-Sec -4.45
Intl 25.47	Samll Cap 16.25	Intl -0.51	Intl 13.84	G-Sec 2.65	G-Sec 15.28	G-Sec 8.17	Intl 9.7	Intl 19.4	Large Cap 3.13	G-Sec 11.34	Intl 18.81	Large Cap 24.12	Large Cap -18.29
Gold 24.25	Intl 13.87	Large Cap -24.68	Gold 12.27	Mid Cap -3.01	Bonds 14.31	Intl -1.09	Mid Cap 5.41	Gold 5.12	Intl -6.55	Bonds 10.72	Large Cap 14.86	Bonds 3.44	Mid Cap -26.22
Bonds 3.50	G-Sec 5.64	Mid Cap -32.17	G-Sec 11.11	Gold -4.50	Intl 11.07	Large Cap -4.06	Large Cap 3.01	Bonds 4.71	Mid Cap -13.26	Mid Cap -0.28	G-Sec 13.20	G-Sec 3.13	Small Cap -35.89
G-Sec -6.93	Bonds 4.96	Small Cap -36.11	Bonds 9.34	Small Cap -8.14	Gold -7.91	Gold -6.65	Small Cap 0.36	G-Sec 3.52	Small Cap -26.68	Small Cap -8.27	Bonds 12.25	Gold -4.21	Intl -43.44

Index used for each of the Asset Class: Gold: Domestic Prices of Gold, Intl: Russell 1000 Index, G-Sec: ICRA Composite Gilt Index, Bonds: CRISIL Composite Bond Fund Index, Large Cap: Nifty 50, Mid Cap: Nifty Midcap 150, Small Cap: Nifty Small Cap 250

Performance as on 30 June 2022. Source: ICRA Analytics (http://www.icraanalytics.com/legal/standard-disclaimer.html)

a. Large Cap: 1st -100th company in terms of full market capitalization
b. Mid Cap: 101st -250th company in terms of full market capitalization
c. Small Cap: 251st company onwards in terms of full market capitalization

Category Average Performances – June 2022

- **During the month** under consideration all the categories were in the red with the all the categories falling between 4-5%. Among the sectoral funds too none of the sectors were in the green, while the Financial and Technology were deep in the red FMCG dipped by ~2%. For **the trailing 3 months** most of the Categories & Sectors were in the red and similarly for **trailing 6 months** the situation was not much different.

- **For the full year** most of the categories were in the red with the exception of Contra, Small Cap, Dividend Yield, Multicap and Midcap where low single digit returns were seen. Among the sector based and thematic funds FMCG was the best performing sector followed by Infrastructure and Consumption.

- **On a 3-year CAGR** basis most of the categories delivered early double digit returns with the Mid Cap & Small Cap outperforming the rest. Among the sector and theme-based funds Technology and Healthcare were the top performers.

- **With respect to the 5-year CAGR returns** most the categories have late single digit or early double digit return with the exception of Technology which clocked in gains of ~24%.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	-4.60	-9.08	-10.29	-1.19	21.66	9.95	9.29
Large & Mid Cap	-4.58	-9.75	-11.87	-0.35	27.16	12.96	9.82
Multi Cap	-4.44	-9.88	-11.22	0.96	30.39	14.09	11.59
Flexi Cap	-4.99	-10.46	-12.34	-2.05	24.44	11.77	9.94
Mid Cap	-4.64	-9.46	-12.04	0.00	32.52	16.95	10.87
Small Cap	-4.05	-9.87	-13.08	2.57	44.28	22.38	11.94
Focused	-4.57	-9.49	-11.51	-0.63	23.82	11.49	9.82
ELSS	-4.79	-9.65	-11.41	-1.48	24.47	11.44	9.48
Contra	-4.02	-7.06	-8.11	3.15	31.70	15.43	12.39
Dividend Yield	-4.84	-9.05	-9.79	2.00	28.67	14.70	10.14
Value	-4.84	-9.18	-9.80	-0.20	29.12	11.96	8.64
Sectoral / Thematic							
Consumption	-3.71	-5.41	-6.90	4.53	25.20	14.56	11.10
Infrastructure	-4.67	-7.22	-8.51	4.93	34.85	12.69	8.60
Financial Services	-5.74	-8.88	-8.89	-6.83	21.51	2.97	5.81
FMCG	-1.94	2.09	3.43	13.79	19.61	11.98	10.38
Healthcare	-3.08	-10.29	-16.34	-12.91	16.60	22.44	11.92
Technology	-5.57	-19.54	-24.68	-2.91	41.53	25.77	24.12

Source: Morningstar Direct

Valuations on the Trailing P/E Metrix

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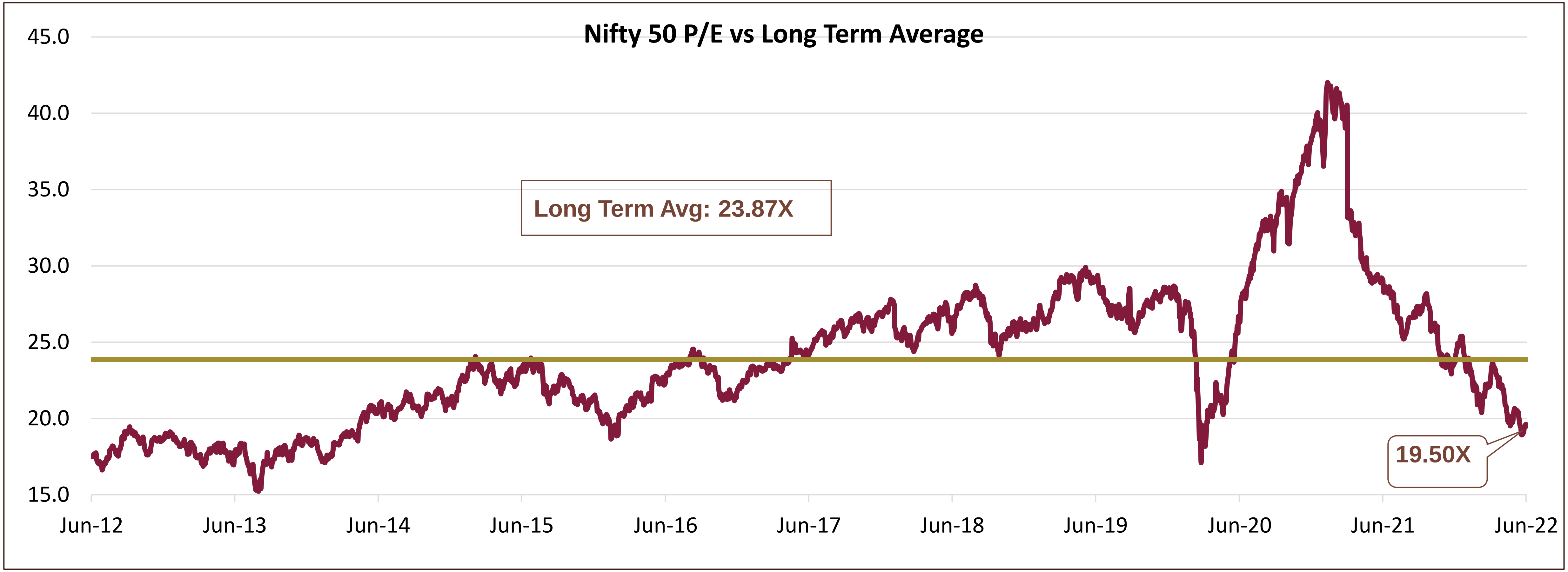
Nifty 12-month trailing P/E of 19.50x is in lower than its historical long-term average of 23.87x



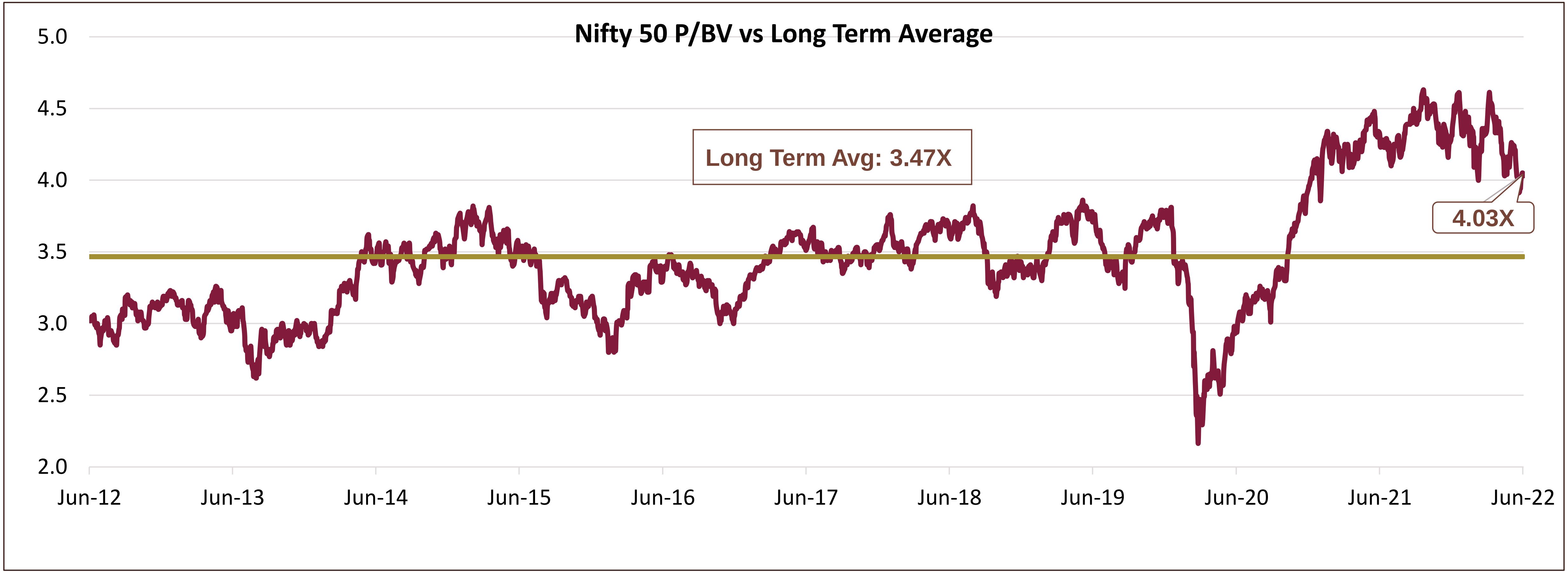
The content does not construe to be any investment, legal or taxation advice.

For Client Circulation.

Source: NSE India

Valuations on the Trailing P/BV Metrix

At 4.03x, the Nifty Trailing P/B is above the historical long-term average of 3.47x.



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For Client Circulation.

Source: NSE India

Valuations on a Trailing Dividend Yield perspective

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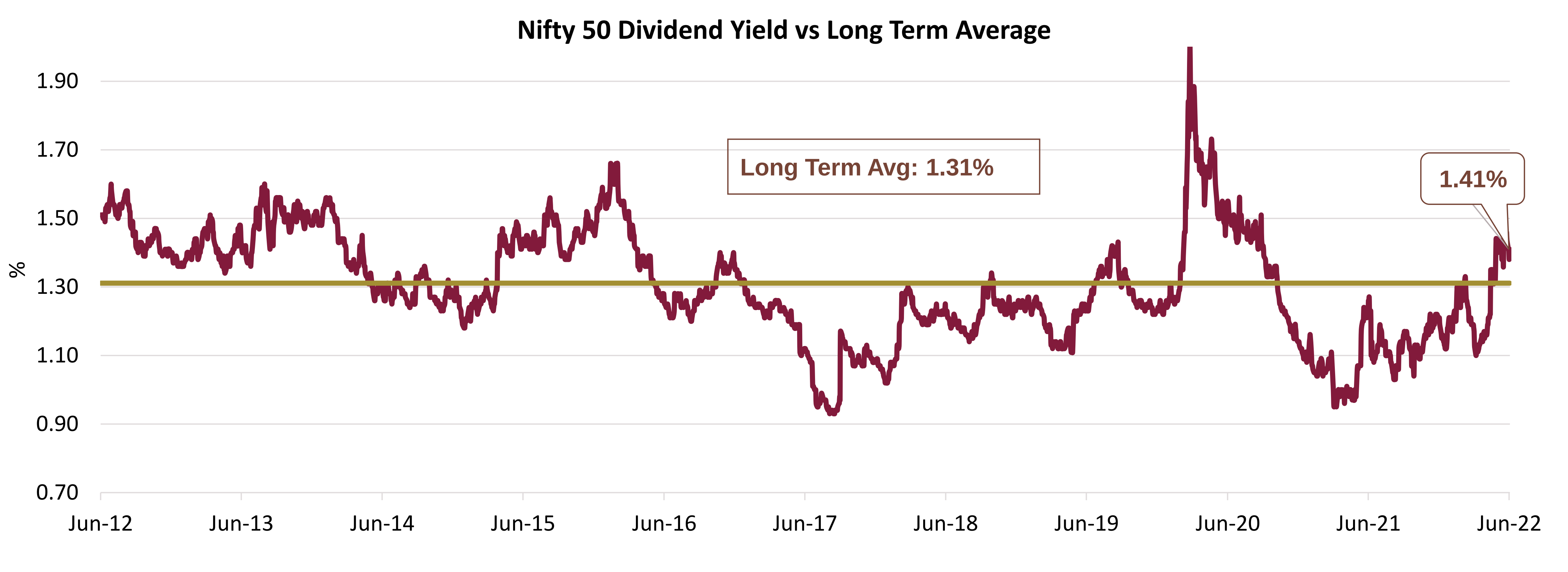
At 1.41%, the Nifty Trailing Dividend Yield is in line with the historical long-term average of 1.31%.



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For Client Circulation.

Source: NSE India

Valuations on a MCap / GDP perspective

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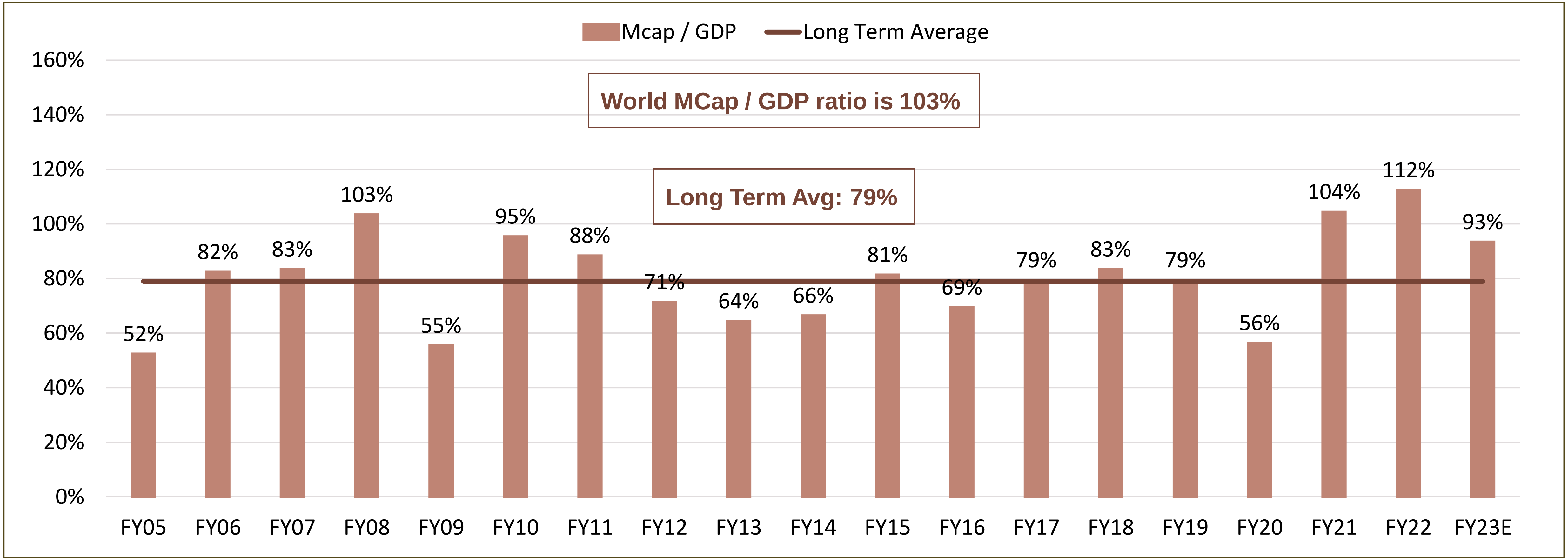
On Market Capitalisation to GDP parameter the market is trading above the historical long-term average but below the global average



Source: Kotak AMC, Monthly Market Outlook, July '22

FII Flow into Equity

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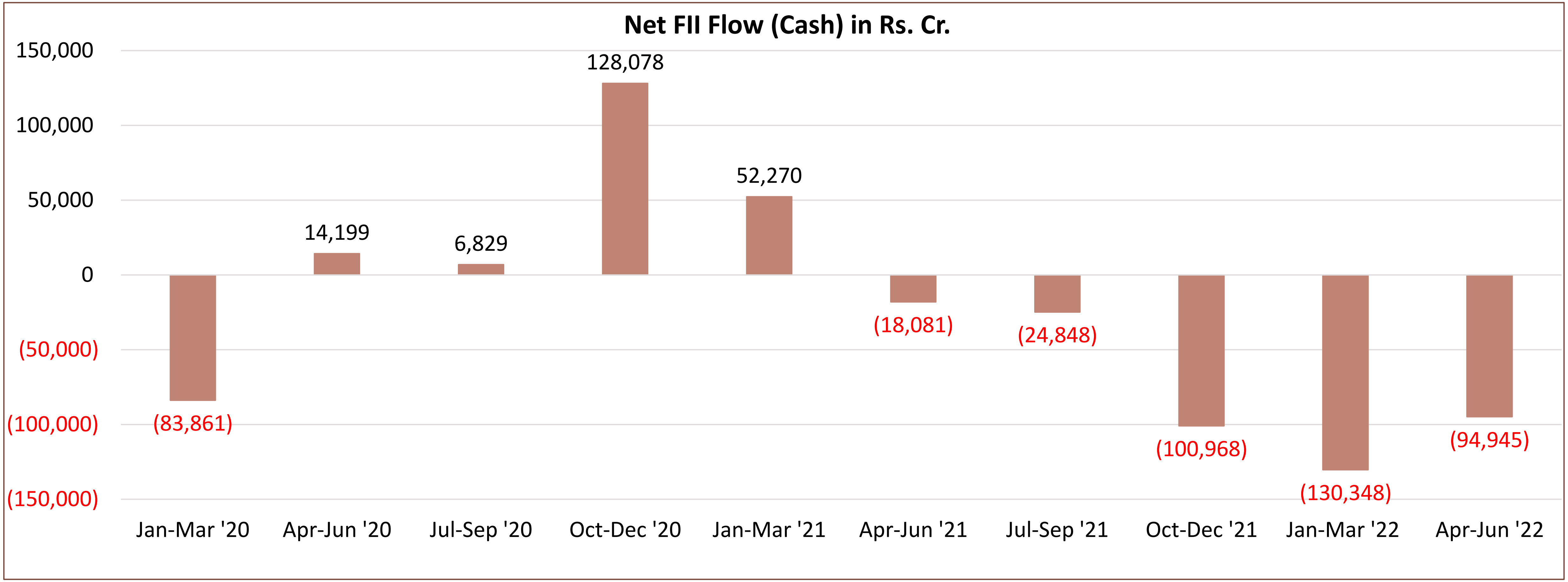
FII registered an outflow to the tune of Rs. 58,112 cr in June '22 for the nineth consecutive month



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For Client Circulation.

* Data upto 30 June 2022

Source: Moneycontrol

DII Flow into Equity

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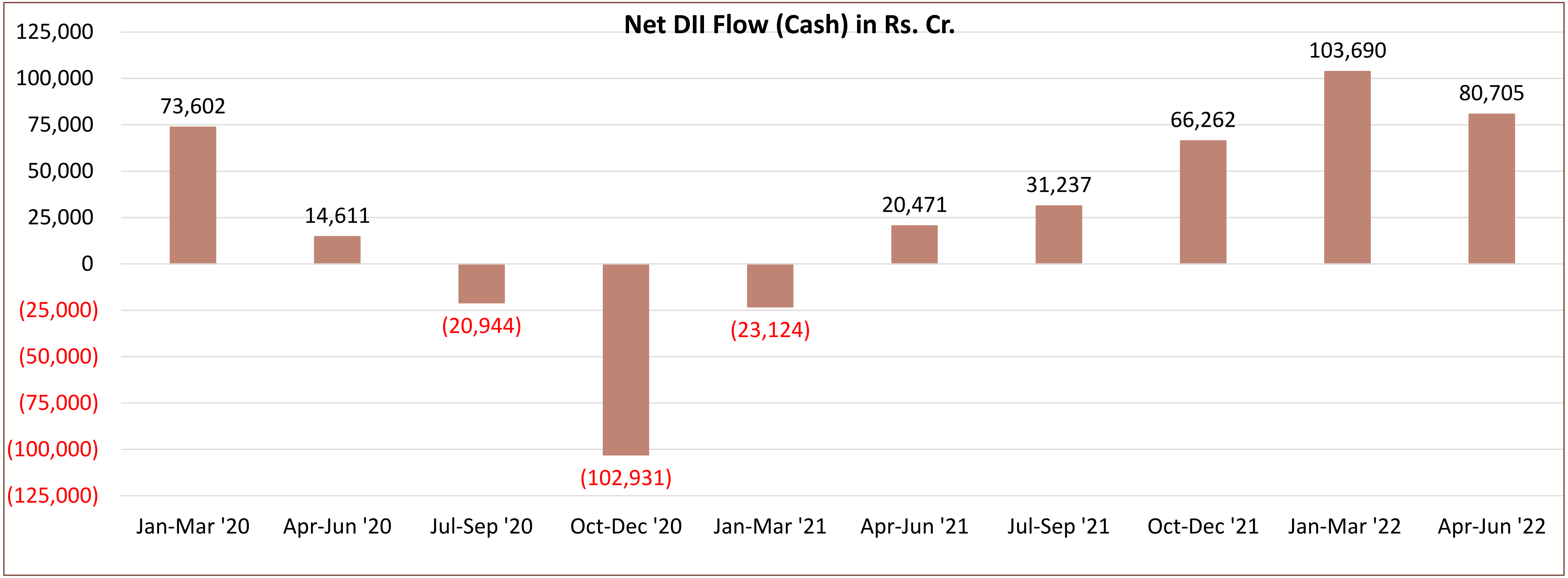
DII were net buyers in the cash market to the tune of Rs. 46,599 cr in June ’22 for the sixteenth consecutive months



Data upto 30 June 2022

Source: Moneycontrol

Debt Market - Review

Debt Market Roundup - Key Takeaways

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- The 10-Year Government Bond yields **gyrated to close the month on flat note at 7.45%** as against 7.42% at the end of May and touched a high of 7.62% mid month on the back on the back of volatility of the **global crude price**, **MPCs move** to increase the repo rate on expected lines and **inflationary pressure** in the economy.
- In the first half of the month bond yields rose during the as rise in **global crude oil prices** fueled worries over rise in domestic inflationary pressures which weighed on the market sentiment. However, losses were restricted as the **RBI increased the repo rate** as per market expectation but **did not announce any other liquidity withdrawal measure** or raising banks' CRR. Further bond yields plunged as global crude oil prices fell easing worries over rising inflation.
- **GST collection stayed above the one-trillion rupees mark** for the 11th consecutive month in May.
- While **May CPI cooled down from the 8 year high in April from 7.79% to 7.04%**; **April IIP growth stood at 7.10%** on favorable base effect.
- **Fed raises interest rates** by 75 bps; largest increase since 1994 and said it would begin **reducing the balance sheet size**.

Outlook:

- The policy was under a **background** of a) The **global geopolitical situation remains fluid** and **commodity markets remain on the edge**, rendering heightened uncertainty to the domestic inflation outlook and b) the perception that the **RBI downplays inflation expectations**. The MPC **unanimously increased the Repo rate** by 50 bps to 4.9%, **projected inflation for FY23 100 bps higher** at 6.7% and **stressed on "withdrawal of accommodation"** to ensure that inflation remains within the target going forward, while supporting growth.
- With the RBI stance of taking out excess liquidity from the system directly through CRR hike and interest rate hike; we continue to maintain our stance of **investing in shorter end of the curve** through mutual fund categories like **Ultra Short Duration Funds / Money Market Funds / Low Duration /Floating Rate Funds**. For **longer term**, we suggest to invest in **Target Maturity Funds** or **Short Term Funds / Banking & PSU Debt Fund / Corporate Bond Funds** with roll down strategy.
- The debt market would be guided by **global central banks actions on interest rates - especially the Fed & RBI and how the growth-inflation dynamic shapes up.**

Debt Dashboard – June 2022

	Latest (30 Jun '22)	One Month Ago (31 May '22)	One Quarter Ago (31 Mar '22)	Half Year Ago (31 Dec '21)	One Year Ago (30 Jun '21)	M-o-M Change (bps)
Interest Rates						
Repo rate	4.90%	4.40%	4.00%	4.00%	4.00%	50
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	5.15%	5.10%	3.78%	3.63%	3.43%	5
6 month	5.98%	5.73%	4.43%	4.13%	3.68%	25
1 Year	6.53%	6.33%	4.78%	4.43%	4.03%	20
T-Bill/G-sec						
91 Days	5.14%	4.88%	3.81%	3.63%	3.38%	26
364 Days	6.28%	5.93%	4.56%	4.22%	3.84%	35
India 10 Year G-Sec Yield	7.45%	7.42%	6.84%	6.45%	6.05%	4
AAA Corp. Bonds (PSU)						
1 Year	6.59%	6.76%	4.98%	4.68%	4.25%	-17
3 Year	7.35%	7.24%	5.90%	5.65%	5.30%	11
5 Year	7.46%	7.48%	6.37%	6.18%	5.91%	-2
AAA Corp. Bonds (NBFC)						
1 Year	6.66%	6.85%	4.96%	4.91%	4.40%	-19
3 Year	7.62%	7.39%	6.12%	5.97%	5.57%	23
5 Year	7.70%	7.69%	6.57%	6.32%	6.10%	1
International Markets						
10 Year US Treasury Yield	3.02%	2.85%	2.35%	1.51%	1.47%	17

Source: IDFC AMC, G Sec – Investing.com

- The **money market instruments witnessed hardening of the yields** as the prices of both the T-Bills and Certificate of Deposits fell significantly.
- The **U.S. Treasury Yields hardened** as the Fed raised interest rates on expected lines. While in **India the RBI** too as anticipated announced a rate hike which led to the **hardening of yields**.
- **Both the AAA Corp. PSU & NBFC** witnessed mixed movement in the yields as liquidity was tightened.
- In the **unscheduled** May the MPC meet the RBI took a rather **hawkish stance** by **increasing the repo rate & CRR** to cut down the inflationary pressure. Further, in **June scheduled MPC meeting** too the interest rates were hiked.

Debt Category Average Performances – June 2022

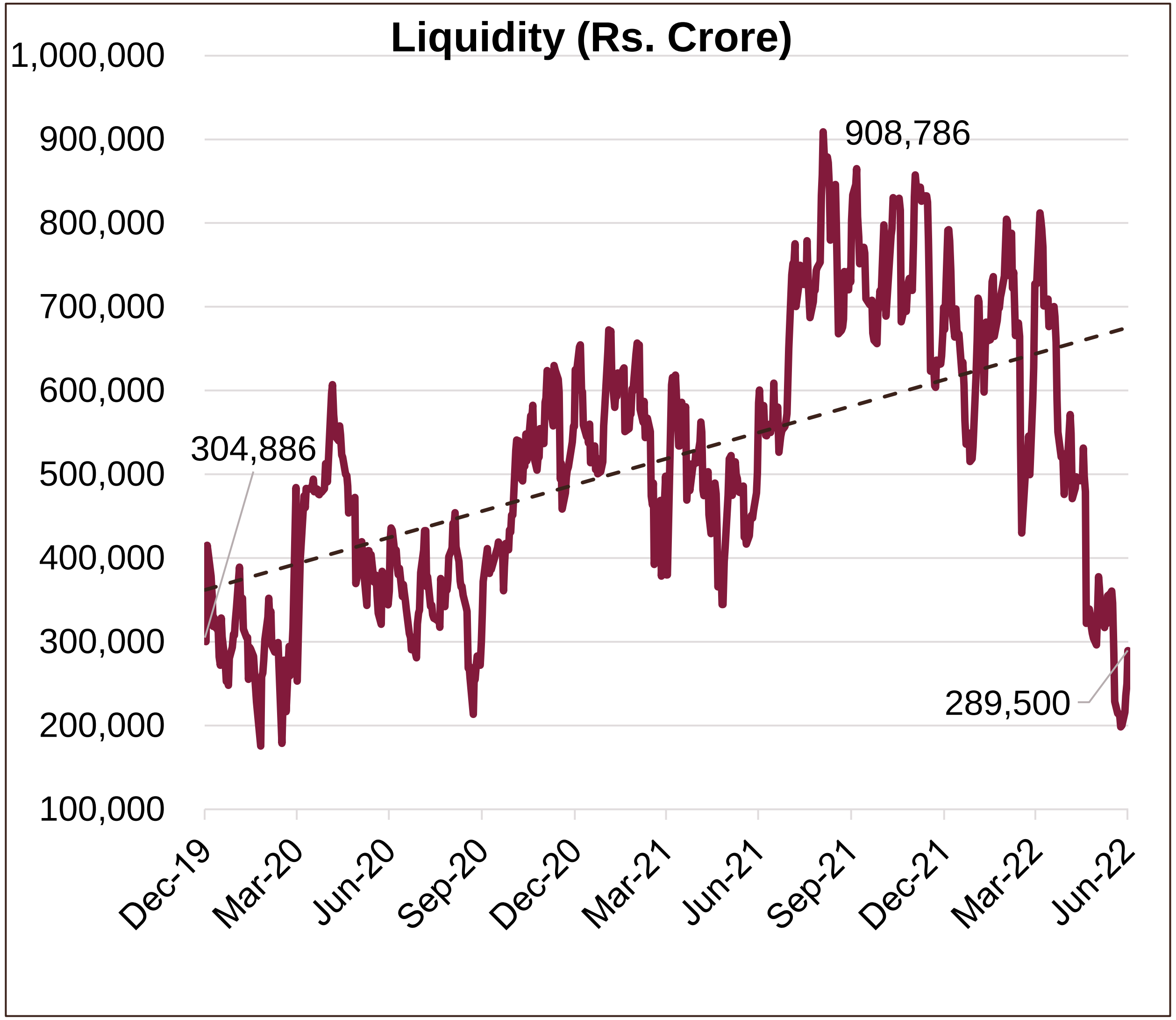
- **During the month** under consideration all the three broad categories were in the green even as RBI raised the repo rate but yields in the shorter end of the curve cooled
- With respect to the **3 months and 6 months trailing returns the duration** categories underperformed the Money Market & Accrual categories on the back of rising yields. Though there were some red shades also seen in the Accrual category too.
- **For the full year largely** all the categories were in the green with our suggested categories such as Ultra Short Duration, Low duration, Floating rate, Money Market, Short Duration, Banking & PSU and Corporate Bond Fund delivered decent returns.
- **On a 2-year CAGR** basis all of the categories delivered an early to mid single digit growth. In addition to some of the Medium Duration & Credit Risk Funds, our recommended categories - the Short Duration, Banking & PSU, Corporate Bond and Floating Rate were one of the best performing categories during this period.
- **With respect to the 3 and 5 year CAGR returns** most the categories reported Mid to late single returns.

Money Market	Absolute Returns (%)				CAGR (%)		
Category	**1 M**	**3 M**	**6 M**	**1 Y**	**2 Y**	**3 Y**	**5 Y**
Overnight	0.36	0.98	1.80	3.40	3.20	3.58	4.45
Liquid	0.35	0.91	1.72	3.28	3.11	3.77	4.89
Ultra Short Duration	0.36	0.66	1.56	3.43	3.56	4.70	5.24
Low Duration	0.29	0.34	1.28	3.25	4.61	5.38	5.20
Money Market	0.38	0.66	1.61	3.35	3.51	4.87	5.74
Accrual	**Absolute Returns (%)**				**CAGR (%)**		
Category	**1 M**	**3 M**	**6 M**	**1 Y**	**2 Y**	**3 Y**	**5 Y**
Short Duration	0.24	-0.47	0.94	3.42	4.46	5.86	5.43
Medium Duration	0.30	-1.50	-0.46	3.21	4.74	4.95	4.54
Banking & PSU Debt Fund	0.23	-0.39	0.42	2.56	3.77	6.34	6.52
Corporate Bond Fund	0.19	-0.78	0.10	2.27	3.85	6.38	6.28
Floating Rate	0.15	0.11	0.98	2.91	4.24	5.87	6.30
Credit Risk	0.17	-0.58	0.91	6.53	6.99	4.84	4.61
Duration	**Absolute Returns (%)**				**CAGR (%)**		
Category	**1 M**	**3 M**	**6 M**	**1 Y**	**2 Y**	**3 Y**	**5 Y**
Medium To Long Duration	0.28	-1.60	-0.95	1.66	2.72	5.13	4.73
Long Duration Fund	0.31	-2.63	-2.40	-0.13	0.47	4.37	5.29
Dynamic	0.26	-0.58	-0.19	2.23	3.27	5.51	5.33
Gilt	0.33	-1.24	-1.08	0.90	2.08	5.43	5.68

Source: Morningstar Direct

Liquidity in the system

The RBI during the 2 pandemic-stricken years provided liquidity to the tune of Rs. 17 lakh crore by announcing various measures such as **system-level liquidity (LTRO), targeted liquidity (TLTRO) and on-tap liquidity window.** However, once there was sufficient liquidity the RBI got legroom for liquidity management and normalization by **the rollback of CRR in a phased manner and** conducting and steadily stepping-up the **variable rate reverse repo (VRRR) auction.** Over time, the idea is to push up the rate at which liquidity is absorbed via these VRRR auctions, which would make it easier for the RBI to eventually raise that benchmark. Hinting that normalisation of liquidity overhang is on the anvil, in the last quarter of 2021 **G-sec Acquisition Programme (G-SAP)** was discontinued. In the April '22 policy meet **Standing Deposit Fecality (SDF) was introduced** and the **Liquidity Adjustment Fecality (LAF) corridor** was narrowed to 50 bps **making the Reverse Repo Rate redundant**. Further in an **off-cycle policy meet in May the RBI increased the CRR by 50 bps to 4.50%** and later in June it stated that "**RBI will ensure availability of adequate liquidity to meet the productive requirements of the economy".**



Source: IDFC AMC

Yields Movement Across - India and U.S.

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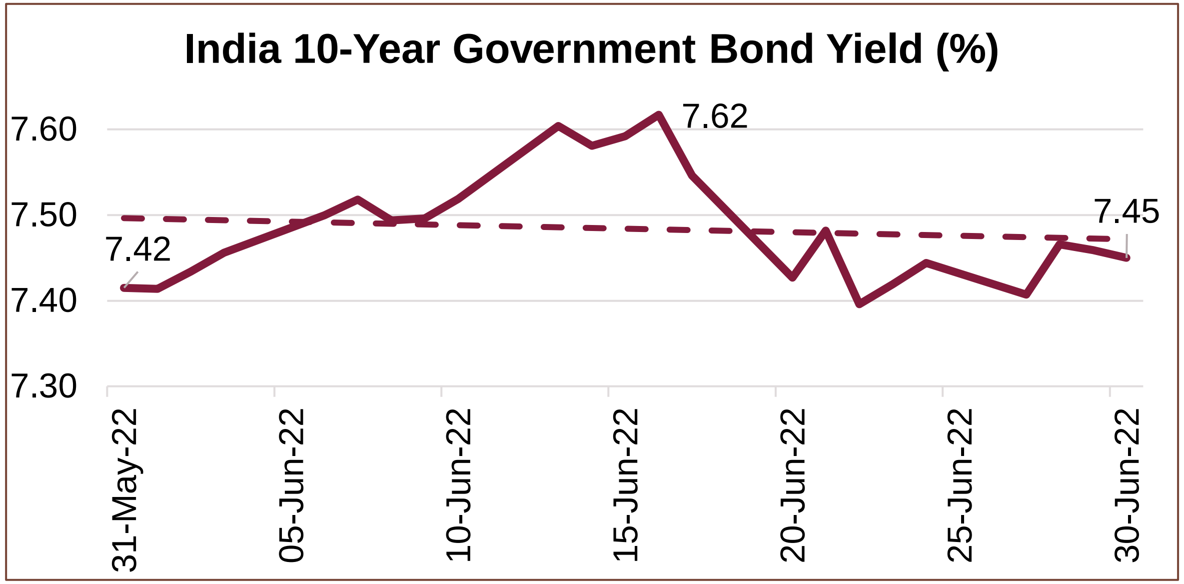

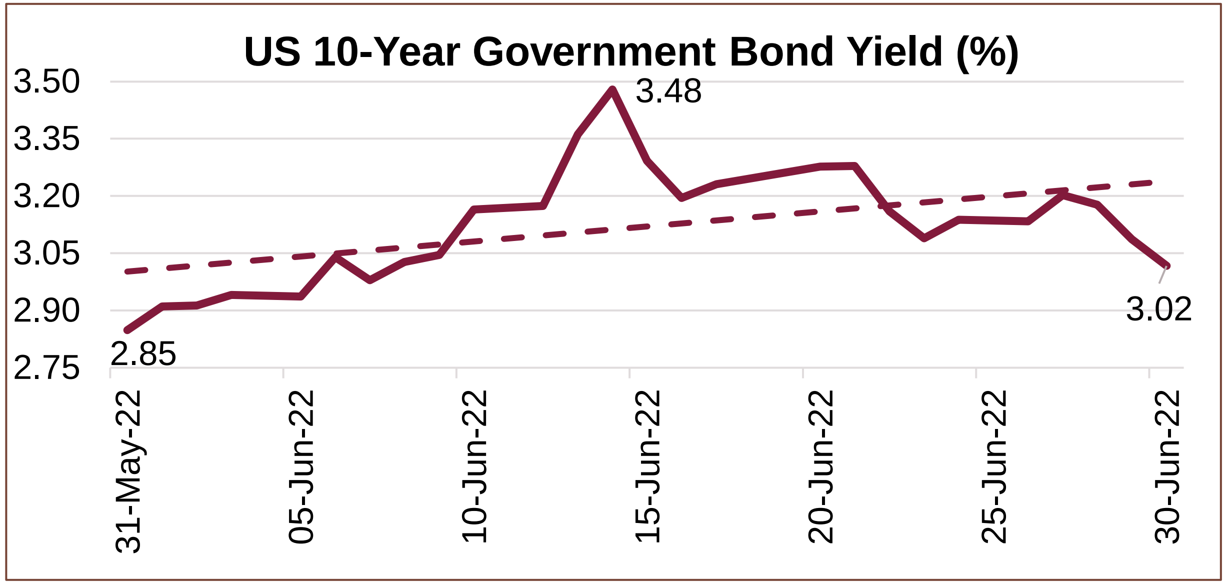

- **10-year India Government Bond Yield:** The India 10-Year Government Bond yields **gyrated to close the month on flat note at 7.45%** as against 7.42% at the end of May and touched a high of 7.62% mid month. In the first half of the month bond yields rose during the as rise in **global crude oil prices** fueled worries over rise in **domestic inflationary pressures** which weighed on the market sentiment. However, losses were restricted as the **RBI** led-Monetary Policy Committee (MPC**) increased the repo rate as per market** expectation but did not announce any other liquidity withdrawal measure or raising banks' cash reserve ratio (CRR). Further bond yields plunged as **global crude oil prices fell** easing worries over rising inflation.

- **U.S. Treasury Yield:** U.S. Treasury yields **closed the month 17 bps higher at 3.02%** after touching a **high of 3.48%** in the mid month. In the beginning of the month U.S. Treasury prices fell further as the **safe-haven appeal of U.S. Treasuries dampened** to some extent following upbeat economic data from U.S. even as the U.S. Federal Reserve remained on track to undertake aggressive tightening this year. U.S. Treasury prices fell further after the **European Central Bank** announced in its monetary policy review that it will **end bond purchases on Jul 1 and then raise interest rates by 25 bps** later that month. In the second half of the month losses were restricted after the **U.S. Fed raised its target interest rate similar to market expectations** that have briskly intensified higher following a **stronger-than-expected inflation** data raising the fears of a recession.

Source: Investing.com

Event Update

Fed raises interest rates by 75 bps; largest increase since 1994

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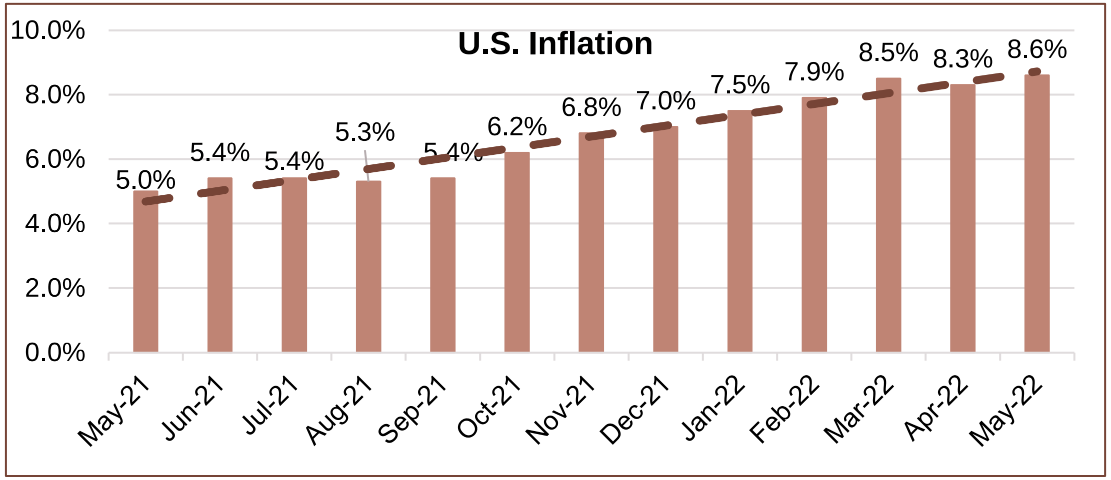
Key Highlights

- **Fed raised interest rates by 75 bps** - to lift their key rate to a target range of 1.50% to 1.75%.
- **New dot-plot projections** showed sharp increase from March projections – 3.4% in 2022, 3.8% in 2023 & 3.4% in 2024.
- FOMC said it **"strongly committed to returning inflation to its 2% objective".**
- **Growth forecast** cut to 1.7% for 2022 & 2023, from 2.8% and 2.2% projected in March.
- It will begin **reducing its balance sheet size** at an initial monthly pace of $47.5 billion a month.

U.S. Inflation touched a 4 decade high of 8.6% in May 2022



To Summarize

Even though in the **last meeting** the Fed chair **ruled out large, aggressive interest rate hikes** as the central bank seeks to contain inflation without triggering an economic recession; however, it did announce the **largest hike in 28 years** and signaled a larger rate increases to come that would **raise the risk of another recession.**

The substantial three quarters of a percentage point hike in its benchmark short-term rate that the Federal Reserve announced on 15 June may not, by itself, have much immediate effect on most Americans' finances. But for the additional large hikes are expected to be announced at the Fed's next couple of meetings, economists and investors foresee the fastest pace of rate increases since 1989.

To Conclude

We believe **market may remain volatile on back of interest rate hike by Fed**, the **Ukraine & Russia conflict**, and its effect on **global inflation**. With further rate hike are on the cards for most of major economies across the world the fear of "stagflation" are at their highest since the onset of the Great Recession in 2008. The investors should follow the desired asset allocation to avoid unfavourable portfolio outcomes in case of any volatility that flows in the Indian markets due to tapering.

 Source: Trading economics

Thank You!

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