

TATA CAPITAL WEALTH

Market Outlook - July 2023



Macro Indicators



	Current		Month Ago	Quarter Ago	Half Year Ago	Year Ago
Economic Indicators:						
PMI Manufacturing	57.8 (Jun-23)	↑	58.7 (May-23)	56.4 (Mar-23)	57.8 (Dec-22)	53.9 (Jun-22)
PMI Services	58.5 (Jun-23)	↑	61.2 (May-23)	57.8 (Mar-23)	58.5 (Dec-22)	59.2 (Jun-22)
Consumer Price Index (CPI)	4.8% (Jun-23)	↓	4.2% (May-23)	5.7% (Mar-23)	5.7% (Dec-22)	7.0% (Jun-22)
Wholesale Price Index (WPI)	-3.5% (May-23)	↓	-0.9% (Apr-23)	3.9% (Feb-23)	8.7% (Nov-22)	16.6% (May-22)
Industrial Production (IIP)	5.2% (May-23)	↓	4.2% (Apr-23)	5.6% (Feb-23)	7.3% (Nov-22)	19.7% (May-22)
GDP	6.1% (Mar-23)	↑	NA	4.4% (Dec-22)	6.3% (Sep-22)	4.1% (Mar-22)
Trade Deficit (\$ bn)	22.1 (May-23)	↑	15.2 (Apr-23)	17.4 (Feb-23)	23.8 (Nov-22)	22.1 (May-22)
Commodity Market:						
Brent Crude (\$/barrel)	74.9 (30-Jun-23)	↓	72.6 (31-May-23)	79.7 (31-Mar-23)	85.9 (30-Dec-22)	116.8 (30-Jun-22)
Gold (\$/oz)	1,929.4 (30-Jun-23)	↓	1,982.1 (31-May-23)	1,969.0 (31-Mar-23)	1,826.2 (30-Dec-22)	1,807.3 (30-Jun-22)
Silver (\$/oz)	22.8 (30-Jun-23)	↑	23.6 (31-May-23)	24.1 (31-Mar-23)	24.0 (30-Dec-22)	20.3 (30-Jun-22)
Currency Market:						
USD/INR	82.1 (30-Jun-23)	↓	82.7 (31-May-23)	82.2 (31-Mar-23)	82.7 (30-Dec-22)	78.9 (30-Jun-22)

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

Equity Market - Review



Equity Market Roundup - Key Takeaways



Performance: In June 2023, BSE Sensex rose 3.1% while BSE Mid-cap & Small-cap indices outperformed large-cap indices and were up 6.2% & 6.8% respectively.

Domestic factors that played out for the Indian markets:

- Despite global macro concern, **macro indicators in India continue to remain strong**. Healthy GDP print for FY23 amidst the global macro uncertainty clearly indicates that India has shown resilience to external shocks.
- Another positive factor is that the **rally in Indian markets has been broad-based with Mid & Small caps gaining more than Largecap names, thus highlighting the strength of domestic focused sectors**.

Outlook:

- **Favorable and continuous improvement in macroeconomic factors and reversal of FII flows** have played a key role in the market rally. **Domestic high frequency indicators** like GST collections, credit growth, Purchasing Managers' Index (PMI), strong domestic capex triggers, etc. **point to elevated activity levels**.
- **Corporate earnings numbers** remains one of the key triggers in addition to inflation in India and US, its impact on monetary policy globally and foreign and domestic flows.
- Moreover, progress of south west monsoons, kharif crop output will be keenly tracked.
- Therefore, **investors are suggested not to time the markets and focus on the medium to long term potential of the equity markets**. The important drivers for equity market are - **global economic trends, oil prices, 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**.

Indian Equity Market Dashboard - June 2023



Index Name	Absolute(%)				CAGR (%)			Valuations Trailing		
	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	P/E	P/B	Div. Yield
Indian Market Performance & Valuation										
S&P BSE Sensex	3.07	12.24	7.24	23.67	12.44	24.43	14.16	23.33	3.44	1.26
Nifty 50	3.21	12.73	6.58	22.91	11.78	24.54	13.70	22.36	4.50	1.41
Nifty 100	3.35	13.22	5.15	21.11	10.64	23.54	12.98	22.37	4.59	1.43
Nifty 200	3.77	14.12	6.27	23.07	11.39	25.00	13.35	23.46	4.32	1.40
Nifty 500	4.17	14.77	6.84	23.90	11.62	26.06	13.64	23.51	4.29	1.36
Nifty Midcap 150	6.69	19.08	13.05	34.40	15.71	34.68	16.89	26.49	3.60	1.15
Nifty Smallcap 250	7.22	21.70	11.46	31.48	12.72	38.57	13.88	20.79	3.45	1.10
Nifty Microcap 250	9.94	29.52	17.48	43.51	19.18	52.00	16.95	25.74	2.41	0.91
Sectoral Indices										
Nifty Healthcare	9.68	17.40	12.04	19.88	1.53	16.05	12.02			
Nifty Realty	9.48	36.10	20.48	35.46	23.35	37.31	14.33			
Nifty Pharma	9.24	15.15	9.64	14.13	-1.16	12.06	9.27			
Nifty Auto	6.85	24.71	20.19	30.26	20.80	32.33	8.47			
Nifty India Consumption	5.04	17.21	10.64	25.33	15.91	21.63	11.90			
Nifty Infrastructure	4.88	14.34	9.32	25.24	16.34	25.37	14.79			
Nifty Metal	4.59	13.58	-7.58	34.43	11.35	49.02	14.72			
Nifty FMCG	2.68	15.23	19.35	40.40	22.37	22.62	14.33			
Nifty Services Sector	2.60	10.37	0.86	18.48	7.85	23.54	12.49			
Nifty PSU Bank	2.50	12.31	-4.12	70.47	29.74	43.85	8.76			
Nifty Financial Services	2.49	13.36	6.42	30.79	11.39	24.80	13.48			
Nifty Energy	2.02	10.32	-4.49	-0.81	13.73	22.43	15.62			
Nifty IT	1.43	6.20	4.19	8.42	2.73	28.49	18.45			
Nifty Bank	0.99	12.65	4.72	35.00	14.31	28.69	11.67			
Nifty Oil & Gas	0.12	7.17	-10.66	0.14	7.40	18.62	13.30			

Equity Market Flow

Equity Flow (₹ Cr.)	1-Mth	YTD	1 Yr.
FII	27,250	-2,68,169	15,236
DII	4,458	3,62,294	1,31,300

Source: Moneycontrol

Global Equity Market Dashboard - June 2023



Country	Index Name	Absolute(%)				CAGR (%)		
		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
Global Market Indices								
Brazil	Ibovespa Sao Paulo	8.37	13.86	7.57	19.83	-3.50	7.50	10.16
U.S.	Russell 1000	5.98	9.78	15.72	17.39	0.33	12.37	10.04
Japan	Nikkei	5.94	19.46	27.19	25.75	7.37	14.19	8.26
U.S.	Nasdaq 100	5.74	17.10	38.75	31.95	2.12	14.33	16.59
India	Nifty 50	2.98	12.21	5.99	21.60	10.48	23.04	12.35
Pan - Europe	Euronext 100	2.66	1.72	11.54	19.88	4.23	12.05	5.62
France	CAC 40	2.64	1.88	14.31	24.94	6.63	14.45	6.80
Taiwan	Taiwan Capitalization Weighted Stock	1.76	6.73	19.65	14.10	-2.39	13.33	9.30
Hong Kong	HangSeng	1.72	-6.86	-4.37	-13.46	-18.99	-8.17	-8.15
Germany	DAX	1.50	4.03	15.98	26.32	1.97	9.46	5.58
Singapore	Strait Times	0.58	-1.57	-1.40	3.34	1.20	7.37	-0.39
Indonesia	Jakarta Composite	0.42	-2.23	-2.80	-3.64	5.52	10.77	2.81
UK	FTSE	0.13	-1.17	1.07	5.05	3.45	6.87	-0.28
Switzerland	Swiss Market	-0.02	2.25	5.13	5.02	-2.81	3.94	5.55
China	SSE Composite	-0.69	-1.81	3.65	-5.78	-5.57	2.37	2.37
South Korea	Kospi	-0.82	4.53	14.58	9.93	-11.80	6.74	1.97
Malaysia	KLSE	-1.45	-3.36	-7.94	-4.68	-5.22	-2.84	-4.03

Data as on 30th June 2023. Performance shown is for Price Return Index. Source: ICRA MFI

Global Equity Market Performance across Calendar years



2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	YTD (%)
Germany 29.06	Japan 56.72	China 52.87	Germany 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	India 4.33	U.S.- Nasdaq 31.73
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	U.K. 0.91	Japan 27.19
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	Japan -9.37	Germany 15.98
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	France -9.50	U.S.- S&P 500 15.91
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	Germany -12.35	South Korea 14.66
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	China -15.13	France 14.31
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	Hong Kong -15.46	India 5.99
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 -19.44	China 3.65
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 -24.89	U.K. 1.07
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 -33.10	Hong Kong -4.37

Index used for each of the Equity Markets: China – SSE Composite, France – CAC, Germany - DAX, Hong Kong – Hang Seng, India Nifty 50, U.K. – FTSE 100, South Korea – Kospi, Japan – Nikkei 225

YTD Performance as on 30 June 2023. Source: MorningStar Direct

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Asset Class Performance



2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	YTD (%)
Mid Cap 44.02	Intl 30.44	Small Cap 69.57	Small Cap 10.20	G-Sec 14.24	Small Cap 57.43	G-Sec 8.00	Intl 28.89	Gold 27.88	Small Cap 61.94	Gold 13.94	Intl 15.63
Small Cap 37.96	Real Estate 10.06	Mid Cap 60.26	Real Estate 9.75	Bonds 13.09	Mid Cap 54.49	Gold 7.87	Gold 23.79	Small Cap 25.02	Mid Cap 46.81	Cash 5.23	Mid Cap 12.68
Large Cap 27.54	Cash 9.34	Large Cap 31.39	Bonds 8.93	Gold 11.35	Large Cap 28.72	Cash 7.25	Bonds 12.20	Mid Cap 24.13	Intl 24.76	Large Cap 4.34	Small Cap 11.15
Real Estate 25.10	Large Cap 6.76	Real Estate 16.90	Mid Cap 8.41	Intl 9.70	Intl 19.39	Bonds 6.04	Large Cap 12.02	Intl 18.81	Large Cap 24.12	Mid Cap 2.97	Large Cap 5.95
Intl 13.85	Bonds 5.11	G-Sec 15.28	Cash 8.30	Real Estate 8.34	Real Estate 7.20	Real Estate 5.13	G-Sec 11.34	Large Cap 14.86	Bonds 4.22	Bonds 2.71	Gold 5.93
Gold 12.27	G-Sec 2.65	Bonds 14.04	G-Sec 8.17	Cash 7.45	Cash 6.57	Large Cap 3.13	Cash 6.74	Bonds 13.46	Cash 3.56	G-Sec 2.34	G-Sec 4.52
G-Sec 11.11	Mid Cap -3.01	Intl 11.07	Intl -1.09	Mid Cap 5.41	Bonds 5.55	Intl -6.55	Real Estate 2.99	G-Sec 13.20	G-Sec 3.13	Real Estate 1.43	Bonds 4.17
Bonds 10.18	Gold -4.50	Cash 9.23	Large Cap -4.06	Large Cap 3.01	Gold 5.12	Mid Cap -13.26	Mid Cap -0.28	Cash 4.43	Real Estate 3.12	Small Cap -3.66	Cash 3.57
Cash 9.42	Small Cap -8.14	Gold -7.91	Gold -6.65	Small Cap 0.36	G-Sec 3.52	Small Cap -26.65	Small Cap -8.27	Real Estate 2.19	Gold -4.21	Intl -20.47	Real Estate -1.72

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

- 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

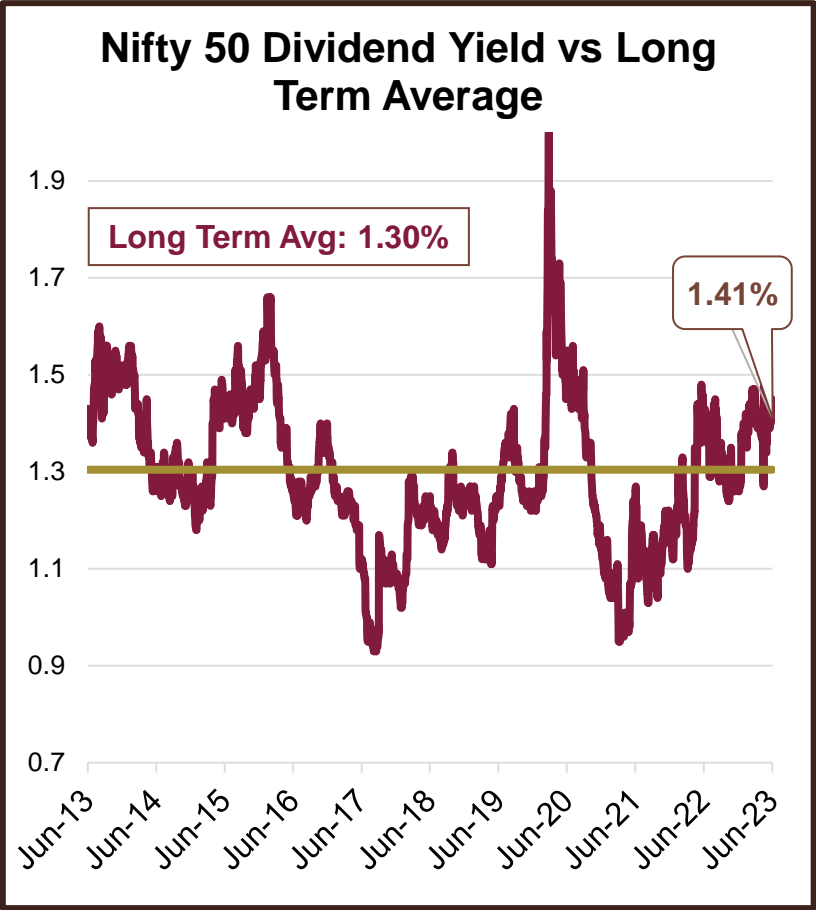
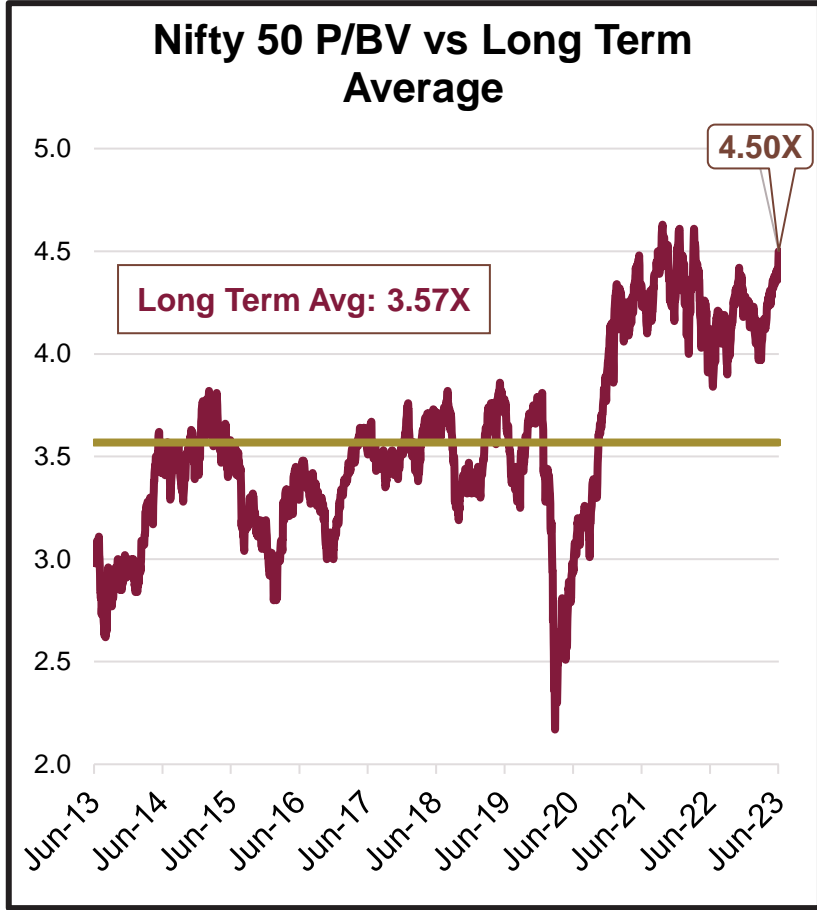
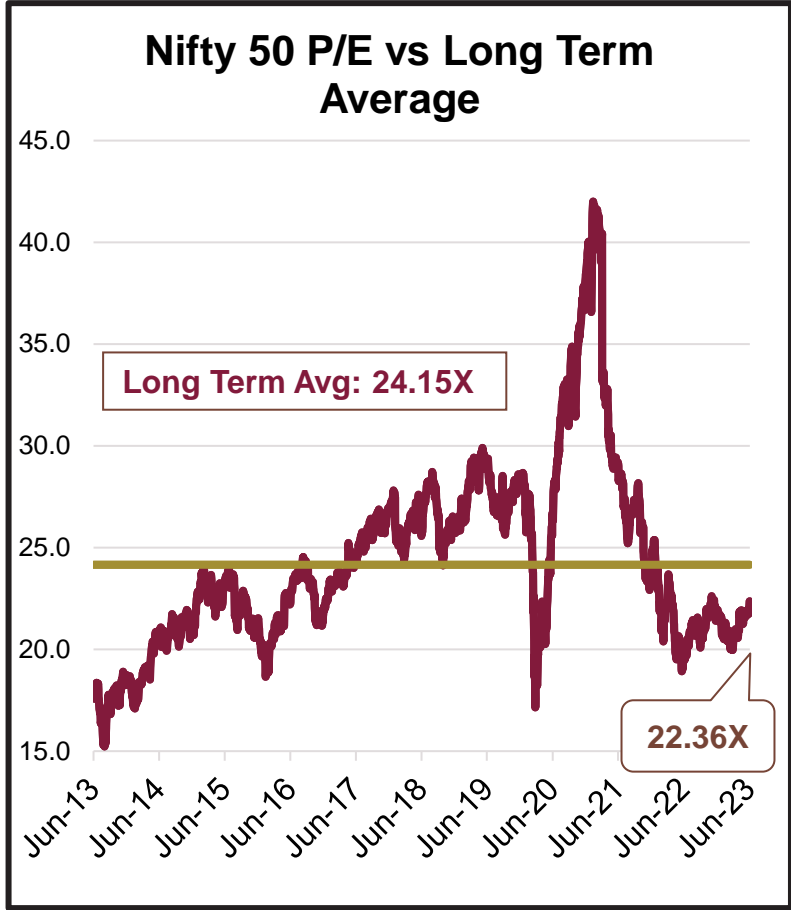
YTD Performance as on 30 June 2023. Source: ICRA MFI & RBI - DBIE

Valuations on the Trailing P/E, P/BV & Div. Yield Metrics

Nifty 12-month trailing P/E of 22.36X is lower than its historical long-term average of 24.15X

At 4.50X, the Nifty Trailing P/B is above the historical long-term average of 3.57X

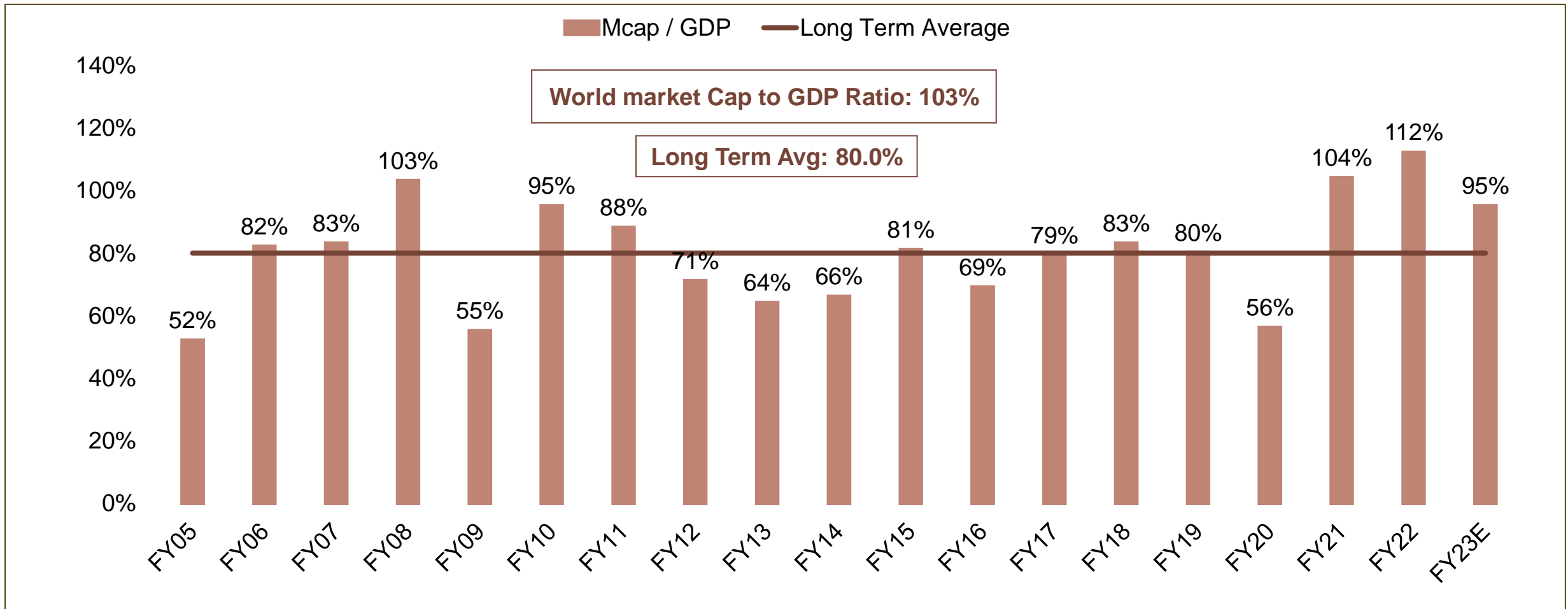
At 1.41%, the Nifty Trailing Dividend Yield is above the historical long-term average of 1.30%



Valuations on a Market Capitalisation / GDP perspective



On Market Capitalisation to GDP parameter (FY23E 95%), India is trading above the long-term average of 80%

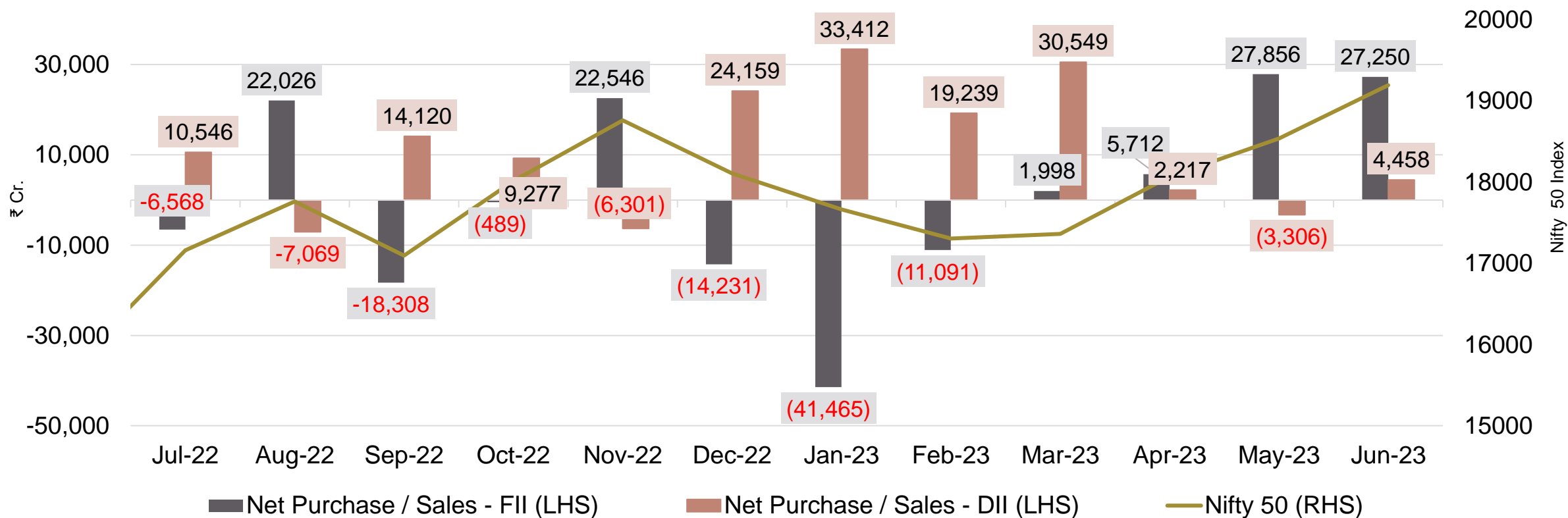


Source: Kotak AMC, Monthly Market Outlook, May'23

FII & DII Flow into Equity

- FIIs continued to be net buyers of Indian equities in June (Rs. ~27,000 cr, slightly lower than ~Rs. 27,900 in May-23).
- On the other hand, DIIs gained momentum and were net buyers in June of ~ Rs. 4,500 cr in equities.

Net FII & DII Flow (Cash) in ₹ Cr. V/S Nifty 50 Index levels



Equity Mutual Fund Category Average Performance - June 2023



- **For May month**, performance of equity categories was in green with Small Cap, Mid Cap and Multi Cap outperforming the rest. Among the sectoral funds, Healthcare and Infrastructure outperformed. While IT sector has started seeing recovery for past few months.
- Across periods, all the equity and sectoral/thematic categories delivered positive returns. **Small Cap category has emerged as the top performer across given time frames as of June 2023** followed by Mid Cap and Multi Cap categories. While, **Large Cap has been the bottom performer** across given time frames as of June 2023.
- In case of sectoral/thematic categories, **Infrastructure category has been the top performer** across given time frames as on June end.
- **On a 3-year CAGR** basis, among the sectoral category, **Healthcare generated lowest returns** as compared to other categories.
- **With respect to the 5-year CAGR returns, barring Financial Services** which generated 10% CAGR returns; all other categories delivered returns above 10%.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	3.99	11.34	7.28	22.44	10.00	22.03	12.02
Large & Mid Cap	4.72	13.46	8.81	25.44	11.84	26.62	13.66
Multi Cap	4.93	14.23	9.61	28.08	12.99	29.58	16.03
Flexi Cap	4.21	12.84	8.30	23.93	10.25	24.21	13.08
Mid Cap	5.41	15.84	11.18	28.39	13.25	31.08	15.49
Small Cap	5.81	17.15	13.42	31.32	16.43	40.32	17.94
Focused	4.45	12.51	7.64	22.85	10.57	23.64	12.54
ELSS	4.42	12.40	8.00	24.29	10.69	24.62	12.60
Contra	4.80	12.45	9.28	28.40	15.07	30.56	15.38
Dividend Yield	4.22	10.50	9.42	25.38	13.39	27.64	13.63
Value	4.72	12.83	9.02	28.16	12.78	28.73	12.47
Sectoral / Thematic							
Consumption	4.47	15.46	10.85	28.21	15.73	26.17	14.24
Infrastructure	4.94	13.45	12.48	33.25	18.29	33.31	14.91
Financial Services	3.88	12.79	6.27	30.60	9.90	22.48	9.70
FMCG	3.15	12.00	14.31	30.76	21.98	23.22	14.51
Healthcare	7.58	14.20	9.83	17.79	2.05	15.76	13.95
Technology	3.27	7.85	8.89	13.89	5.09	31.52	19.15
Others	4.56	12.39	9.23	25.10	11.33	23.98	10.67

Source: Morningstar Direct

Debt Market - Review



Debt Market Roundup - Key Takeaways



- The **India 10-Year G-sec yield rose** for the month of **June to close at 7.11% as against 6.99% at the end of May.**
- **June'23 saw global central bankers turning hawkish** as against general expectations of nearing pause.
- From surprise hike by Reserve Bank of Australia & Bank of Canada to higher-than-expected hike (50 bps) by Bank of England, the underlying narrative across the central bankers was of remaining extremely cautious on inflation front.
- While US Fed paused in June'23 meeting, its forward guidance was hawkish after the U.S. Federal Chief in his congressional testimony indicated that interest rates could go higher still in 2023 as inflation in U.S. remained at elevated levels.

Outlook:

- Markets have seen a rise in yields over the last month across the G-Sec & corporate bond markets.
- The **global growth picture remains uneven.** While the economic momentum in the US seems to be holding up, growth in EU is slowing.
- On the other hand, **Indian economy remain resilient** as inflationary pressure eases and high frequency indicators show an uptick.
- The markets will remain watchful of **cues like global & domestic central banks actions, commodity prices, energy prices and geo-political developments that may impact the overall macro environment.** While, in the near term, **the progress of monsoon is a major trigger as the El Nino condition builds up.**
- **For Core portfolio (60-70% of the entire debt portfolio), investors can consider short duration funds, Banking & PSU, Corporate Bond and Target maturity funds (matching with the average maturity of the funds and investment horizon).** Along with mutual funds, good quality Corporate Fixed Deposits and Bonds can be looked at allocation in the debt portfolio for diversification and enhancing overall return.
- **For satellite portfolio (30-40% of the entire debt portfolio), investors can consider mutual fund categories such Medium to Long duration, Gilt & Dynamic Bond Funds as they can generate capital gains when interest rates cuts by central banks happen in future.**

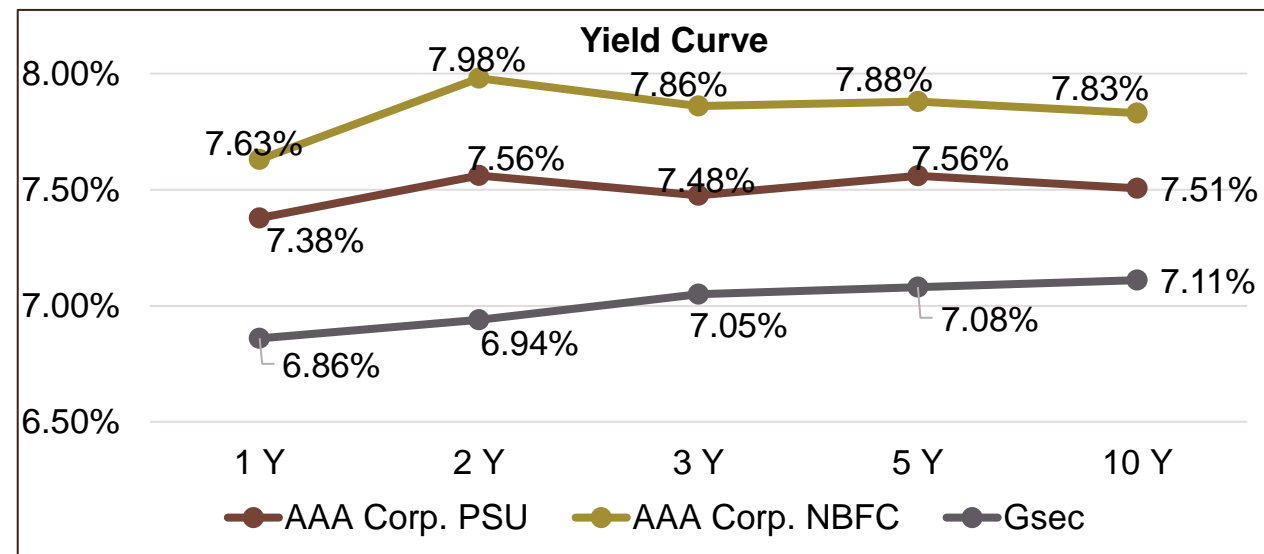
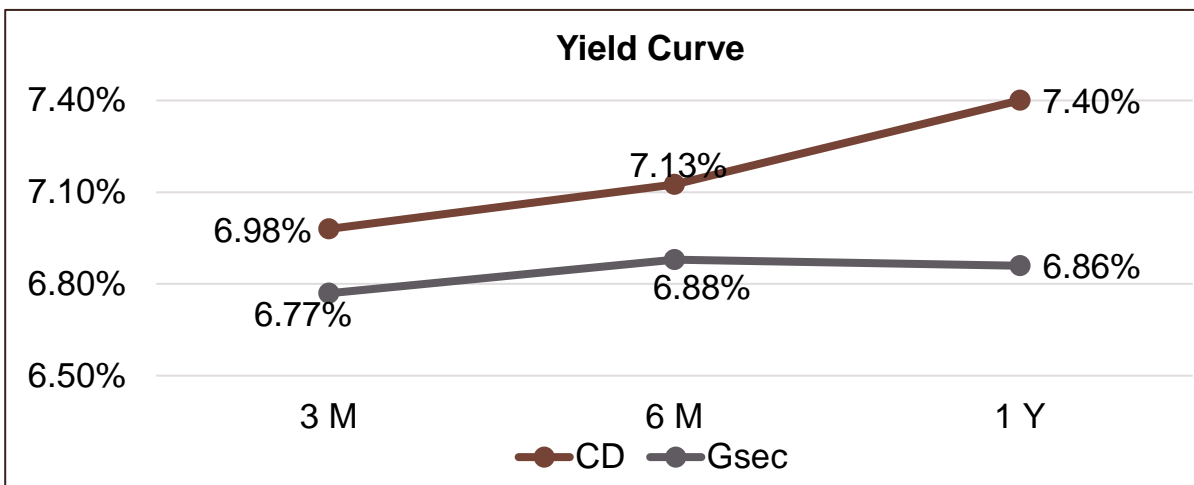
Debt Dashboard



	Latest (30 Jun'23)	One Month Ago (31 May'23)	One Quarter Ago (31 Mar'23)	Half Year Ago, (30 Dec'22)	One Year Ago, (30 Jun'22)	M-o-M Change (bps)
Interest Rates						
Repo rate	6.50%	6.50%	6.50%	5.90%	4.90%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	6.98%	6.97%	7.20%	6.65%	5.15%	1
6 month	7.13%	7.23%	7.28%	7.15%	5.98%	-10
1 Year	7.40%	7.45%	7.57%	7.60%	6.53%	-5
T-Bill/G-sec						
91 Days	6.73%	6.76%	7.00%	6.29%	5.14%	-3
364 Days	6.86%	6.91%	7.29%	6.87%	6.28%	-5
India 10 Year G-Sec Yield	7.11%	6.99%	7.32%	7.33%	7.45%	12
AAA Corp. Bonds (PSU)						
1 Year	7.38%	7.37%	7.67%	7.55%	6.59%	1
3 Year	7.48%	7.40%	7.67%	7.58%	7.35%	8
5 Year	7.56%	7.42%	7.79%	7.59%	7.46%	14
AAA Corp. Bonds (NBFC)						
1 Year	7.63%	7.64%	7.84%	7.84%	6.66%	-1
3 Year	7.86%	7.69%	8.05%	7.80%	7.62%	17
5 Year	7.88%	7.69%	8.00%	7.85%	7.70%	19
US Markets						
10 Year US Treasury Yield	3.84%	3.65%	3.47%	3.83%	3.02%	19
Currency & Commodity						
USD/ INR	82.09	82.68	82.16	82.72	78.95	↓
Crude Brent (\$/Barrel)	74.90	72.66	79.77	85.91	114.81	↑

- Global economic activity as well as inflation levels have moderated across economies.
- Bond yields rose on back of **hawkish US Fed comment which signaled further rate hikes in 2023** and elevated U.S. Treasury yields. Lack of fresh market triggers also weighed on the market sentiment.
- Corporate bond yields for PSU's increased across the maturities in the range of 1 bps to 14 bps.
- **Yield on the 10-year benchmark paper rose 12 bps to close at 7.11%** as compared to the previous month's close 6.99%.
- **Yields on the 10-year U.S. Treasury rose 19 bps to close at 3.84%**, from the previous month's close of 3.65%.

Yield Curve and Policy Rates & Reserve Ratios – as on 30 June 2023

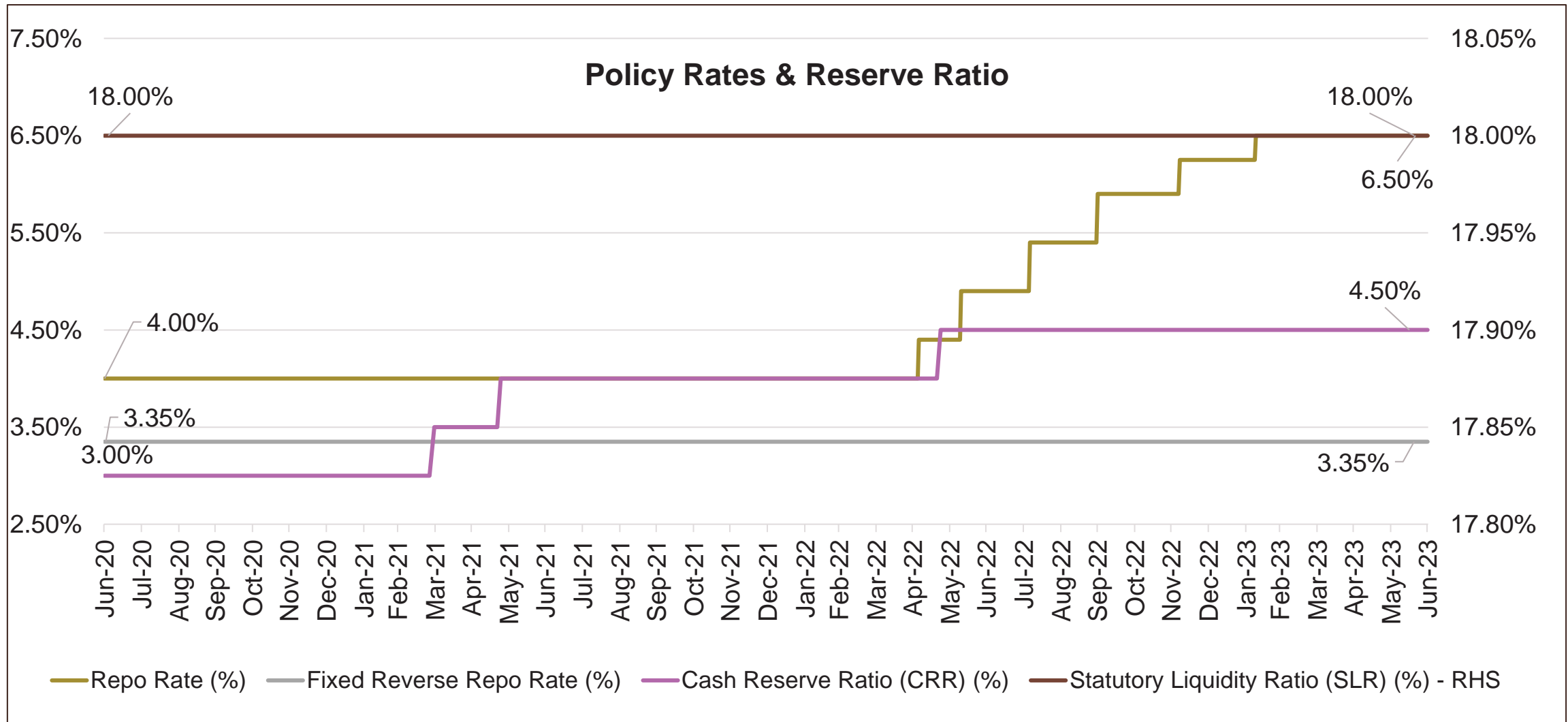


Data as on 30 Jun'23; Source: Bandhan AMC, Investing.com

Policy Rates / Reserve Ratio	Current (w.e.f July 10, 2023)
CRR	4.50%
SLR	18.00%
SDF	6.25%
Repo Rate	6.50%
MSF	6.75%
Bank rate	6.75%
Fixed Reverse Repo Rate	3.35%

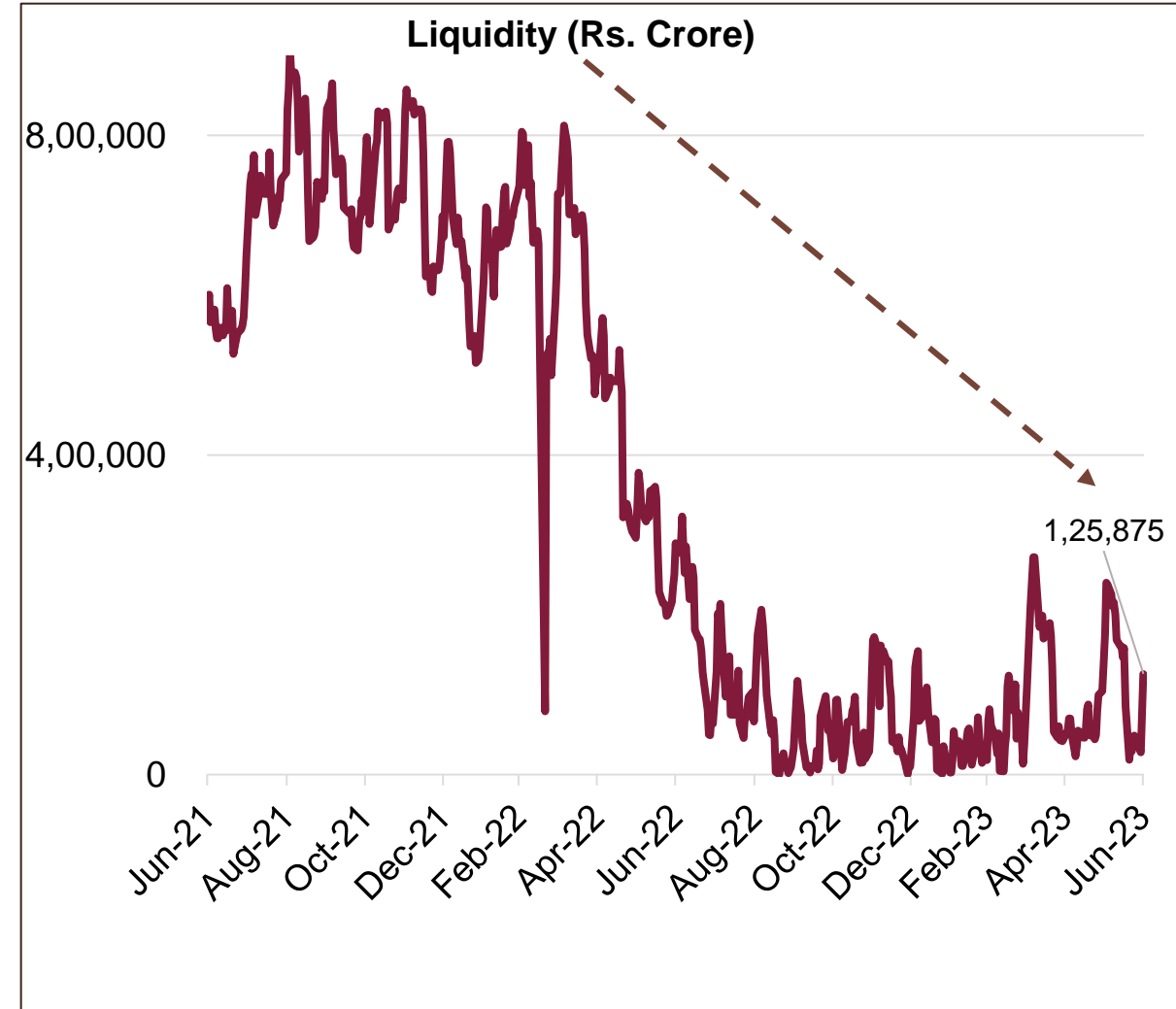
- In May-22, in an off cycle monetary policy committee (MPC) meeting the interest rates were increased. Then **the short end of the yield curve was placed between 4.9% to 6.9%. The yield curve was steep in shape.**
- A year after the rate hike cycle the yield curve has almost flattened. **The 10Y minus 3M spread was at 172 basis points in July-22 whereas at the end of June-23 it has reduced to 38 basis points.**
- **Yields have remained mixed across categories and maturity profiles in June-23** in comparison to May-23.
- Difference in spread between AAA corporate bond (NBFCs) and G-sec contracted between 72 to 104 bps across the segments.

Policy rate & Reserve Ratio movement since June '20



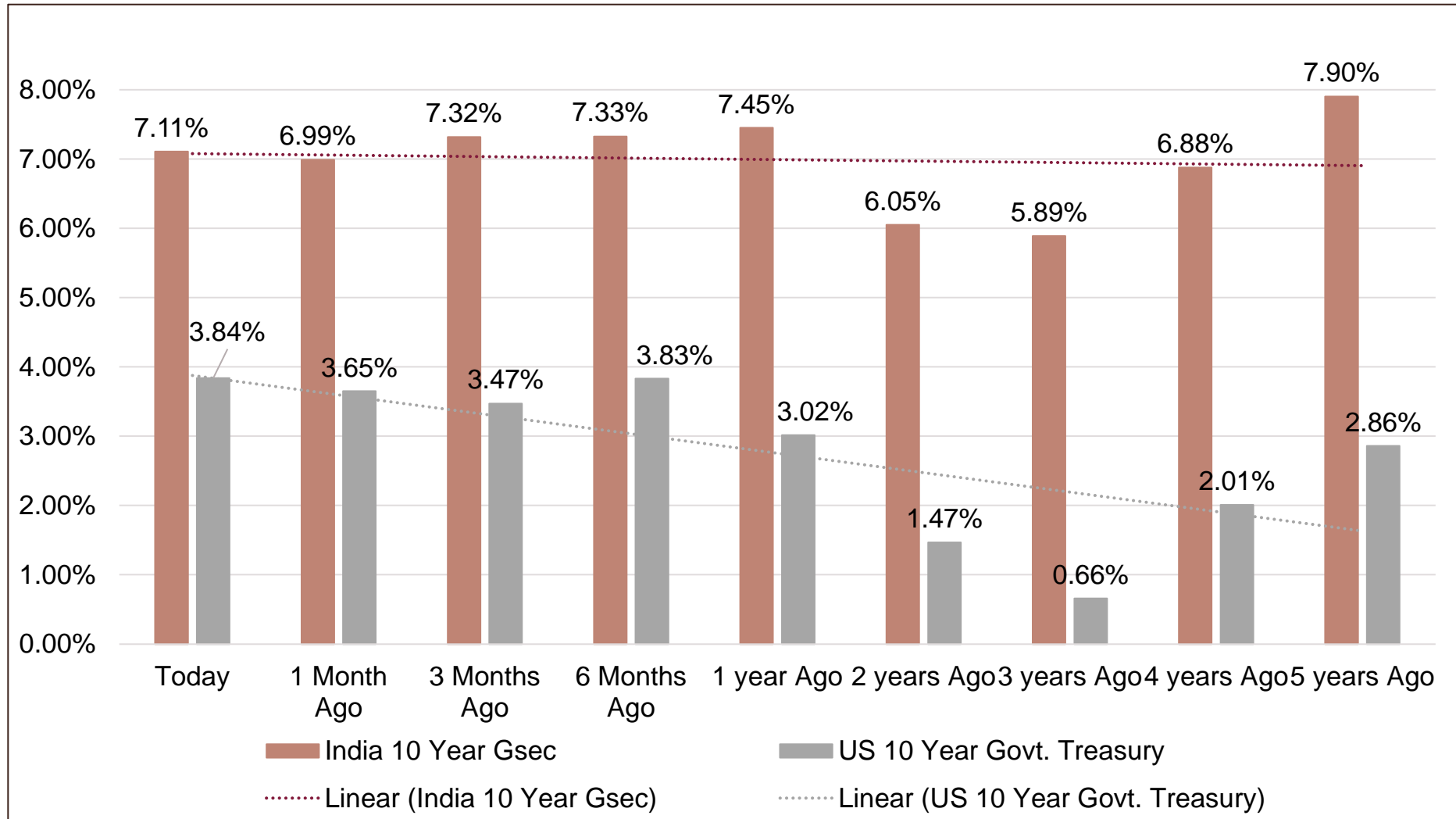
Liquidity in the system

- In the April'22 policy meet, **Standing Deposit Facility (SDF) was introduced**, and the **Liquidity Adjustment Facility (LAF) corridor** was narrowed to 50 bps **making the Reverse Repo Rate redundant**.
- In the recent June'23 policy meet, the governor stated **overall system liquidity remains in surplus, though of a lower order compared to April'23**.
- In the period ahead, while higher government expenditure and the anticipated return of forex inflows are likely to augment systemic liquidity. RBI will remain flexible and responsive towards meeting the productive requirements of the economy. It will conduct operations on either side of the LAF, depending on the evolving liquidity conditions.
- During April - June '23, **the average total absorption under the liquidity adjustment facility (LAF) was ₹1.1 lakh crore as compared to the average of ₹52 thousand crore during January - March '23**.



Source: Bandhan AMC

Yields Movement across India and U.S. - as on 30 June 2023



- The 10-year Indian G-sec has now been trading above ~7% levels.
- U.S. yields increased after the U.S. Federal Chief in his congressional testimony indicated that interest rates could go higher still in 2023 as inflation in U.S. remained at elevated levels.
- Incase of U.S., the yields have risen from 3% from a year ago to 3.8% at present.

Source: G Sec – Investing.com

MF Category wise - Average Yield, Average Maturity and Modified Duration Movement



➤ The YTM's have gone up significantly in the past couple of months in the broad category of Money Market and Accrual Funds. This phenomena was also witnessed in the broad category of Duration Funds and Passives.

Category	YTM					Average Maturity					Modified Duration				
	May-23	Feb-23	Nov-22	May-22	May-21	May-23	Feb-23	Nov-22	May-22	May-21	May-23	Feb-23	Nov-22	May-22	May-21
Money Market															
Liquid	6.91	7.19	6.39	4.70	3.45	0.11	0.10	0.10	0.09	0.09	0.10	0.10	0.09	0.08	0.09
Ultra Short Duration	7.30	7.54	6.93	5.49	3.84	0.43	0.41	0.39	0.38	0.40	0.39	0.36	0.34	0.35	0.35
Low Duration	7.49	7.72	7.25	5.89	4.23	1.18	1.28	1.35	1.22	1.08	0.84	0.73	0.69	0.62	0.74
Money Market	7.32	7.45	6.88	5.50	3.75	0.58	0.43	0.33	0.40	0.41	0.56	0.42	0.32	0.39	0.40
Accrual															
Short Duration	7.42	7.69	7.34	6.30	4.82	2.63	2.44	2.31	1.87	2.42	2.19	1.83	1.72	1.35	1.93
Medium Duration	7.68	7.86	7.53	7.19	5.82	5.03	4.13	4.18	3.74	4.03	3.31	2.90	2.93	2.72	3.05
Banking & PSU Debt Fund	7.41	7.71	7.31	6.28	4.93	4.12	3.36	3.27	2.67	3.08	2.46	2.18	2.04	1.74	2.24
Corporate Bond Fund	7.51	7.73	7.34	6.50	4.89	3.33	2.78	2.67	2.44	2.62	2.52	1.85	1.73	1.67	2.02
Floating Rate	7.78	7.76	7.31	6.06	4.98	3.77	3.43	3.55	3.37	3.57	1.28	0.97	0.99	0.96	1.40
Credit Risk	8.08	8.30	7.92	7.15	6.31	3.62	2.57	2.50	2.30	2.33	1.73	1.71	1.66	1.67	1.79
Duration															
Medium To Long Duration	7.37	7.64	7.35	6.87	5.65	7.24	6.66	6.61	5.73	5.77	5.23	4.46	4.40	3.79	4.09
Long Duration Fund	7.35	7.54	7.51	7.57	6.74	17.43	20.40	14.56	17.09	17.82	11.46	9.15	8.15	8.73	9.37
Dynamic Bond	7.40	7.59	7.24	6.15	5.58	5.99	5.32	5.01	3.66	5.67	4.02	3.09	3.18	2.22	3.86
Gilt	7.23	7.49	7.14	5.97	5.47	6.58	6.94	6.39	3.59	6.60	4.49	4.31	4.08	2.13	4.34
Gilt - 10 Year	7.25	7.57	7.35	7.37	6.26	9.55	9.36	9.57	9.43	9.18	6.68	6.61	6.65	6.62	6.57
Passives															
Target Maturity Funds / Index Funds	7.29	7.65	7.37	7.35	6.18	4.91	4.97	4.99	4.86	6.45	4.03	3.84	3.86	3.81	4.88

Debt Category Average Performances - June 2023



- **During the month** under consideration, all the categories were in the green even as yields largely hardened across most of points on the curve.
- With respect to the **3 months and 6 months trailing returns** too, all the categories were in the green with the Duration & Passive categories outperforming the rest in these two-time horizons.
- **For the full year**, all the categories were in the green, with our suggested categories such as Ultra Short Duration, Money Market, Low Duration, Liquid, Short Duration, Medium Duration, Floating Rate, Banking & PSU Debt Fund & Corporate Bond Fund delivered decent returns.
- **On a 2-year CAGR** basis, all the categories delivered an early single digit growth. In addition to the Medium Duration & Credit Risk Funds, our recommended categories - the Ultra Short Duration, Low duration, Money Market, Liquid, Medium Duration, Short Duration, Floating Rate and Target Maturity Funds were one of the best performing categories during this period.
- **With respect to the 3 and 5 year CAGR returns**, most the categories reported early to mid single returns.

Returns of Credit risk have been adjusted for one time anomalies in the category.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Money Market							
Overnight	0.55	1.61	3.14	5.83	4.55	4.03	4.59
Liquid	0.59	1.77	3.35	6.09	4.70	4.17	5.03
Ultra Short Duration	0.61	1.86	3.35	5.94	4.68	4.48	5.28
Low Duration	0.63	2.02	3.45	6.06	4.72	5.22	5.44
Money Market	0.64	1.99	3.55	6.24	4.74	4.49	5.81
Accrual							
Short Duration	0.70	2.48	3.56	6.55	4.95	5.46	6.06
Medium Duration	0.83	3.04	3.92	8.15	5.68	6.37	5.59
Banking & PSU Debt Fund	0.72	2.60	3.68	6.46	4.41	5.07	6.96
Corporate Bond Fund	0.77	2.60	3.76	6.58	4.31	5.21	6.65
Floating Rate	0.67	2.20	3.57	6.46	4.75	5.44	6.62
Credit Risk	0.64	2.66	3.85	6.91	10.22	9.77	4.44
Duration							
Medium To Long Duration	1.06	3.58	4.25	7.73	4.57	4.63	6.30
Long Duration Fund	1.70	4.76	5.63	11.07	4.45	4.01	7.23
Dynamic Bond	0.94	3.20	4.03	7.33	4.77	4.80	6.69
Gilt	1.00	3.58	4.30	7.65	4.28	4.09	7.39
Gilt - 10 Year	1.42	4.62	5.22	9.66	3.68	3.87	8.11
Passives							
Target Maturity Funds / Index Funds	0.94	3.34	4.19	7.90	4.69	6.53	0.00

Source: Morningstar Direct

Event Update

RBI repo rate unchanged at 6.5%; RBI cuts FY24 inflation projection to 5.1%



Key Highlights

- RBI keeps repo rate unchanged at 6.50%
- Cash reserve ratio (CRR) kept unchanged at 4.50%
- The MPC voted on “withdrawal of accommodation” signalling the central bank’s commitment to maintain price stability
- For FY24, retail inflation lowered to 5.1% from earlier 5.2%
- FY24 Real GDP growth projected at 6.5%

Policy Rates / Reserve Ratio	07 Apr '23	08 Jun '23	Status
CRR	4.50%	4.50%	↔
SLR	18.00%	18.00%	↔
SDF	6.25%	6.25%	↔
Repo Rate	6.50%	6.50%	↔
MSF	6.75%	6.75%	↔
Bank rate	6.50%	6.50%	↔
Fixed Reverse Repo Rate	3.35%	3.35%	↔

Growth Outlook

- Economic growth is picking up pace, with the March quarter GDP reading of 6.1% beating economist consensus by a wide margin and signalling that the recovery is on track.
- Current account deficit is expected to have moderated and remain eminently manageable in FY24.
- On the supply side, high Rabi crop production and softening inflation should support household consumption. The manufacturing and services PMIs for India in May are among the highest in the world at 58.7 & 61.2, respectively.
- The biggest risks to the outlook continue to be the headwinds emanating from protracted geopolitical tensions, weak external demand, citing delay in monsoon, El Nino impact and the trend in commodity prices going ahead.

Inflation Outlook

- High inflation, which has remained a key concern for policymakers, has begun cooling off in recent months. The retail inflation rate dropped sharply for the second straight month, hitting an 18-month low of 4.7% in April, but still stays above the RBI's target of 4%.
- There was a clear emphasis on the 4% inflation target this time, unlike the previous policies where deliberations were focused on bringing down the target to below 6% upper band.

U.S. Fed pauses interest rate hike; signals two more potential hikes this year



Key Highlights

- The U.S. Federal Reserve (Fed) kept interest rate unchanged at 5.00%-5.25% after having raised it 10 straight times to combat high inflation
- The Fed signaled that it may raise rates twice more this year, beginning as soon as next month
- Fed indicated the pause in rate hikes will give the FOMC time “to assess additional information”

U.S inflation Peaking

- U.S. inflation data has shown a significant decrease over past few months. In May 2023, CPI inflation fell to 4.0% over the year.
- While the pace of inflation is slowing, it is still above the target rate of 2%.

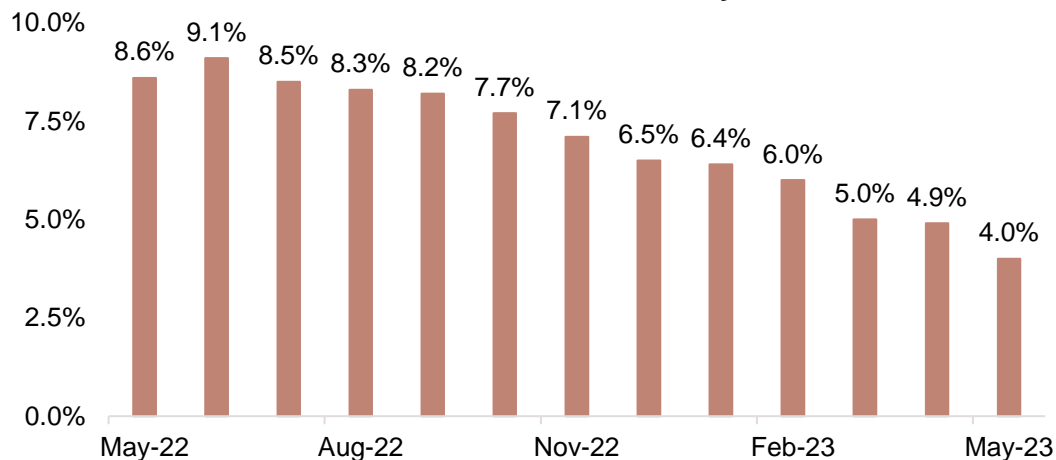
To Conclude

- The U.S. key policy rates may remain at the higher levels for longer till core inflation comes down towards 2%. Recent production cuts by OPEC and tight US labor market may put upward pressure on inflation and may keep the Fed from rate cuts.
- With turmoil in banking sector, fear of recession and continued conflict between Ukraine and Russia and its impact on global economy, we believe global equity markets, including the Indian markets will stay volatile in near term.

Investment Approach

- Investors should not try to time the market and **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.

U.S. Inflation- eased in the last 1 year



Thank You!

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