

# TATA CAPITAL WEALTH

## Market Outlook - May 2023



# Macro Indicators



	Current		Month Ago	Quarter Ago	Half Year Ago	Year Ago
<b>Economic Indicators:</b>						
PMI Manufacturing	57.2 (Apr-23)	↑	56.4 (Mar-23)	55.4 (Jan-23)	55.3 (Oct-22)	54.7 (Apr-22)
PMI Services	62.0 (Apr-23)	↑	57.8 (Mar-23)	57.2 (Jan-23)	55.1 (Oct-22)	57.9 (Apr-22)
Consumer Price Index (CPI)	4.7% (Apr-23)	↓	5.7% (Mar-23)	6.5% (Jan-23)	6.8% (Oct-22)	7.8% (Apr-22)
Wholesale Price Index (WPI)	-0.92% (Apr-23)	↓	1.3% (Mar-23)	4.8% (Jan-23)	8.7% (Oct-22)	15.4% (Apr-22)
Industrial Production (IIP)	1.1% (Mar-23)	↓	5.6% (Feb-23)	4.7% (Dec-22)	3.5% (Sep-22)	2.2% (Mar-22)
GDP	4.4% (Dec-22)	↓	NA	6.3% (Sep-22)	7.8% (Jun-22)	11.2% (Dec-21)
Trade Deficit (\$ bn)	19.7 (Mar-23)	↓	17.4 (Feb-23)	23.7 (Dec-22)	29.2 (Sep-22)	18.5 (Mar-22)
<b>Commodity Market:</b>						
Brent Crude (\$/barrel)	79.5 (28-Apr-23)	↓	79.7 (31-Mar-23)	84.4 (31-Jan-23)	94.8 (31-Oct-22)	109.4 (29-Apr-22)
Gold (\$/oz)	1,999.0 (28-Apr-23)	↑	1,969.0 (31-Mar-23)	1,929.5 (31-Jan-23)	1,640.7 (31-Oct-22)	1,911.7 (29-Apr-22)
Silver (\$/oz)	25.2 (28-Apr-23)	↑	24.2 (31-Mar-23)	23.8 (31-Jan-23)	19.1 (31-Oct-22)	23.1 (29-Apr-22)
<b>Currency Market:</b>						
USD/INR	81.7 (28-Apr-23)	↓	82.2 (31-Mar-23)	82.1 (31-Jan-23)	82.7 (31-Oct-22)	76.5 (29-Apr-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:** For the month of Apr'23, Mid & Small caps outperformed Large Caps. Mid-cap and small-cap indices were up 6.0% and 8.8%, respectively.

## Domestic factors that played out for the Indian markets:

- Domestic equity markets rose under review following positive cues from global equity markets amid a surprise pause in interest rate hike by the RBI led Monetary Policy Committee in its April-23 policy meet .
- Weakness in the U.S. dollar index and strong buying by FIIs further added to the gains amid growing expectations that aggressive monetary policy tightening by the U.S. Federal Reserve may soon come to an end.

## Outlook:

- **Domestic high frequency indicators** like GST collections, credit growth, Purchasing Managers' Index (PMI), strong domestic capex triggers, etc. **point to elevated activity levels.**
- However, as the higher interest rates weigh on the global growth prospect, **Fed actions will be critical going forward** as they need to balance both inflation and the current volatile banking sector conditions post the Silicon Valley Bank crisis.
- **Volatility may continue to remain elevated in the short term** till global uncertainty recedes.
- Therefore, **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 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 - April 2023



Index Name	Index Value	Absolute(%)				CAGR (%)			Valuations Trailing		
		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	P/E	P/B	Div. Yield
<b>Indian Market Performance &amp; Valuation</b>											
S&P BSE Sensex	92,568	5.66	2.95	0.88	8.50	13.27	23.36	13.02	22.60	3.28	1.23
Nifty 50	26,303	6.00	2.54	0.47	6.91	12.46	23.78	12.31	20.87	4.23	1.38
Nifty 100	23,870	6.06	2.06	-1.72	3.72	11.30	22.75	11.24	21.70	4.30	1.43
Nifty 200	12,199	6.19	2.51	-1.32	4.21	11.88	24.08	11.18	21.87	4.02	1.42
Nifty 500	23,644	6.33	2.64	-1.17	4.05	12.17	25.16	11.13	21.82	3.98	1.38
Nifty Midcap 150	14,944	6.37	4.77	0.82	7.46	15.40	33.54	12.02	24.71	3.22	1.20
Nifty Smallcap 250	11,740	8.83	4.32	0.45	-0.13	14.75	38.71	8.06	18.23	3.11	1.26
<b>Sectoral Indices</b>											
Nifty Realty	489	17.34	9.57	1.49	0.63	20.31	33.88	7.12			
Nifty PSU Bank	5,560	13.62	8.67	20.76	54.78	44.41	47.86	8.37			
Nifty Auto	17,063	9.10	0.94	-1.39	20.26	18.25	32.00	3.81			
Nifty Bank	58,794	8.61	7.21	4.74	20.83	15.56	26.69	11.57			
Nifty Financial Services	23,608	7.95	6.06	3.44	16.17	11.76	22.64	13.04			
Nifty Infrastructure	6,860	7.06	7.05	2.40	5.32	16.39	26.58	10.68			
Nifty Oil & Gas	11,185	6.84	-2.37	-7.32	-7.65	11.34	21.61	12.25			
Nifty Metal	8,619	6.43	-9.13	-1.60	-6.43	11.94	49.11	11.10			
Nifty Energy	40,126	6.29	1.31	-11.20	-16.34	17.01	24.53	14.07			
Nifty India Consumption	9,248	5.86	3.28	-5.57	7.17	14.80	19.93	9.39			
Nifty Pharma	15,415	5.81	1.37	-4.29	-5.53	-2.50	11.35	7.65			
Nifty FMCG	75,366	5.60	9.12	9.09	27.92	21.83	21.02	12.69			
Nifty Healthcare	9,362	5.60	1.71	-4.40	-3.97	0.36	13.69	9.69			
Nifty Services Sector	33,407	4.88	0.03	-3.99	3.23	9.04	22.13	11.77			
Nifty IT	37,253	-0.96	-7.92	-3.12	-10.55	5.97	27.67	17.04			

## Equity Market Flow

Equity Flow (₹ Cr.)	1-Mth	YTD	1 Yr.
FII	5,712	-1,52,275	-1,52,275
DII	2,217	2,27,583	2,27,583

Source: Moneycontrol

# Global Equity Market Performance as on 30 April 2023



Country	Index Name	Index Value	Absolute(%)				CAGR (%)			
			1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	
<b>Global Market Indices</b>										
India	Nifty 50	18,065	5.95	2.41	0.30	5.64	11.15	22.41	10.97	
Japan	Nikkei	29,123	4.67	6.09	5.57	8.41	0.54	12.97	5.29	
Switzerland	Swiss Market	11,437	3.92	0.52	5.72	-5.72	1.87	5.91	5.18	
UK	FTSE	7,871	3.51	1.13	11.12	4.33	6.28	10.09	0.94	
France	CAC 40	7,492	3.36	5.91	19.87	14.70	9.34	17.92	6.30	
Germany	DAX	15,922	2.75	5.38	20.47	12.98	2.57	13.62	4.77	
U.S.	Russell 1000	2,279	2.56	3.03	7.06	0.09	-1.67	12.45	9.18	
South Korea	Kospi	2,502	2.11	2.13	9.22	-7.20	-10.89	8.71	-0.11	
China	SSE Composite	3,323	2.03	1.69	15.10	9.09	-1.81	5.14	1.53	
U.S.	Nasdaq 100	13,231	2.01	10.95	16.01	2.91	-2.29	13.69	14.89	
Pan - Europe	Euronext 100	1,373	1.77	3.52	15.22	10.22	5.73	15.15	5.24	
Indonesia	Jakarta Composite	6,916	1.68	0.64	-2.62	-4.33	7.42	13.63	2.90	
Brazil	Ibovespa Sao Paulo	1,04,432	0.74	-7.14	-10.17	-3.20	-6.30	9.08	3.93	
Singapore	Strait Times	3,271	0.44	-3.26	5.83	-2.58	0.81	7.63	-1.98	
Malaysia	KLSE	1,416	0.65	-5.69	-3.09	-11.56	-5.99	0.19	-5.42	
Taiwan	Taiwan Capitalization Weighted Stock	15,579	1.82	0.56	20.65	-6.12	-5.83	12.35	7.89	
Hong Kong	HangSeng	19,895	2.18	-10.08	36.05	-5.68	-16.82	-6.89	-8.38	

Data as on 30 April '23. Source: ICRA Analytics (<http://www.icraanalytics.com/legal/standard-disclaimer.html>)

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# 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 16.82
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	France 15.72
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 14.36
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	South Korea 11.86
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	Japan 10.58
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	U.S.- S&P 500 8.59
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	China 7.58
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	U.K. 5.62
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	Hong Kong 0.57
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	India -0.22

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

\* Performance as on 30 April 2023. Source: MorningStar Direct

# Asset Class Performance



2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	CYTD* (%)
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	Gold 9.07
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	Intl 6.93
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	G-Sec 2.02
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	Cash 1.76
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	Bonds 1.69
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	Real Estate 0.00
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	Large Cap -4.07
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	Mid Cap -4.44
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	Small Cap -7.23

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

\* Performance as on 30 April 2023. Source: ICRA Analytics (<http://www.icraanalytics.com/legal/standard-disclaimer.html>) & RBI - DBIE

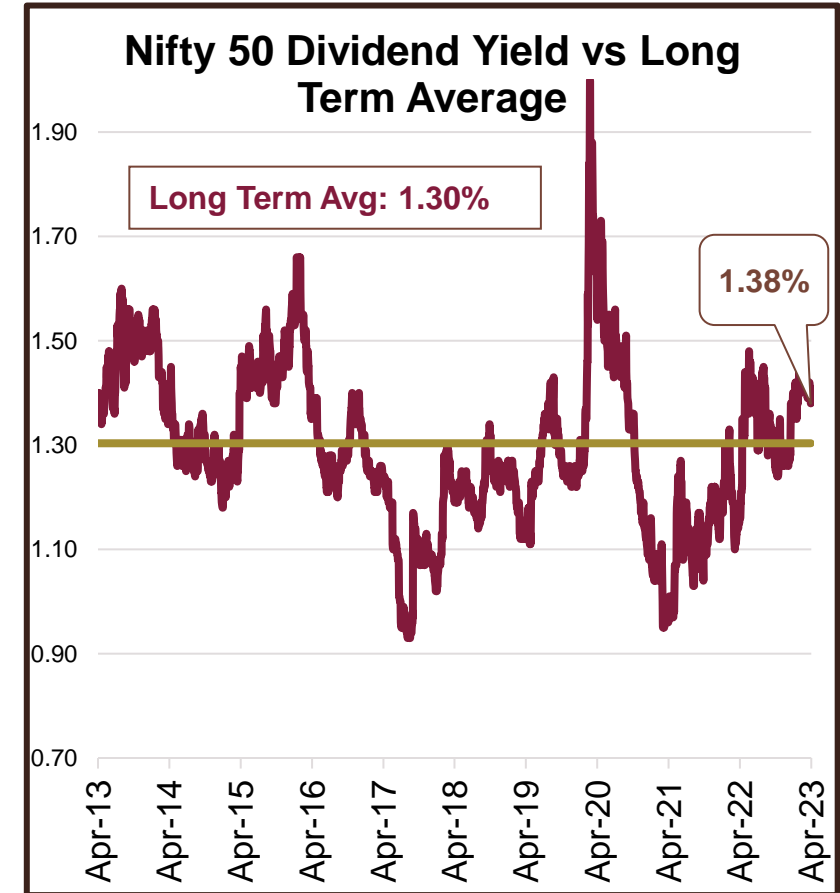
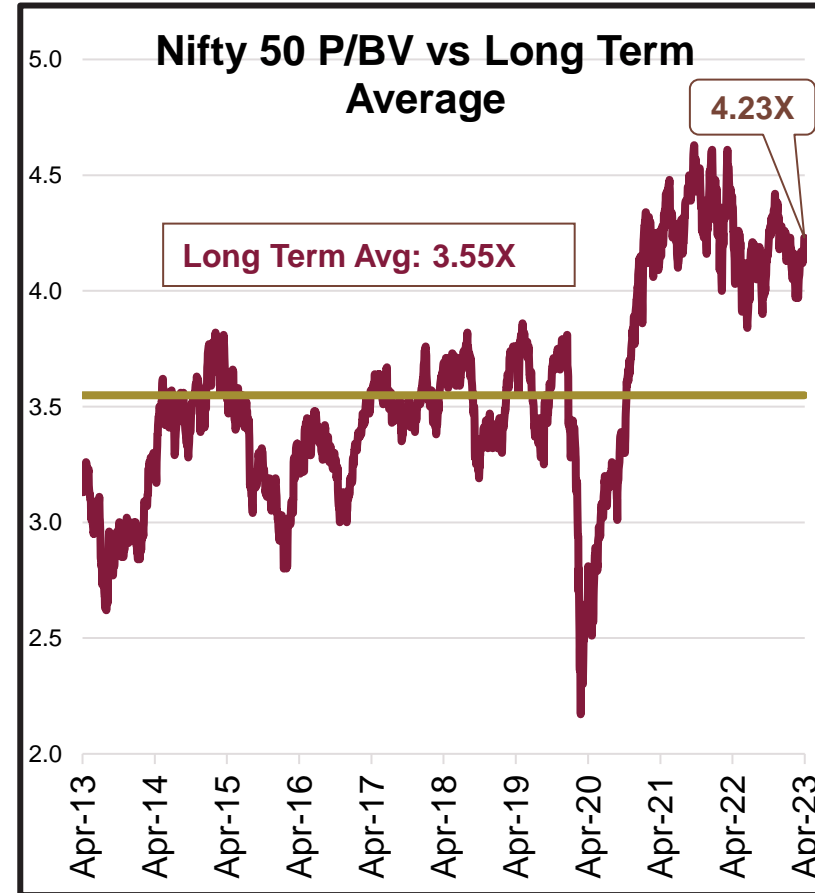
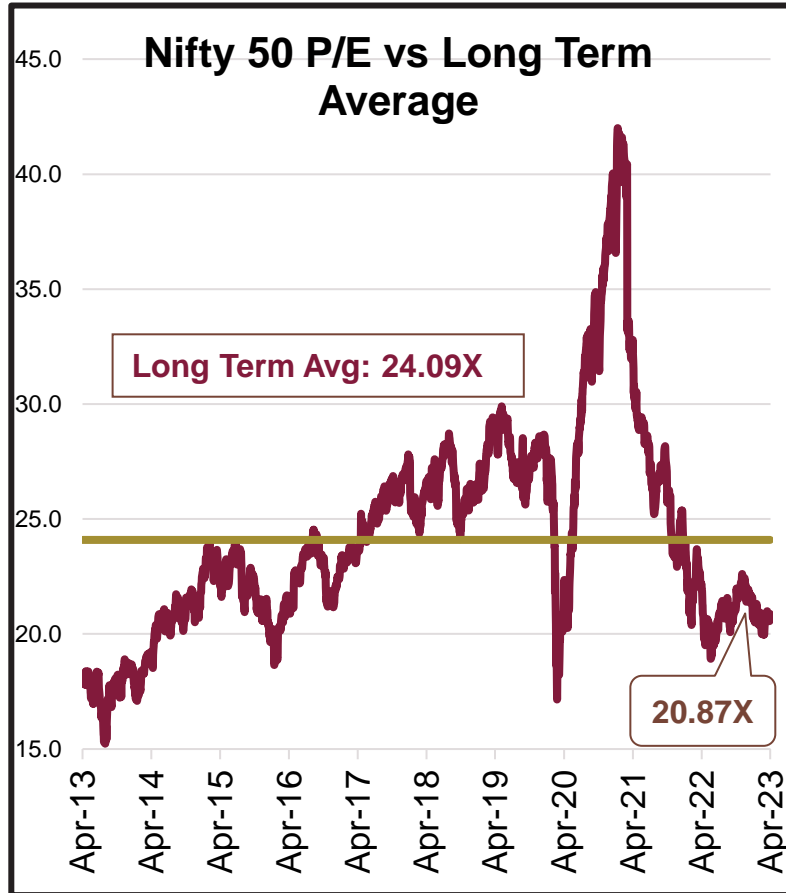


# Valuations on the Trailing P/E, P/BV & Div. Yield Metrics

Nifty 12-month trailing P/E of 20.87X is lower than its historical long-term average of 24.09X

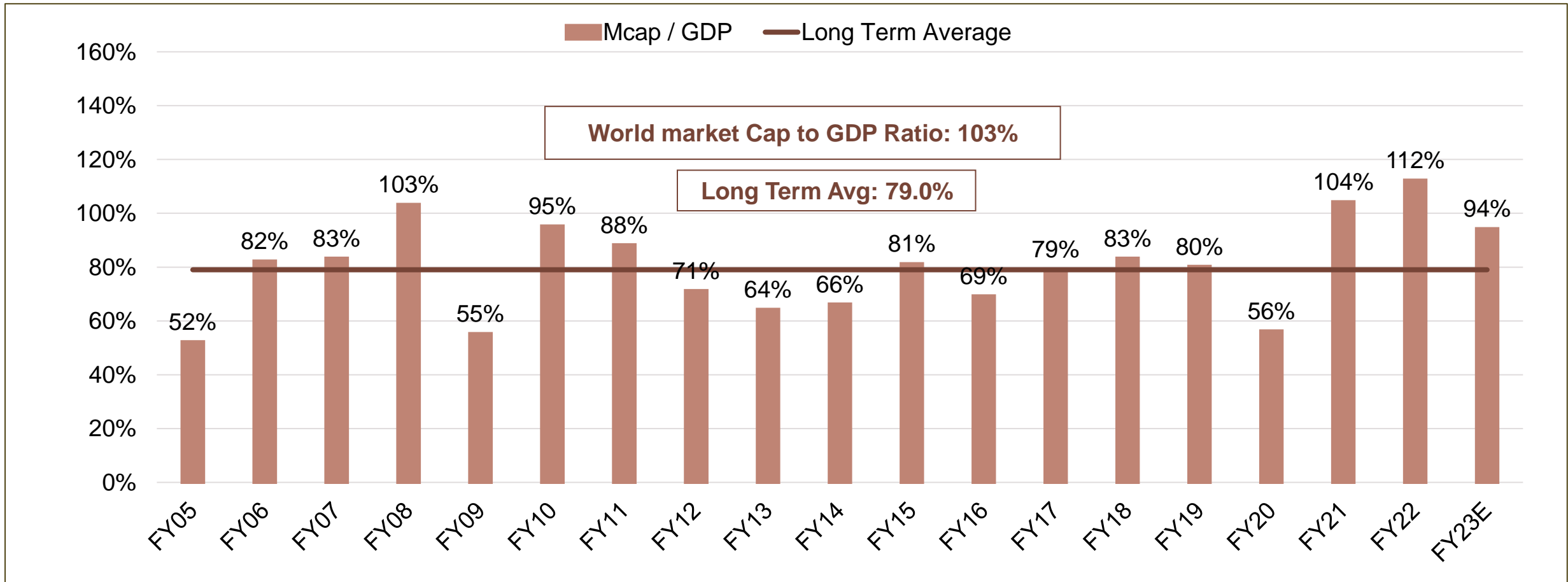
At 4.23X, the Nifty Trailing P/B is above the historical long-term average of 3.55X

At 1.38%, 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 94%), India is trading above the long-term average of 79%

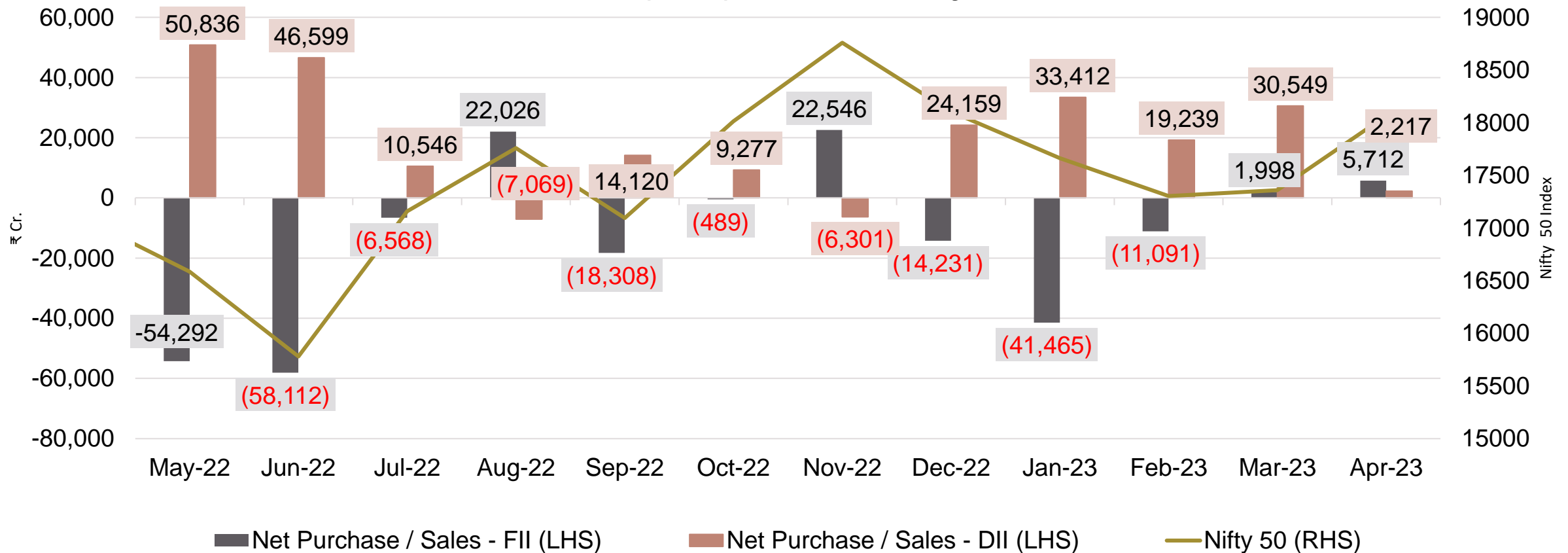


Source: Kotak AMC, Monthly Market Outlook, March '23

# FII & DII Flow into Equity

- FIIs gained slight momentum as it saw buying of Rs. 5700 cr in equities after a 3-month selling spree from Dec-Feb.
- On the other hand, DIIs continued to remain net buyers for the month; however, at a very slow pace as compared to Mar 23.

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



# Equity Mutual Fund Category Average Performance - April 2023



- **For April month**, performance of equity categories was in green with Dividend Yield, Contra and Large Cap underperforming the rest. Among the sectoral funds too, Technology and Financial Services underperformed.
- **For the trailing 3-month period**, all the equity categories and sectors were in green **and for trailing 6 months, majority of the categories & sector funds** were in the negative zone, except for Small Cap, Value, Contra and Dividend Yield. For sectoral, FMCG and Infrastructure categories were the top performers for the 6-month time horizon.
- **For the full year**, most of the categories were in green with Contra and Value delivering the highest returns. Among the sector based and thematic funds, FMCG was the top performer; while Technology and Healthcare were the only sectors that were in the red.
- **On a 3-year CAGR** basis, all the categories delivered double digit returns with the broader categories such as Small Cap, Contra & Mid Cap outperforming the rest. Among the sectoral category, Technology, Infrastructure & Consumption were the top performers.
- **With respect to the 5-year CAGR returns**, majority of the categories delivered early double digit return with the exception of Technology which clocked in gains of ~17%.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	3.57	2.24	-0.36	5.79	10.53	20.63	10.00
Large & Mid Cap	4.08	2.44	-0.65	5.10	12.58	25.04	10.50
Multi Cap	4.05	2.19	-0.60	6.18	13.98	27.29	12.22
Flexi Cap	3.96	2.44	-0.92	4.29	11.17	22.82	10.50
Mid Cap	4.14	2.14	-1.16	4.54	13.48	29.42	11.12
Small Cap	4.57	2.58	0.88	5.80	18.29	38.83	12.67
Focused	3.74	2.18	-1.79	4.41	10.76	22.28	9.91
ELSS	3.65	2.17	-1.02	5.02	11.06	23.21	9.60
Contra	3.47	2.32	1.23	9.74	16.16	29.76	12.29
Dividend Yield	2.95	2.22	2.46	7.66	16.32	27.63	10.87
Value	3.87	1.88	1.28	7.79	13.71	27.37	9.24
<b>Sectoral / Thematic</b>							
Consumption	4.19	2.67	-3.14	8.12	15.11	24.06	11.00
Infrastructure	3.80	3.99	3.18	11.03	19.88	32.53	10.39
Financial Services	5.47	3.82	2.45	14.57	11.66	22.95	8.83
FMCG	3.56	5.65	5.84	19.71	22.16	22.58	11.90
Healthcare	4.26	2.01	-2.79	-2.45	0.66	15.27	12.94
Technology	-1.97	-4.02	-1.88	-7.26	7.43	30.27	16.98
Others	4.14	2.61	1.20	6.71	12.44	25.44	9.47

Source: Morningstar Direct

# Debt Market - Review





# Debt Market Roundup - Key Takeaways



- The **India 10-Year G-sec yield fell** for the month of April to **close at 7.12% as against 7.32% at the end of March.**
- March 2023 marked the change in narrative from inflation to financial stability. Central Bankers, who were ultra-hawkish at the start of month, became attentive to financial contagion issue.
- After aggressively increasing rates in every single meeting of FY23 (total 250 bps in current rate hike cycle), **the RBI left the key policy rates unchanged in early April's meeting. This came as a surprise for markets since consensus expected 25 bps hike.**
- With current inflation above RBI's upper bound, **the RBI continues to focus on 'withdrawal of accommodative' stance** - to ensure that inflation progressively aligns with the target.

## Outlook:

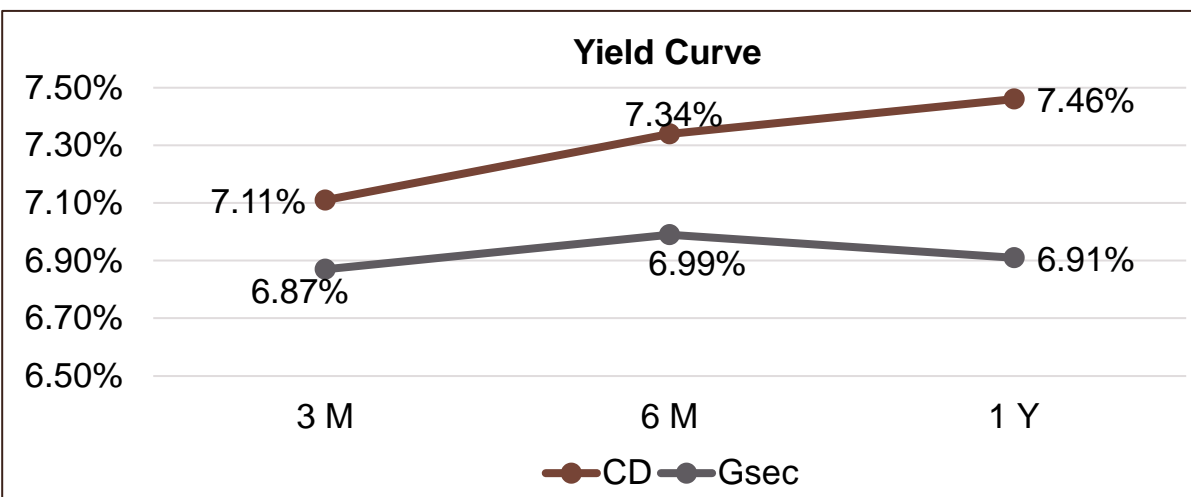
- RBI governor in MPC meeting held in April highlighted in the press conference **that it is the "pause for this meeting" and it should not be construed as pivot.** The RBI Governor did highlight upside risk to inflation and indicated that the future rate cuts will be data-dependent.
- While U.S Fed has clearly indicated data-dependency nature of future policy actions, **dovish comments in post policy press conference suggest that rates have probably peaked out in U.S.**
- Given the recent change in debt taxation, which is now at par with other fixed income instruments, **we believe there is still merit in investing in debt funds if bond yields come down in the future. For satellite portfolio (30-40% of the entire debt portfolio),** investors can consider **mutual fund categories such medium to long, long duration as they will see capital gains when interest rates start to fall.**
- **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.

# Debt Dashboard - April 2023

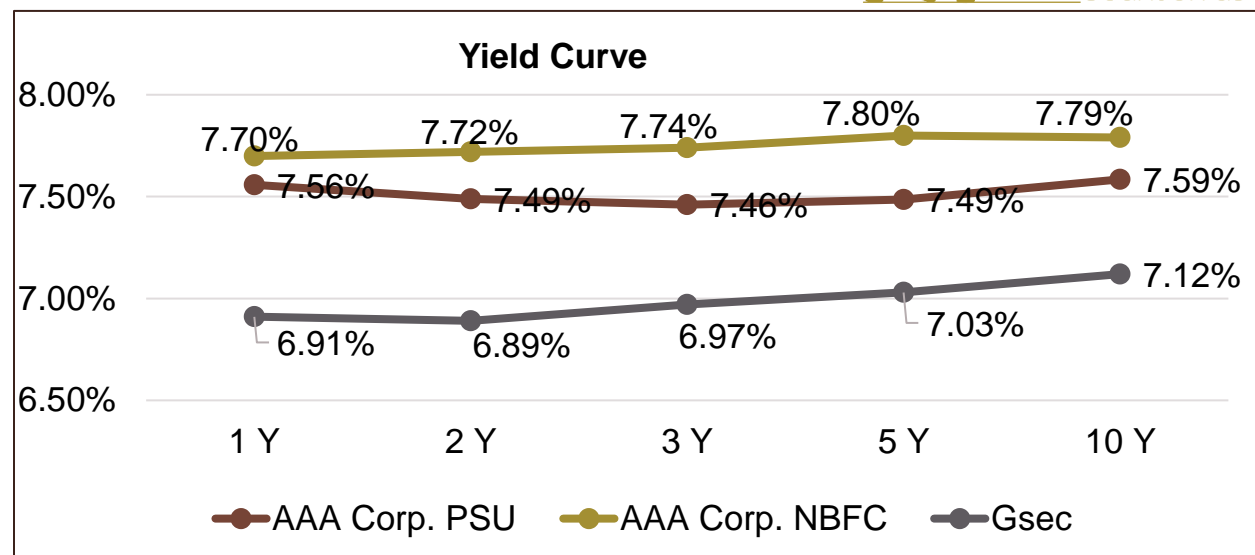
	Latest (28 Apr'23)	One Month Ago (28 Mar '23)	One Quarter Ago (27 Jan'23)	Half Year Ago, (28 Oct'22)	One Year Ago, (28 Apr'22)	M-o-M Change (bps)
<b>Interest Rates</b>						
Repo rate	6.50%	6.50%	6.25%	5.90%	4.00%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
<b>CD Rates</b>						
3 month	7.11%	7.65%	7.27%	6.95%	4.15%	-54
6 month	7.34%	7.76%	7.43%	7.38%	4.48%	-42
1 Year	7.46%	7.78%	7.78%	7.65%	5.13%	-32
<b>T-Bill/G-sec</b>						
91 Days	6.81%	7.03%	6.46%	6.39%	3.97%	-22
364 Days	6.98%	7.21%	6.90%	6.87%	4.79%	-23
India 10 Year G-Sec Yield	7.12%	7.32%	7.39%	7.42%	7.16%	-20
<b>AAA Corp. Bonds (PSU)</b>						
1 Year	7.56%	7.77%	7.69%	7.39%	4.94%	-21
3 Year	7.46%	7.69%	7.69%	7.61%	6.41%	-23
5 Year	7.49%	7.85%	7.69%	7.61%	6.77%	-36
<b>AAA Corp. Bonds (NBFC)</b>						
1 Year	7.70%	7.94%	7.72%	7.59%	5.00%	-24
3 Year	7.74%	8.08%	7.90%	7.77%	6.80%	-34
5 Year	7.80%	8.05%	7.90%	7.88%	6.99%	-25
<b>US Markets</b>						
10 Year US Treasury Yield	3.43%	3.57%	3.53%	4.01%	2.83%	-14
<b>Currency &amp; Commodity</b>						
USD/ INR	81.72	82.17	81.51	82.26	76.66	
Crude Brent (\$/Barrel)	79.54	78.65	86.66	95.77	107.59	

- The money market instruments witnessed fall in yields across tenures.
- The **U.S. Treasury Yields fell sharply** due to concerns over the ongoing turmoil in the global banking sector boosted the safe haven appeal of U.S. Treasuries.
- In **India, 10-year G-sec fell** the RBI's surprise pause in early April meeting. Also, U.S. Fed Reserve indicated that further rate action will be data dependent, also supported yields.
- **Both the AAA Corp. PSU & NBFC** witnessed fall across maturity bucket.
- After aggressively increasing rates in last one year, the RBI left the policy rates unchanged in early Apr'23 meeting. This came as a surprise for the markets.

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



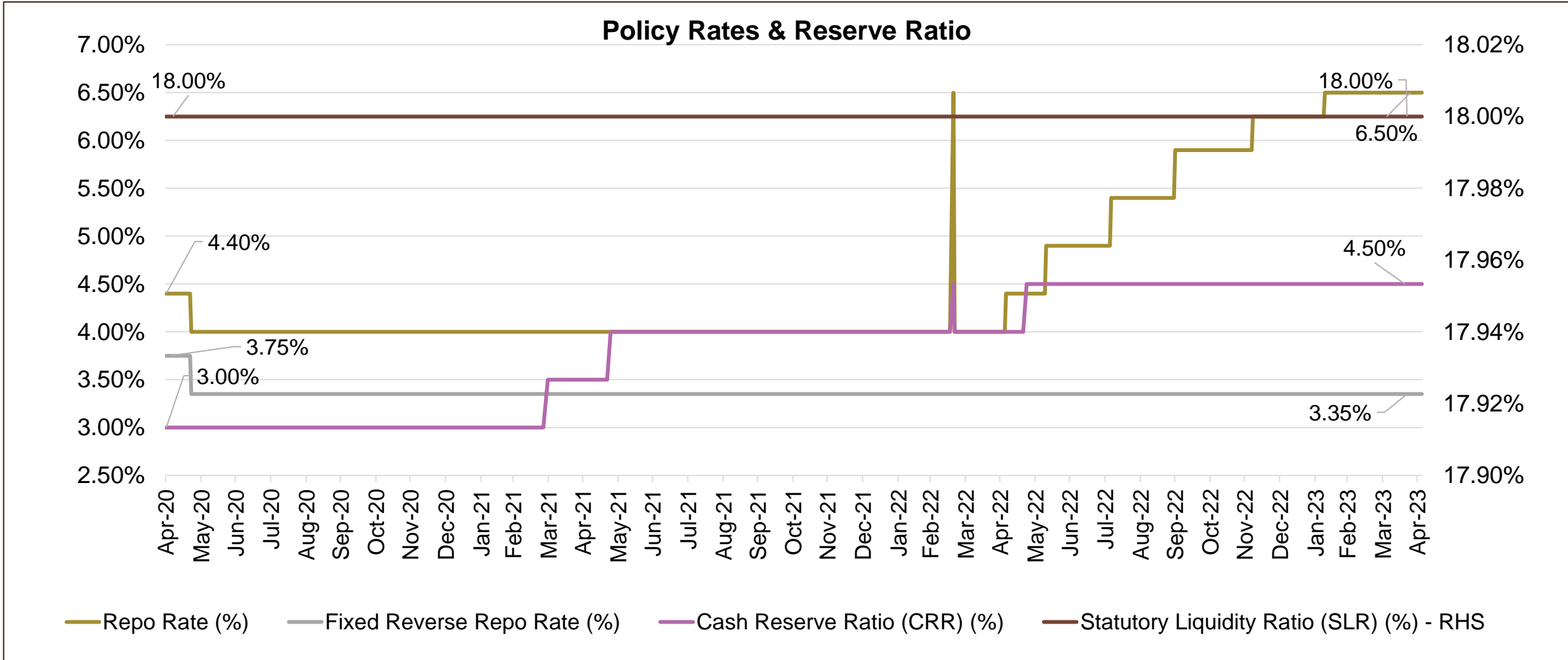
Data as on 30 Apr '23; Source: Bandhan AMC, Investing.com



Policy Rates / Reserve Ratio	Current (w.e.f April 08, 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%

- Both the AAA Corp. PSU & NBFC for across tenure papers saw fall in yields for Apr'23.
- The spreads between AAA Corporate PSU and the respective tenure GSec at the end of the month were in the range of 46-65 bps, while spreads between AAA Corporate NBFC and the respective tenure GSec was in the range of 67-83 bps.
- Short term papers upto 3 year maturity across AAA PSUs and AAA Corporate NBFCs are trading at attractive levels close to 7.60-7.70%.

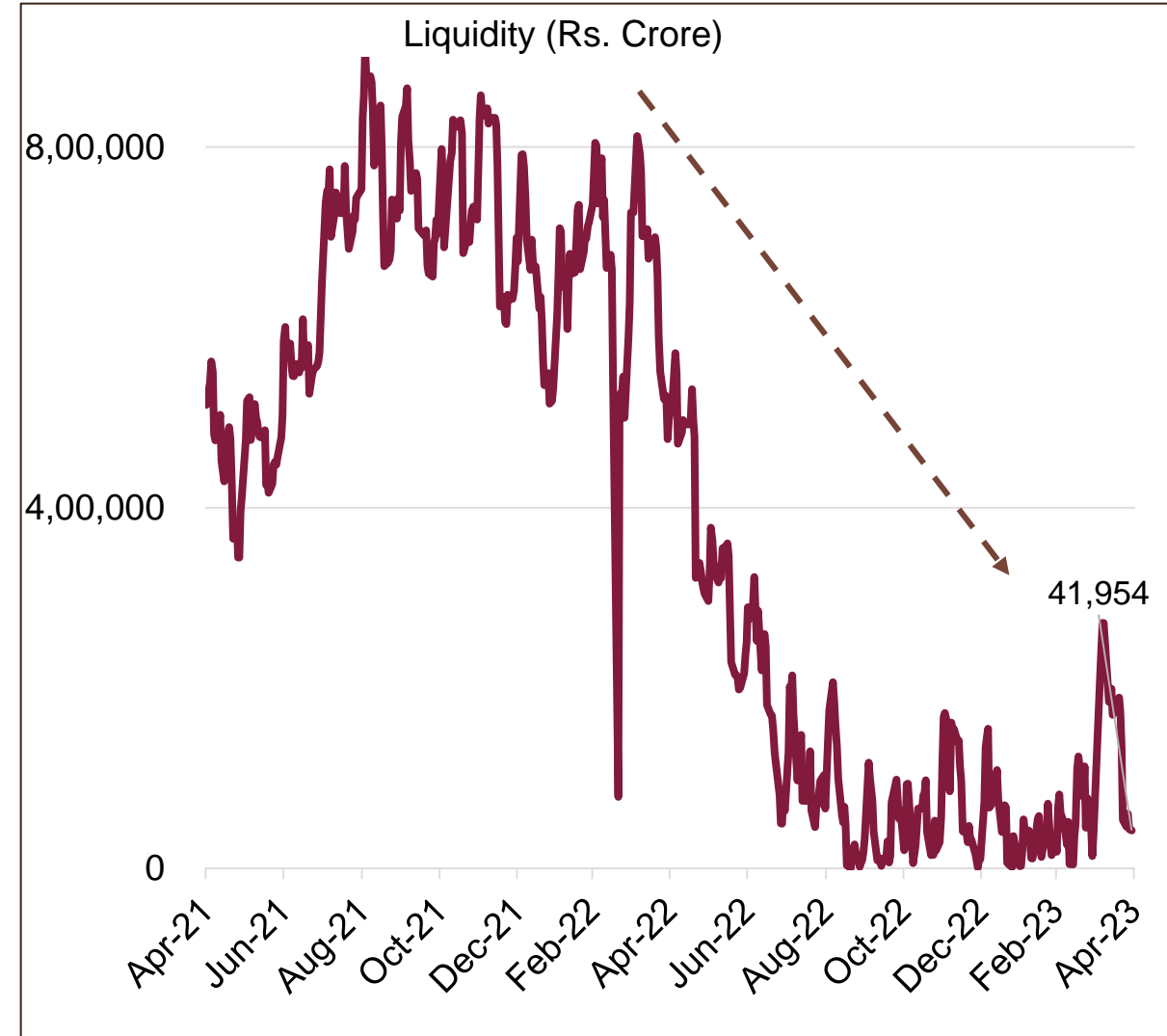
# Policy rate & Reserve Ratio movement since Apr '20



Source: Bandhan AMC

# Liquidity in the system

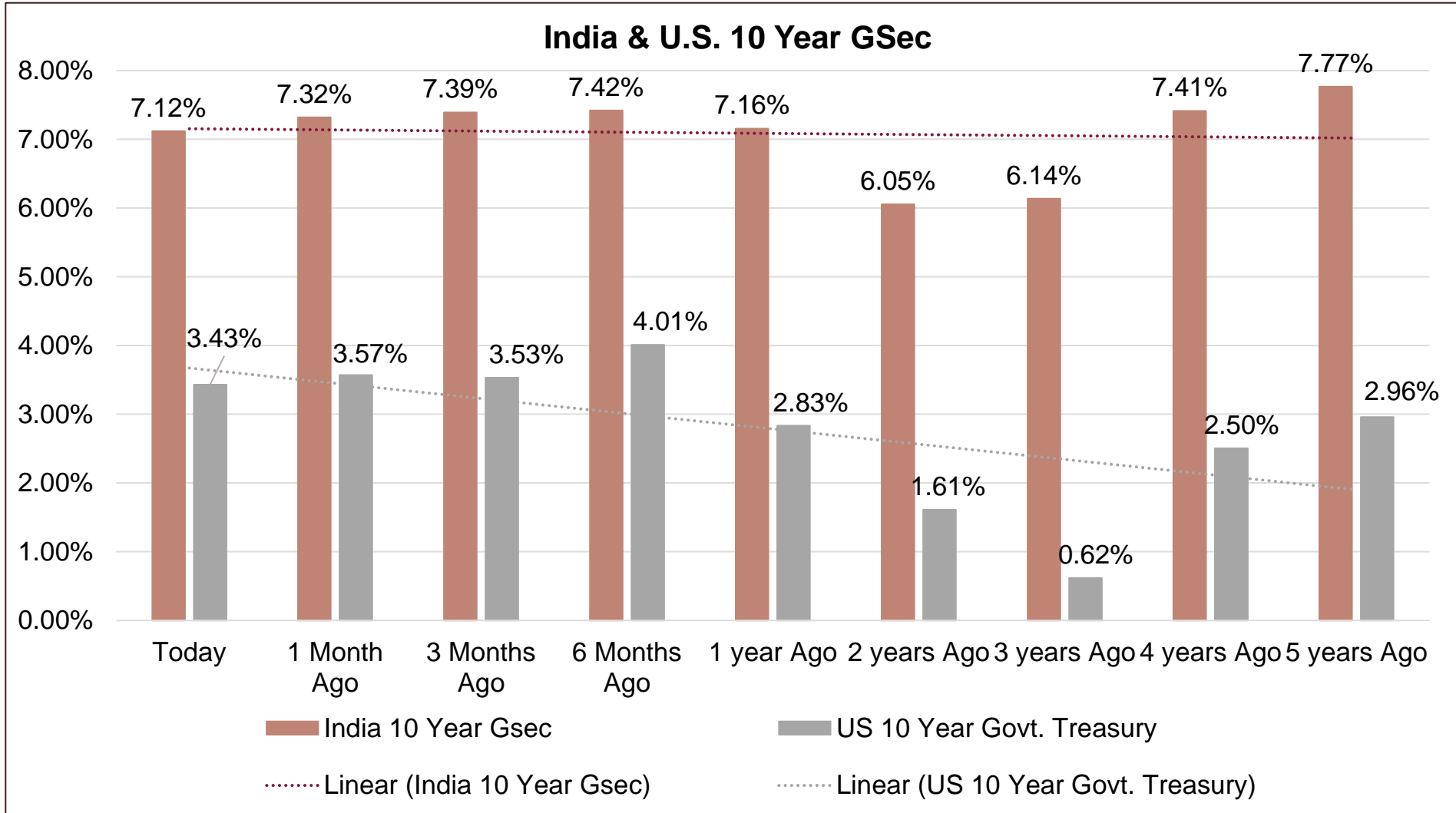
- In the April '22 policy meet **Standing Deposit Facility (SDF) was introduced** and the **Liquidity Adjustment Facility (LAF) corridor** was narrowed to 50 bps **making the Reverse Repo Rate redundant**.
- In the recent Apr '23 policy meet, the governor stated **overall system liquidity remains in surplus, though of a lower order compared to April'22**.
- 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 February – March '23, **the average total absorption under the liquidity adjustment facility (LAF) was ₹1.4 lakh crore, in line with the average of ₹1.4 lakh crore during October-November**.



Source: Bandhan AMC



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



- The 10-year Indian G-sec has increased compared to last 2-yr and 3-yr horizon.
- In case of U.S., the yields have risen across 1-yr, 2-yr & 3-yr horizon.
- While, in the last one month **the U.S. yields reached around 3.4% levels**; and 10-year Indian G-sec fell tracking decline in the U.S. Treasury yields.

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.
- With respect to average maturity and modified duration of the funds – especially the Duration & Accrual category, it has been on rise since past 1 year.

Category	YTM					Average Maturity					Modified Duration				
	Mar-23	Dec-22	Sep-22	Mar-22	Mar-21	Mar-23	Dec-22	Sep-22	Mar-22	Mar-21	Mar-23	Dec-22	Sep-22	Mar-22	Mar-21
<b>Money Market</b>															
Liquid	7.15	6.62	6.23	3.87	3.42	0.13	0.11	0.11	0.11	0.11	0.13	0.11	0.11	0.11	0.11
Ultra Short Duration	7.49	7.04	6.76	4.45	3.92	0.48	0.40	0.40	0.45	0.65	0.44	0.35	0.37	0.42	0.60
Low Duration	7.71	7.35	7.00	4.82	4.27	1.28	1.23	1.24	1.18	1.05	0.82	0.71	0.69	0.68	0.75
Money Market	7.50	6.96	6.69	4.40	3.80	0.66	0.34	0.39	0.47	0.48	0.63	0.33	0.38	0.46	0.47
<b>Accrual</b>															
Short Duration	7.63	7.46	7.18	5.19	4.98	2.58	2.40	2.11	1.95	2.24	1.99	1.79	1.54	1.47	1.84
Medium Duration	7.70	7.62	7.47	6.16	6.18	4.22	4.00	3.73	3.57	3.63	2.98	2.81	2.63	2.74	2.79
Banking & PSU Debt Fund	7.59	7.40	7.16	5.33	5.11	3.34	3.04	2.77	2.73	2.85	2.32	2.06	1.89	2.01	2.20
Corporate Bond Fund	7.61	7.50	7.28	5.56	5.09	3.16	2.87	2.59	2.80	2.52	2.03	1.95	1.71	2.07	1.97
Floating Rate	7.96	7.55	7.04	5.26	4.88	3.04	2.86	2.86	2.94	2.69	1.19	1.12	1.05	1.10	1.26
Credit Risk	8.18	8.04	7.80	6.06	7.10	2.56	2.60	2.32	2.20	1.88	1.68	1.68	1.61	1.65	1.45
<b>Duration</b>															
Medium To Long Duration	7.52	7.45	7.23	5.87	5.79	7.02	6.96	5.97	5.56	5.54	4.57	4.47	3.91	3.77	4.16
Long Duration Fund	7.52	7.51	7.62	6.96	6.70	17.08	16.72	16.89	16.98	17.82	8.72	8.40	8.72	8.81	9.40
Dynamic	7.50	7.33	6.99	5.47	5.52	5.21	4.61	3.72	3.66	4.27	3.37	3.01	2.35	2.48	3.28
Gilt	7.40	7.21	6.91	5.06	5.51	6.34	6.54	4.46	3.57	6.16	4.19	3.90	2.76	2.26	4.32
Gilt - 10 Year	7.45	7.42	7.38	6.81	6.37	9.57	9.51	9.16	9.38	9.26	6.76	6.56	6.48	6.70	6.70
<b>Passives</b>															
Target Maturity Funds / Index Funds	7.46	7.45	7.44	6.19	6.28	5.26	5.01	4.41	4.88	6.50	4.04	3.86	3.50	3.72	4.90

# Debt Category Average Performances - April 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 & Accrual 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, Overnight, 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
<b>Money Market</b>							
Overnight	0.52	1.54	3.05	5.60	4.41	3.93	4.58
Liquid	0.54	1.66	3.29	5.80	4.55	4.12	5.04
Ultra Short Duration	0.56	1.68	3.27	5.34	4.51	4.52	5.18
Low Duration	0.66	1.82	3.39	5.27	4.47	5.44	5.32
Money Market	0.61	1.79	3.45	5.58	4.54	4.58	5.79
<b>Accrual</b>							
Short Duration	0.87	1.99	3.90	5.26	4.82	5.88	5.93
Medium Duration	1.09	2.28	4.05	6.29	5.55	6.69	5.43
Banking & PSU Debt Fund	0.94	2.09	3.71	5.31	4.27	5.55	6.82
Corporate Bond Fund	0.96	2.09	3.76	5.02	4.16	5.66	6.58
Floating Rate	0.75	1.99	3.52	5.51	4.61	5.75	6.52
Credit Risk	0.94	2.29	3.93	5.68	10.38	9.90	4.36
<b>Duration</b>							
Medium To Long Duration	1.27	2.52	4.34	6.26	4.24	4.95	6.09
Long Duration Fund	1.76	3.44	5.68	7.20	3.54	4.23	6.94
Dynamic	1.14	2.26	3.99	5.91	4.52	5.09	6.55
Gilt	1.25	2.54	4.26	5.88	3.97	4.38	7.23
Gilt - 10 Year	1.65	3.10	5.43	6.69	3.26	4.21	7.89
<b>Passives</b>							
Target Maturity Funds / Index Funds	1.11	2.40	4.48	5.51	4.67	6.94	-

Source: Morningstar Direct

# Event Update

# RBI MPC pauses repo rate hike, pegs FY24 inflation at 5.2%



## Key Highlights

- RBI keeps repo rate unchanged at 6.5% in its April'23 policy meet
- Cash reserve ratio (CRR) kept unchanged at 4.50%
- The MPC voted on “withdrawal of accommodation” highlighting the readiness to act should the situation so warrant.
- For FY24, retail inflation lowered to 5.2% from earlier 5.3%
- FY24 GDP growth forecast increased from 6.4% to 6.5%

## Growth Outlook

- Real GDP Real GDP is expected to have recorded a growth of 7.0% in Q3FY23, led by robust growth in private consumption and investment demand.
- High frequency data in January indicated that economic activity remained resilient.
- On the supply side, Rabi foodgrains production is estimated to increase by 6.2% in FY23. The manufacturing and services PMIs for India in March are among the highest in the world at 56.4 & 57.8, respectively.
- The biggest risks to the outlook continue to be the headwinds emanating from protracted geopolitical tensions, global slowdown, tightening of global financial conditions & banking system disruptions in the U.S.

## Inflation Outlook

- Headline inflation excluding vegetables has been rising well above the upper tolerance band and may remain elevated, especially with high core inflation pressures. Inflation, therefore, remains a major risk to the outlook.
- The governor stated the RBI's current objectives remained the 3 simultaneous targets - to keep inflation expectations anchored, break core inflation persistence and thereby strengthen medium-term growth prospects.

Policy Rates / Reserve Ratio	8 Feb '23	07 Apr '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%	↔



# US Fed hikes rates by 25 bps in May-23, data dependent approach for future rate hikes

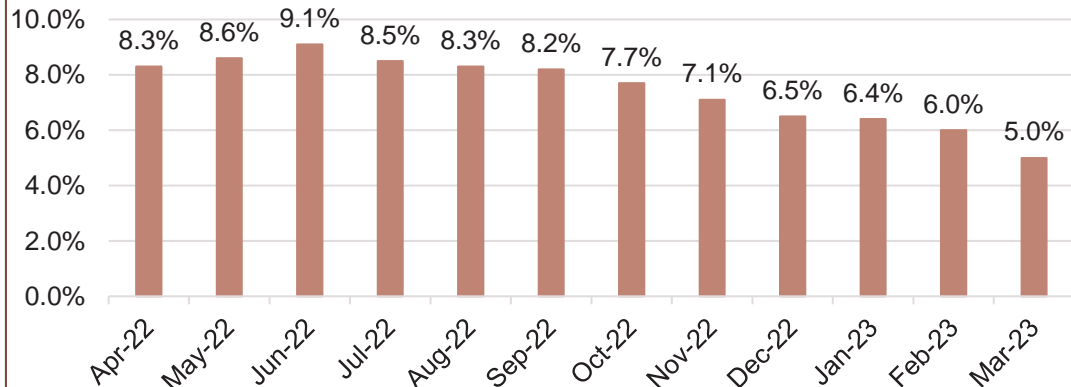


## Key Highlights

- Fed raised its target interest rate by 25 bps to a range of 5.00%-5.25%.
- The 25-bps points hike has now taken the interest rates to a 15 year high i.e., since 2007
- The Fed projects raising rates as high as 5.1% before ending inflation battle
- The U.S. CPI inflation stood at 5.0% in March, nearly three times the Fed's target level of 2.0%

**After touching a fresh 4 decade high of 9.1% in June '22 U.S. Inflation cooled down between July to March**

## **U.S. Inflation - eased in the last few months**



Source: Trading economics

## U.S. Inflation Peaking

- U.S. inflation data has shown a significant decrease over past few months. In Mar 2023, CPI inflation fell to 5.0% over the year.
- U.S. Consumer Price Index peaked at 9.1% Y-o-Y in June, but it failed to come down as quickly in recent months as Fed officials had hoped.

## To Conclude

- In India, the rising US interest rates present challenges for the RBI Governor as inflation in the domestic market is showing signs of receding.
- When the Fed raises its policy rates, the difference between the interest rates of India and the US narrows. This makes emerging countries such as India less attractive for the currency carry trade.
- Further rate hike are on the cards for most of major developed economies across the world fear of “**stagflation**” are at their highest since the onset of the Great Recession in 2008.

## 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.

**Thank You!**

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