

Tata Capital Wealth

Market Outlook - January 2024



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Macro Indicators

	Current		Month Ago	Quarter Ago	Half Year Ago	Year Ago
Economic Indicators:						
PMI Manufacturing	54.9 (Dec-23)	↓	56.0 (Nov-23)	57.5 (Sep-23)	57.8 (Jun-23)	57.8 (Dec-22)
PMI Services	59.0 (Dec-23)	↓	56.9 (Nov-23)	61.0 (Sep-23)	58.5 (Jun-23)	58.5 (Dec-22)
Consumer Price Index (CPI)	5.7% (Dec-23)	↑	5.6% (Nov-23)	5.0% (Sep-23)	4.9% (Jun-23)	5.7% (Dec-22)
Wholesale Price Index (WPI)	0.3% (Nov-23)	↑	-0.5% (Oct-23)	-0.5% (Aug-23)	-3.6% (May-23)	6.1% (Nov-22)
Industrial Production (IIP)	2.4% (Nov-23)	↓	11.6% (Oct-23)	10.9% (Aug-23)	5.7% (May-23)	7.6% (Nov-22)
GDP	7.6% (Sep-23)	↓	NA	7.8% (Jun-23)	6.1% (Mar-23)	6.2% (Sep-23)
Trade Deficit (\$ bn)	20.6 (Nov-23)	↓	29.9 (Oct-23)	22.0 (Aug-23)	22.5 (May-23)	22.1 (Nov-22)
Commodity Market:						
Brent Crude (\$/barrel)	77.0 (29-Dec-23)	↓	82.8 (30-Nov-23)	95.3 (29-Sep-23)	74.9 (30-Jun-23)	85.9 (30-Dec-22)
Gold (\$/oz)	2,071.8 (29-Dec-23)	↑	2,057.2 (30-Nov-23)	1,866.1 (29-Sep-23)	1,929.4 (30-Jun-23)	1,826.2 (30-Dec-22)
Silver (\$/oz)	24.0 (29-Dec-23)	↑	25.7 (30-Nov-23)	22.5 (29-Sep-23)	22.8 (30-Jun-23)	24.0 (30-Dec-22)
Currency Market:						
USD/INR	83.2 (29-Dec-23)	↑	83.4 (30-Nov-23)	83.0 (29-Sep-23)	82.1 (30-Jun-23)	82.8 (30-Dec-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: Indian equity markets rallied in Dec '23 as S&P BSE Sensex (8.4%) and Nifty 50 (8.5%) indices rose. For Dec '23, Large Cap indices fared better than both Small Cap and Mid Cap indices. Nifty Midcap 100 and Nifty Smallcap 100 indices were up by (7.1%) and (7.3%), respectively.

Domestic & Global factors that played out for the Indian markets:

- The key benchmark indices **rose to a fresh record high** after **encouraging macro economic data** coupled with **strong GDP data for the Jul-Sep quarter** of FY24, increased confidence among market participants regarding the growth prospects of the domestic economy. The outcome of the recently concluded state assembly elections made participants **hopeful of political stability and policy continuity**.
- In the recent monetary policy meeting, the **RBI kept the policy repo rate unchanged** for the fifth consecutive time and **raised the GDP growth forecast** for FY24, which also contributed to the surge. Further, the **U.S. Federal Reserve (Fed) signaled the end of its tightening cycle** in its recent policy meet.
- **Strong buying was seen by both - FII and MFs** in CY 2023.

Outlook:

- **Favorable and continuous improvement in macroeconomic factors and net positive DII flows for the current fiscal** have played a key role in the market rally. **Domestic high frequency indicators** like GST collections, purchasing managers index, credit growth and a stable retail core inflation (ex of food and energy) **augurs well for the Indian economy**.
- 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 crude oil prices, global liquidity conditions, geopolitical tensions, global central banks actions and political stability in India**. Looking at the sharp rally in the equity markets and the Nifty 50 crossing the 21,800 levels in early January, investors need to be cautious **and invest in staggered manner and follow the prescribed asset allocation**. Investors may look at **Large cap oriented funds along with Multi Asset, Balanced Advantage and Balanced Hybrid categories as these categories shall assist to manage the near term risks**.

Indian Equity Market Dashboard - December 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	8.38	10.07	12.34	20.38	12.87	16.22	16.29	25.57	3.73	1.10	
Nifty 50	8.49	10.97	13.96	21.36	13.26	17.24	16.25	23.17	3.81	1.28	
Nifty 100	9.09	12.28	15.47	21.30	12.83	17.20	15.87	23.75	3.91	1.27	
Nifty 200	8.95	12.58	17.49	24.73	14.40	19.05	16.73	23.89	3.88	1.21	
Nifty 500	8.57	12.66	19.00	26.99	15.06	20.34	17.48	24.48	3.91	1.17	
Nifty Midcap 150	7.47	13.06	28.22	44.73	22.65	30.63	22.99	26.51	4.05	0.87	
Nifty Smallcap 250	6.37	15.08	34.13	49.23	20.54	33.41	22.71	27.37	3.63	0.89	
Nifty Microcap 250	4.59	15.43	42.92	67.54	35.57	48.45	28.15	30.56	2.92	0.68	
Sectoral Indices								Equity Market Flow			
Nifty Energy	15.23	23.20	37.13	30.67	23.40	28.21	21.18	Equity Flow (₹ Cr.)	1-Mth	CYTD	1 Yr.
Nifty Metal	14.67	16.90	29.21	19.18	22.25	37.38	22.55				
Nifty PSU Bank	14.26	8.75	39.44	33.37	52.72	50.04	13.87	FII	31,960	-16,325	-16,325
Nifty Oil & Gas	12.86	20.46	26.88	13.14	15.01	21.98	17.81	DII	12,942	181,482	181,482
Nifty Infrastructure	11.65	17.35	28.44	40.19	22.77	27.59	19.91	Source: Moneycontrol			
Nifty Realty	10.40	36.45	51.64	82.24	27.69	36.13	28.04				
Nifty IT	9.62	12.61	21.45	26.37	-2.33	15.73	22.14				
Nifty Bank	9.16	8.41	8.28	13.32	17.68	16.40	12.76				
Nifty Services Sector	8.73	10.60	11.98	12.85	7.84	13.44	14.42				
Nifty FMCG	8.01	10.91	9.68	30.86	25.38	20.88	15.18				
Nifty Financial Services	7.64	8.62	7.49	14.35	12.41	13.12	13.88				
Nifty India Consumption	7.03	13.54	15.82	28.03	17.89	18.86	15.26				
Nifty Auto	6.49	15.21	24.02	48.89	31.78	27.85	16.43				
Nifty Pharma	3.90	9.27	23.16	34.86	9.71	10.10	14.54				
Nifty Healthcare	3.62	9.58	19.81	34.08	9.77	12.79	16.34				

Global Equity Market Dashboard - December 2023

Country	Index Name	Index Value	Absolute(%)				CAGR (%)		
			1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
Global Market Indices									
India	Nifty 50	21,731	8.49	10.78	13.39	20.08	11.94	15.86	14.88
Brazil	Ibovespa Sao Paulo	134,185	5.96	15.45	13.86	22.34	13.18	4.09	8.83
U.S.	Nasdaq 100	16,826	5.89	14.50	10.97	53.95	1.54	9.31	21.61
Singapore	Strait Times	3,240	5.82	0.72	1.08	-0.34	1.85	4.45	1.09
South Korea	Kospi	2,655	5.24	7.72	3.61	18.78	-5.58	-2.60	5.40
U.S.	Russell 1000	2,622	5.15	11.64	7.68	24.58	-0.45	7.34	13.64
UK	FTSE	7,733	4.01	1.66	2.71	3.79	2.34	6.19	2.83
Germany	DAX	16,752	3.53	8.97	3.78	20.37	2.70	6.89	9.66
France	CAC 40	7,543	3.40	5.78	1.96	16.56	2.70	10.78	9.79
Taiwan	Taiwan Capitalization Weighted Stock	17,931	3.05	9.64	6.07	26.90	-0.79	6.78	13.00
Pan - Europe	Euronext 100	1,396	3.00	5.48	1.60	13.35	1.24	8.15	8.77
Indonesia	Jakarta Composite	7,273	2.90	4.85	9.12	6.18	5.13	6.75	3.26
Switzerland	Swiss Market	11,138	2.79	1.61	-1.28	3.82	-7.00	1.34	5.72
Malaysia	KLSE	1,455	0.14	2.16	5.73	-2.74	-3.68	-3.67	-2.96
Hong Kong	HangSeng	17,047	0.03	-4.33	-9.99	-13.86	-14.68	-14.48	-7.99
Japan	Nikkei	33,464	-0.07	5.10	0.84	28.32	7.82	6.84	10.81
China	SSE Composite	2,975	-1.93	-4.36	-7.17	-3.71	-9.62	-5.04	3.59

Data as on 31st December 2023. Performance shown is for Price Return Index. Source: ICRA MFI Explorer

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Global Equity Market Performance across Calendar years



2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)
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 43.42
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 28.24
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 24.10	Japan -9.37	U.S.- S&P 500 24.23
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	Germany 20.31
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	India 20.03
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	South Korea 18.73
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	France 16.52
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. 3.78
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	China -3.70
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 -13.82

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

Performance as on 31st December 2023. Source: MorningStar Direct

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Asset Class Performance

2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)
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	Small Cap 48.23
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 43.80
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	Intl 24.58
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 20.08
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 15.41
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 7.68
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	Cash 7.35
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	Bonds 7.21
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 1.98

Index used for each of the Asset Class: Gold: Domestic Prices of Gold, Real Estate: House Price Index (Data updated upto Sep 2023), 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 31st December 2023. Source: ICRA MFI Explorer & RBI - DBIE

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

Nifty 12-month trailing P/E of 23.17X is lower than its historical long-term average of 24.37X

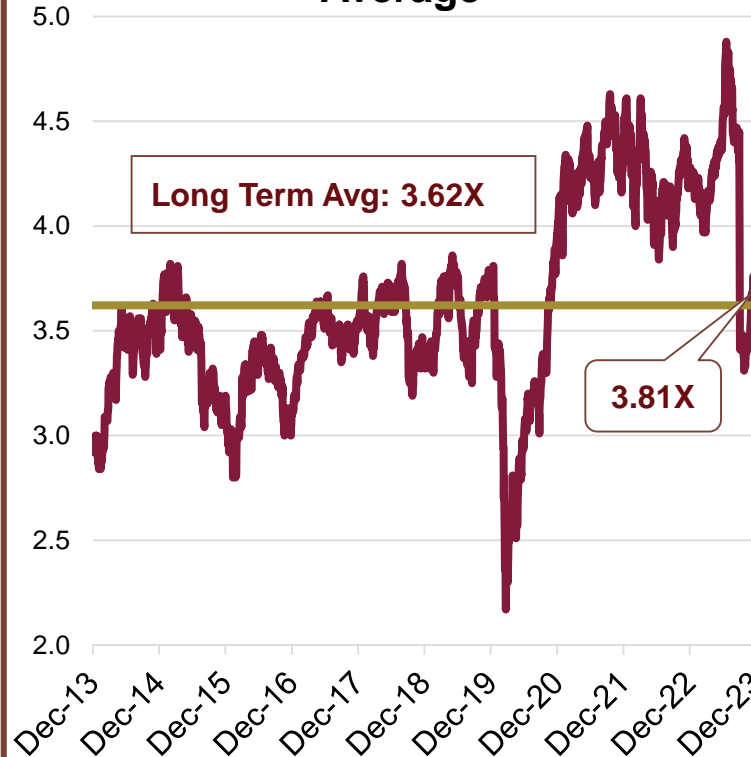
At 3.81X, the Nifty Trailing P/B is marginally higher than the historical long-term average of 3.62X

At 1.28%, the Nifty Trailing Dividend Yield is in line with the historical long-term average of 1.30%

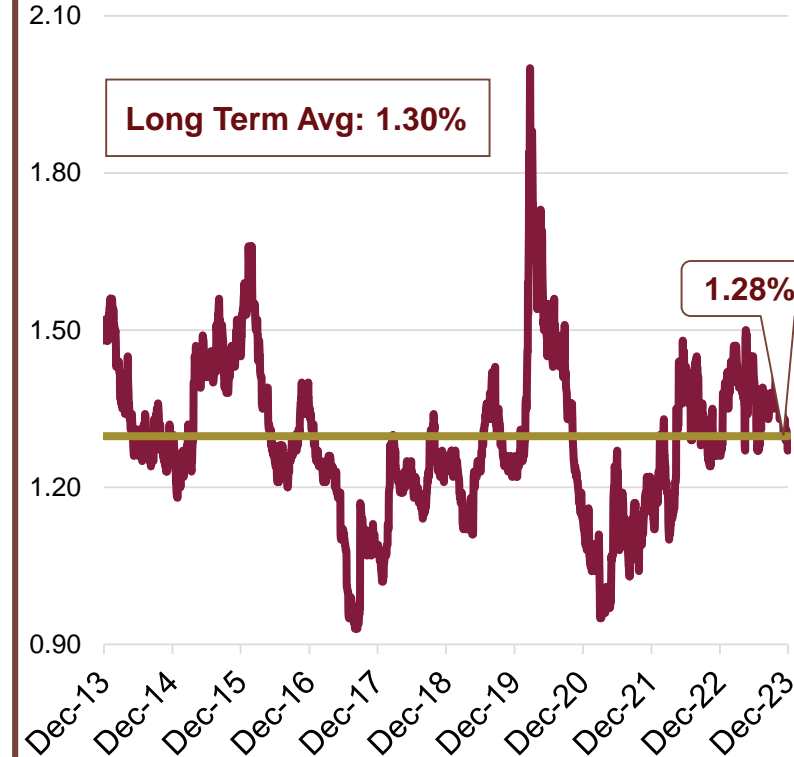
Nifty 50 P/E vs Long Term Average



Nifty 50 P/BV vs Long Term Average

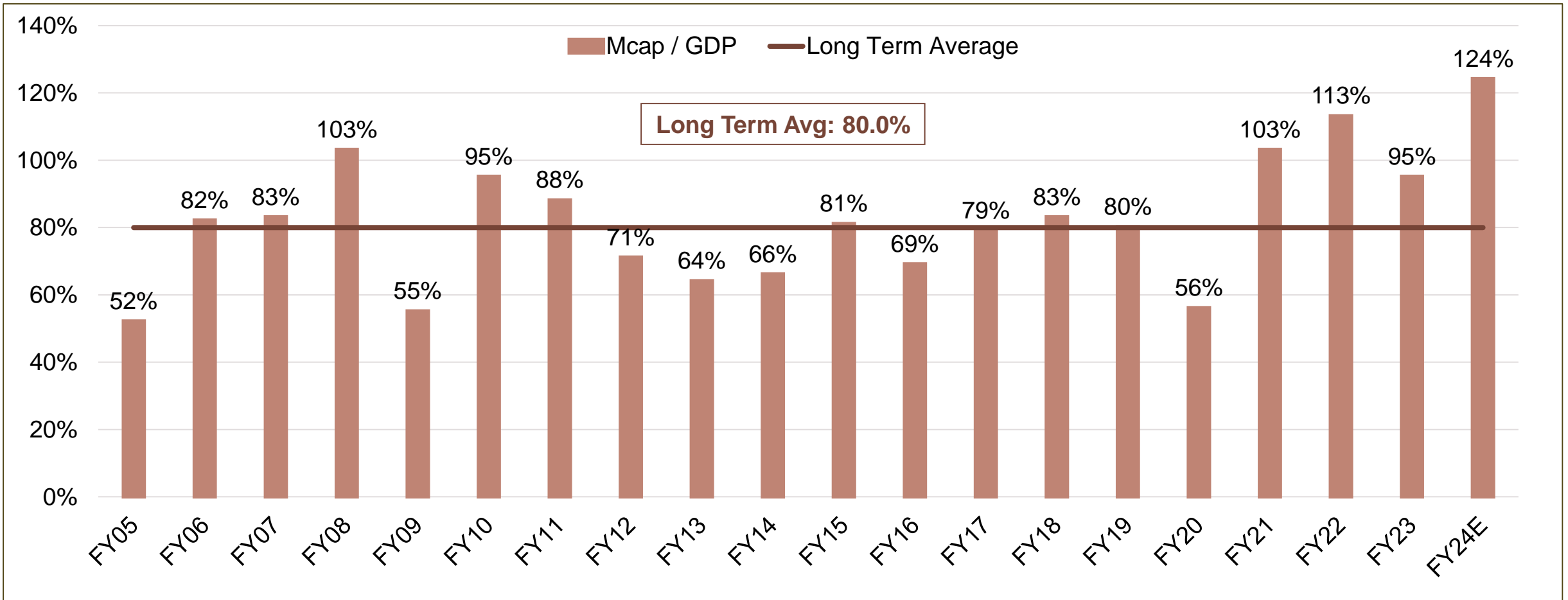


Nifty 50 Dividend Yield vs Long Term Average



Valuations on a Market Capitalisation / GDP perspective

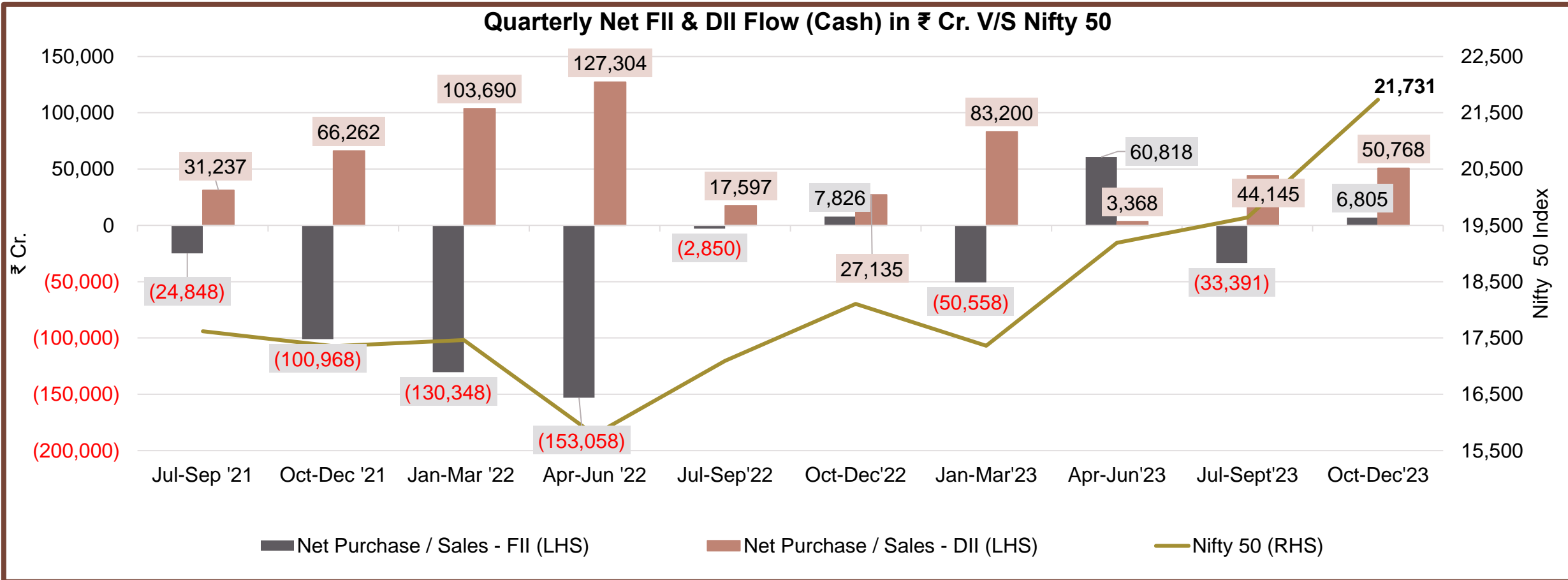
On Market Capitalisation to GDP parameter (FY24E 124%), India is trading above the long-term average of 80%



Source: Kotak AMC, Monthly Market Outlook, January '24

Quarterly FII & DII Flow into Equity

- Both the FIIs & DIIs were the net buyers of Indian equities in the Oct-Dec'23 quarter to the extent of ~ ₹6,800 cr and ₹50,800 cr respectively.
- On the back of this, the equity market rallied ~10.0% during the Oct-Dec'23 quarter.



* Data Updated upto 31st December 2023

Equity MF Category Average Performance - December 2023

- **For December month**, performance of all the equity categories were in green with Dividend Yield, Contra & Value outperforming the most. Among the sectoral funds, Infrastructure and Technology witnessed significant outperformance.
- On a 1-year CAGR basis, all the equity and sectoral/thematic categories delivered positive double-digit returns. **Small Cap category has emerged as the top performer** followed by Mid Cap, Dividend Yield, Value and Contra categories. In case of sectoral/thematic categories, **Infrastructure, followed by the Healthcare category has been the top performer** across given time frame as on December end.
- **On a 3-year CAGR basis**, among the sectoral category, **Healthcare generated lowest returns** as compared to other categories while the highest return was delivered by **Infrastructure sector**.
- **With respect to the 5-year CAGR returns**, all categories delivered returns above 12% with Small Cap, Mid Cap, Contra, Technology, Infrastructure and Healthcare being the top performer.
- **Large Cap has been one of the bottom performer** across all time frames.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	7.40	10.98	15.53	23.55	12.34	16.53	15.00
Large & Mid Cap	6.54	11.61	19.48	29.98	14.92	21.99	17.93
Multi Cap	6.23	11.91	21.57	32.76	17.87	25.22	19.99
Flexi Cap	6.73	11.57	18.48	28.28	13.32	19.22	16.72
Mid Cap	5.57	11.91	23.27	37.04	18.36	26.26	20.74
Small Cap	4.34	11.85	24.32	41.08	19.16	32.48	24.56
Focused	6.32	11.06	17.12	26.01	12.78	18.73	16.37
ELSS	6.74	11.63	18.29	27.83	13.99	19.55	16.64
Contra	7.85	13.78	22.62	34.02	20.29	25.46	20.37
Dividend Yield	8.50	13.83	23.30	35.99	18.22	24.76	18.81
Value	7.68	13.86	23.23	34.36	19.28	24.19	17.75
Sectoral / Thematic							
Consumption	4.62	10.92	16.67	29.32	17.76	21.20	17.27
Infrastructure	8.62	14.91	28.58	45.16	25.99	34.04	21.86
Financial Services	6.69	10.11	14.15	21.07	17.96	17.36	13.84
FMCG	5.10	6.78	7.84	23.27	20.77	20.35	14.85
Healthcare	4.08	11.07	22.55	35.96	10.70	13.94	21.66
Technology	7.00	12.24	23.12	34.21	2.75	20.20	24.36
Others	7.51	13.26	22.85	34.14	18.16	23.53	18.21

Source: Morningstar Direct

Debt Market - Review



Debt Market Roundup - Key Takeaways

- The **India 10-Year G-sec yield for December** closed at 7.20% as against 7.28% at the end of November, as yields fell in line with the U.S. peer.
- The India 10-Year G-sec yield fell following the **fall in U.S. treasury yields as Federal Reserve (Fed) posted a dovish commentary and projected three rate cuts in 2024** and a sharp decline in crude oil prices also added to the gains. However, gains were restricted after the RBI kept key interest rate unchanged and refrained from making any major announcements in its latest policy decision.
- India's foreign exchange reserves ballooned to touch \$623.20 bn for the week ending on 29 December 2023 to touch a 22-month high.

Outlook:

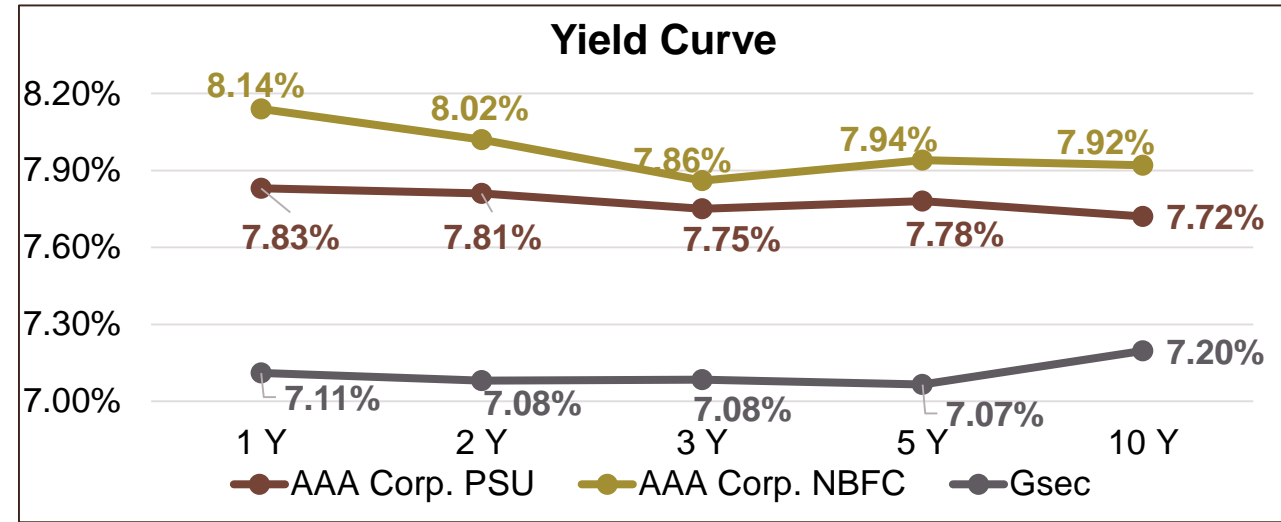
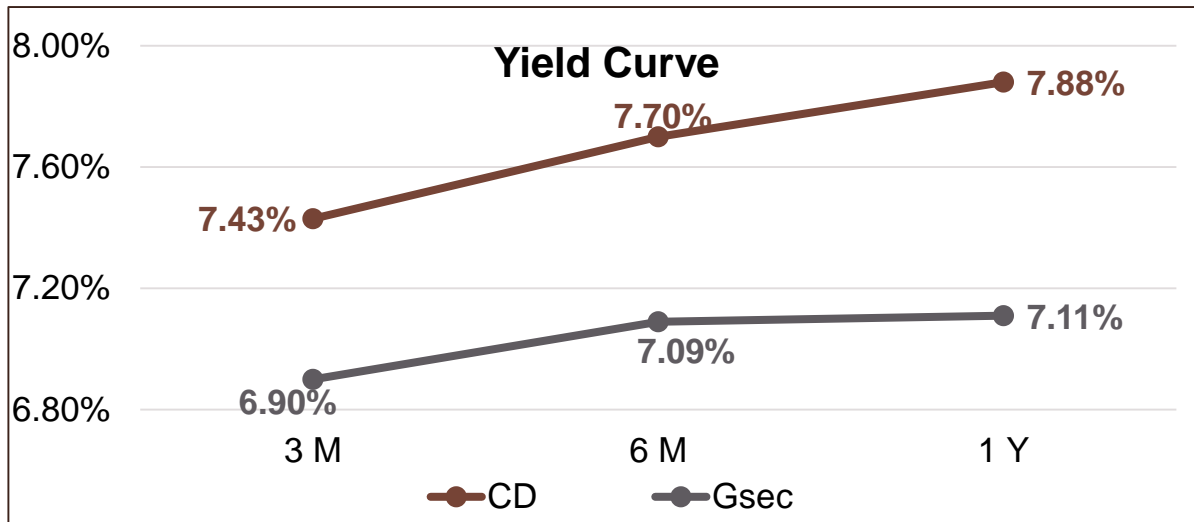
- With the **economic survey, the interim budget, U.S. Fed meet and RBI Policy meet round the corner**, the debt markets will be guided by these events in the coming months. Further, the governments first advance estimate for this year's growth being pegged at 7.3% above the upwardly revised RBI's forecast of 7.0%; the Indian economy presents a picture of resilience and momentum, against unsettled global economic backdrop.
- While the global economy is slowing, the **domestic conditions remain favorable to bonds considering falling inflation as well as inclusion in JP Morgan Index**. Inclusion in the JP Morgan EM Bond Index will likely lead to inflows of around \$20-25 billion in FY25. Active FII flows have already started in the past few months.
- **However, headwinds from geopolitical tensions and geo-economic fragmentation, volatility in global financial markets and global economic slowdown continue to pose risks.**
- **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 and Dynamic Bond Funds as they can generate capital gains when interest rates cuts by central banks happen in future.**

Debt Dashboard

	Latest (31 Dec'23)	One Month Ago (30 Nov'23)	One Quarter Ago (30 Sep'23)	Half Year Ago, (30 Jun'23)	One Year Ago, (31 Dec'22)	M-o-M Change (bps)
Interest Rates						
Repo rate	6.50%	6.50%	6.50%	6.50%	6.25%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	7.43%	7.36%	7.05%	6.98%	6.65%	7
6 month	7.70%	7.60%	7.22%	7.13%	7.15%	11
1 Year	7.88%	7.80%	7.50%	7.40%	7.60%	8
T-Bill/G-sec						
91 Days	6.94%	6.96%	6.92%	6.73%	6.29%	-2
364 Days	7.10%	7.14%	7.08%	6.86%	6.87%	-4
India 10 Year G-Sec Yield	7.20%	7.28%	7.21%	7.11%	7.33%	-8
AAA Corp. Bonds (PSU)						
1 Year	7.83%	7.78%	7.55%	7.38%	7.55%	5
3 Year	7.75%	7.84%	7.77%	7.48%	7.58%	-9
5 Year	7.78%	7.80%	7.68%	7.56%	7.59%	-2
AAA Corp. Bonds (NBFC)						
1 Year	8.14%	7.87%	7.68%	7.63%	7.84%	27
3 Year	7.86%	7.96%	7.86%	7.86%	7.80%	-10
5 Year	7.94%	7.93%	7.86%	7.88%	7.85%	1
US Markets						
10 Year US Treasury Yield	3.89%	4.33%	4.58%	3.84%	3.61%	-44
Currency & Commodity						
USD/ INR	83.19	83.36	83.03	82.10	82.75	↓
Crude Brent (\$/Barrel)	77.04	82.83	95.31	74.90	85.91	↓

- **10-year U.S. Treasury yield** fell as U.S. inflation declined and U.S. Federal Reserve (Fed) pivot to dovish policy.
- **In line with the U.S. markets, yield on the India 10-year benchmark closed at 7.20% lower than the previous month's close of 7.28%.**
- **Corporate bond yields of PSU's and NBFC's** closed the month on a mixed note on better-than-expected monthly inflation print, dovish U.S. Fed and easing crude price concerns.
- Though, for the past 5 policy meets the MPC kept the policy rates stagnant, but the **cumulative rate hike of 250 bps undertaken by the MPC is working its way into the economy.**
- Even as war in the Middle East continued, **Crude fell by over \$5 during the month.**

Yield Curve and Policy Rates & Reserve Ratios

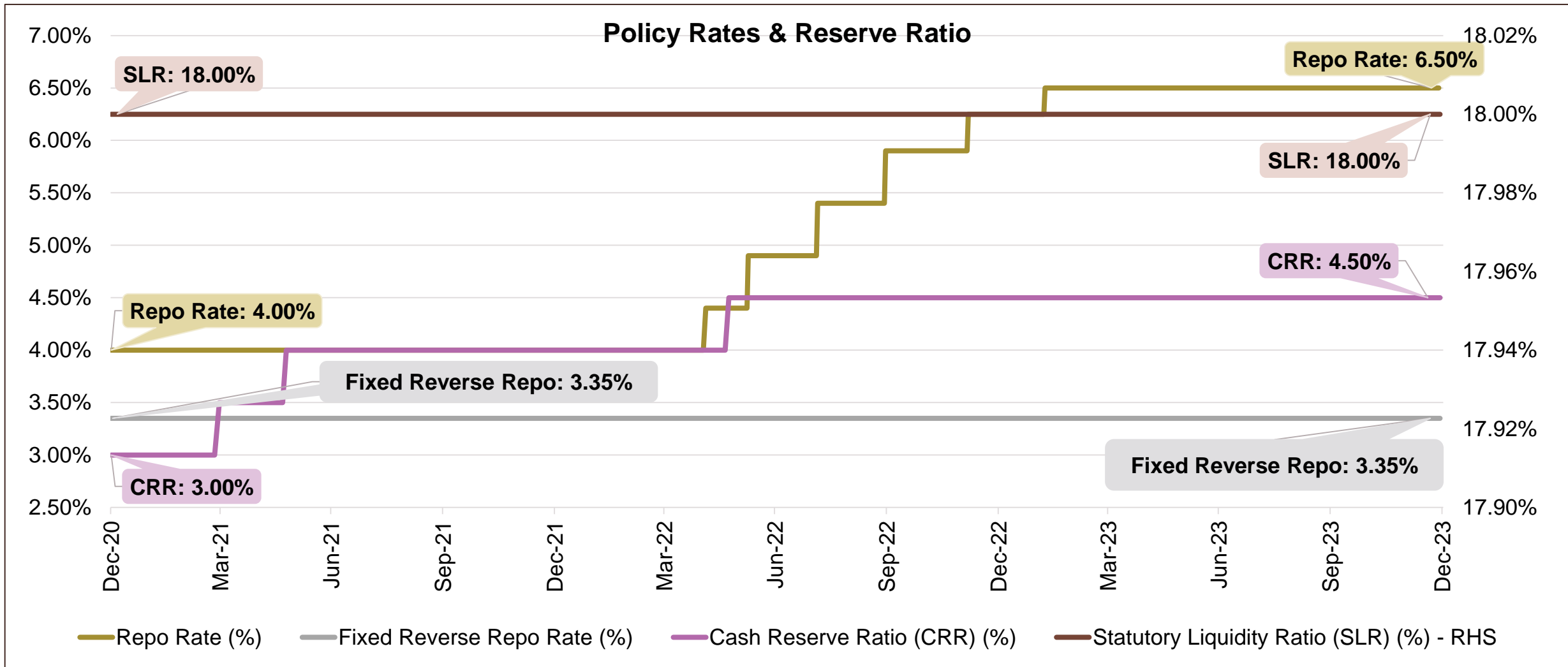


Data as on 31 December '23; Source: Bandhan AMC, Investing.com

Policy Rates / Reserve Ratio	Current
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%

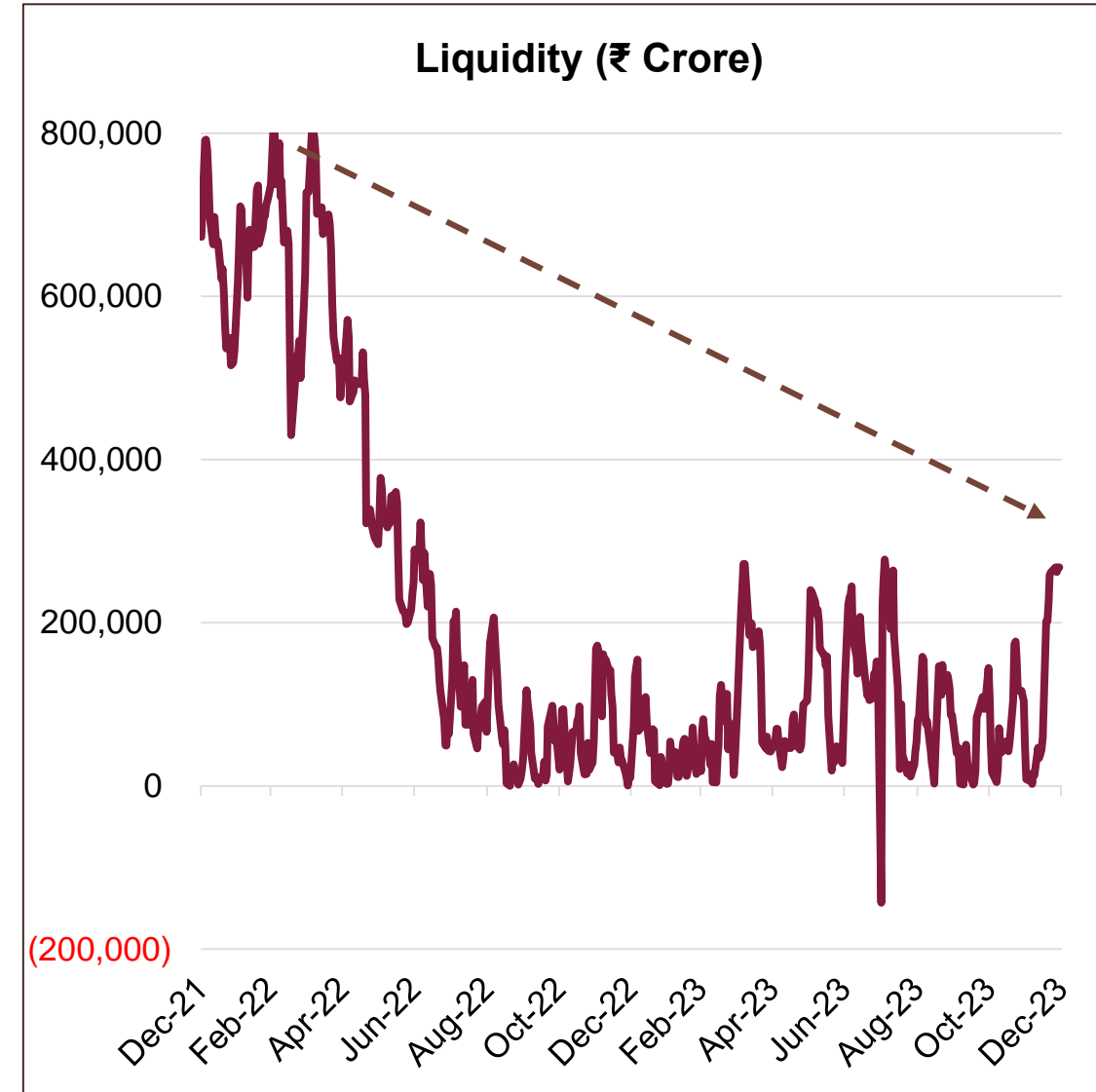
- In May '22, an unscheduled MPC meeting prompted an interest rate hike, leading to a **pronounced steepness in the short end of the yield curve.**
- Now, over a year and a half after the rate hike cycle had begun, the yield curve has nearly flattened.
- **The 10 Year minus 3 Months GSec spread was at 99 bps in Dec '22 whereas at the end of Dec '23 it has reduced to 30 bps.**
- **Yields have remained mixed across categories and maturity profiles in Dec '23 V/S Nov '23.**
- At present, the spread between AAA Corporate Bond (NBFCs) and G-sec is almost the same at 70-100 bps as compared to a year ago of 40-110 bps.
- In **Dec '23 policy meet**, though the RBI did not increase the policy rates, however said it would allow reversal of liquidity SDF & MSF during weekends.

Policy rate & Reserve Ratio movement since Dec 2020



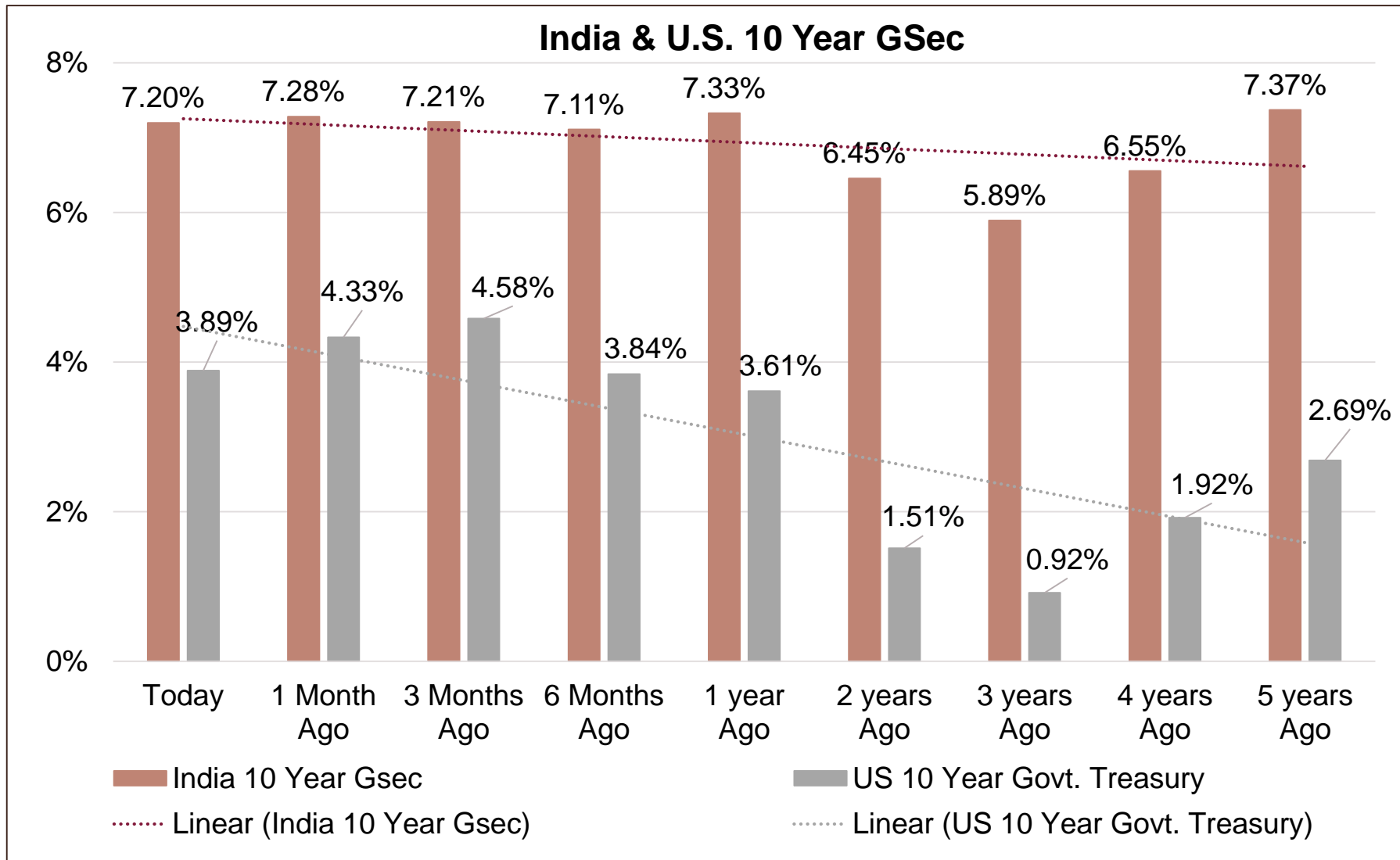
Liquidity in the System

- In the Apr '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.**
- Like most other central banks, the RBI had injected additional liquidity into the system to counter the Covid-19 related onslaught on the economy. Consequently, the size of Reserve Bank's balance sheet had expanded significantly. Persistence of such expanded balance sheet far too long could have created macroeconomic and financial instability; thus, the **Reserve Bank has successfully reduced its balance sheet size well in time.**
- **System liquidity, as measured by the net position under the LAF, turned into deficit mode for the first time in Sep' 23** after a gap of nearly 4.5 years since May '19. Deficit liquidity conditions persisted during October and November prompting large recourse to the marginal standing facility (MSF) by banks. In parallel, utilisation of the SDF has also been high.
- RBI to remain nimble footed on liquidity – allows reversal of liquidity under SDF & MSF during weekends.



Source: Bandhan AMC

Yields Movement across India and U.S.



- The **10-year Indian G-sec** has now been trading above ~7% levels.
- After touching a 16 year high in Oct '23, the **10-year U.S. Treasury yield fell by over 100bps in Nov'23 & Dec'23 to 3.89%**.
- **U.S. Fed** kept interest rates unchanged for the third consecutive meeting held in Dec '23.
- In case of U.S., the yields have risen from 3.6% from a year ago to 3.9% at present. **While for the Indian markets, the yields have remained flat at 7.0-7.5% during the past one year.**

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

➤ The YTM's have gone up in the past one year in the broad category of Money Market, Accrual and Duration Funds. While for Passives, the yields were rather flattish.

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

Category	YTM					Average Maturity					Modified Duration				
	Nov-23	Aug-23	May-23	Nov-22	Nov-21	Nov-23	Aug-23	May-23	Nov-22	Nov-21	Nov-23	Aug-23	May-23	Nov-22	Nov-21
Money Market															
Liquid	7.28	7.01	6.85	6.35	3.54	0.11	0.11	0.11	0.10	0.07	0.11	0.11	0.11	0.09	0.06
Ultra Short Duration	7.57	7.30	7.22	6.96	3.95	0.40	0.43	0.45	0.39	0.35	0.37	0.39	0.41	0.34	0.31
Low Duration	7.73	7.48	7.44	7.28	4.34	1.18	1.16	1.25	1.39	1.17	0.78	0.80	0.81	0.70	0.62
Money Market	7.47	7.25	7.20	6.88	3.78	0.30	0.43	0.56	0.32	0.22	0.29	0.41	0.53	0.31	0.22
Accrual															
Short Duration	7.71	7.50	7.31	7.34	4.94	3.25	2.89	3.04	2.31	2.22	2.39	2.15	2.24	1.72	1.63
Medium Duration	7.96	7.79	7.62	7.55	5.90	4.78	4.55	4.90	4.18	3.82	3.29	3.21	3.22	2.91	2.83
Banking & PSU Debt Fund	7.70	7.53	7.36	7.32	5.15	4.43	4.12	4.13	3.31	3.36	2.73	2.56	2.46	2.05	2.34
Corporate Bond Fund	7.75	7.56	7.42	7.35	5.19	3.70	3.52	3.49	2.66	3.03	2.59	2.51	2.45	1.71	2.16
Floating Rate	7.87	7.66	7.70	7.31	4.94	3.66	3.65	4.13	3.55	3.81	1.30	1.15	1.15	0.99	1.19
Credit Risk	8.36	8.15	7.99	7.93	5.88	3.11	3.42	3.52	2.51	2.42	1.80	1.77	1.69	1.62	1.79
Duration															
Medium To Long Duration	7.55	7.39	7.22	7.33	5.36	9.20	7.50	7.64	6.57	5.34	5.78	5.07	4.96	4.37	3.73
Long Duration Fund	7.58	7.38	7.23	7.51	6.83	23.08	19.90	19.67	14.56	19.04	9.78	9.19	9.24	8.15	9.59
Dynamic Bond	7.56	7.39	7.22	7.26	5.43	7.70	5.65	5.94	4.97	4.72	4.70	3.74	3.80	3.16	3.23
Gilt	7.46	7.21	7.10	7.14	5.28	10.09	6.21	6.73	6.39	6.13	5.83	4.09	4.49	4.08	3.59
Gilt - 10 Year	7.43	7.25	7.10	7.35	6.29	9.98	9.32	9.40	9.57	9.57	6.77	6.59	6.56	6.65	6.70
Passives															
Target Maturity Funds / Index Funds	7.58	7.42	7.22	7.38	6.15	4.58	4.78	5.01	5.09	5.62	3.56	3.71	3.87	3.93	4.38

Debt Category Average Performances – December 2023

- **During the month** under consideration, all the categories were in the green with Duration funds registering the highest returns.
- With respect to the **3 months and 6 months trailing returns** too, all the categories were in the green delivering with the Duration category underperforming the most.
- **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, 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 Credit Risk Funds, our suggested categories - the Ultra Short Duration, Low duration, Money Market, Liquid, Short Duration, Floating Rate, Corporate Bonds, Dynamic Bond 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.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Money Market							
Overnight	0.56	1.68	3.34	6.60	5.59	4.76	4.63
Liquid	0.56	1.62	3.22	6.53	5.49	4.65	4.84
Ultra Short Duration	0.53	1.59	3.19	6.64	5.45	4.83	5.43
Low Duration	0.56	1.57	3.22	6.81	5.43	4.85	5.42
Money Market	0.55	1.65	3.31	6.97	5.70	4.96	5.77
Accrual							
Short Duration	0.78	1.67	3.03	6.58	5.38	4.75	5.95
Medium Duration	0.83	1.68	2.90	6.71	5.31	5.31	5.42
Banking & PSU Debt Fund	0.70	1.57	2.98	6.61	4.95	4.47	6.63
Corporate Bond Fund	0.72	1.58	3.04	6.73	4.90	4.48	6.55
Floating Rate	0.62	1.57	3.53	7.31	5.68	5.05	6.43
Credit Risk	0.64	2.31	3.88	7.81	9.95	9.17	4.81
Duration							
Medium To Long Duration	1.09	1.64	2.51	6.50	4.50	3.91	5.76
Long Duration Fund	1.46	1.63	2.52	7.31	4.40	3.12	6.71
Dynamic Bond	1.02	1.66	2.73	6.52	4.77	4.32	6.15
Gilt	1.17	1.81	2.80	6.81	4.55	3.78	6.59
Gilt - 10 Year	1.29	1.92	2.72	7.52	4.16	3.41	6.94
Passives							
Target Maturity Funds / Index Funds	1.01	1.81	3.02	7.14	4.66	4.95	--

Source: Morningstar Direct

Event Update

U.S. Fed keeps rates unchanged and switched to a dovish outlook

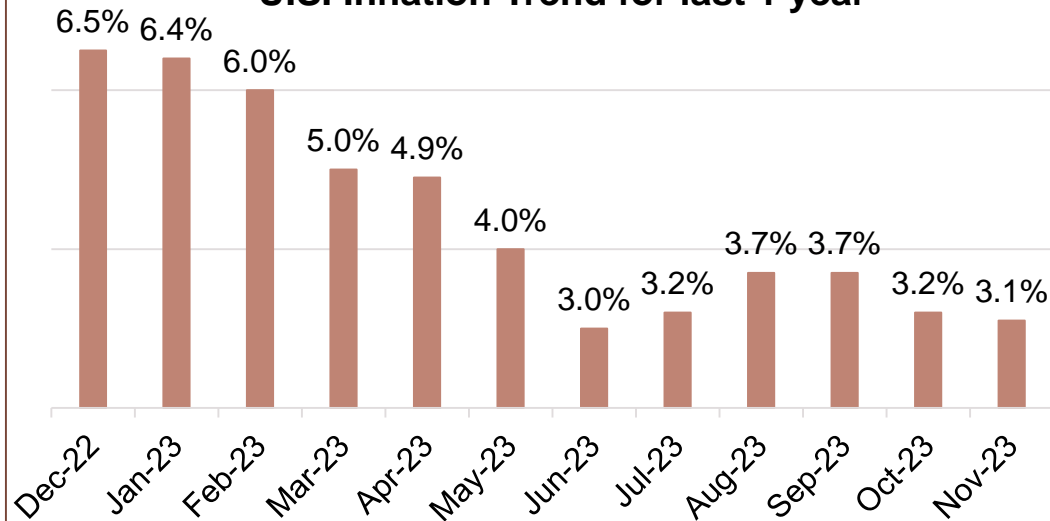
Key Highlights

- The U.S. (Fed) **kept interest rates unchanged at 5.25%-5.50%** range in Dec'23 policy meet.
- Fed maintained pause for the **third consecutive meeting** allowing the economy to absorb the effects of higher borrowing costs.
- **Signaled that it is likely done raising rates** after having imposed the fastest string of increases in four decades to fight painfully high inflation.

U.S inflation Peaking:

- ❖ In 2022, inflation remained high, soaring to record-breaking levels in June, hitting a high of 9.1%.
- ❖ Fed estimates **U.S. inflation** reaching **2.1% by the end of 2025**, before finally attaining the **2.0% goal in 2026**.
- ❖ There is a **“long way to go”** in bringing **inflation sustainably down** to policymakers' 2.0% target.

U.S. Inflation Trend for last 1 year



Source: Trading Economics

To Conclude:

- ❖ **Fed kept the policy rate unchanged**, and the decision was widely expected given the Fed's stated goal of slowing inflation to its long-term target of 2%.
- ❖ Further, it gave its **clearest signal that its aggressive hiking campaign is finished**, by forecasting a series of three quarter-point cuts next year, which was more than economists expected. Nevertheless, **it hasn't ruled out the possibility of another hike if the data calls for it.**

Thank You!

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