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## Market Outlook – June 2022

# Macro Economic Update

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## Inflation:

**<u>Consumer Price Index (CPI):</u>** Retail inflation based on CPI jumped to 8-year high of 7.79% in April. The previous high of CPI was recorded at 8.33% in May 2014. Inflation in the food basket -- which make up nearly half of the CPI -- rose to 8.38% in April from 7.68% in the preceding month and 1.96% in the year-ago month.

**<u>Wholesale price index (WPI)</u>**: WPI surged to a record high of 15.1 per cent in April, with the rise in prices of food and manufactured items. This is the highest WPI print in the 2011-12 series. Annual WPI inflation — inflation at the producer level — has remained in double digits for 13 months in a row, consistently edging upwards.

## Deficit:

**<u>Fiscal Deficit:</u>** The Fiscal Deficit for FY22 improved to 6.71% of the GDP over the revised budget estimate of 6.90% mainly on account of higher tax realisation. The fiscal deficit in the absolute terms was Rs 15.86 lakh crore as against an estimated the deficit at Rs 15.91 lakh crore.

**<u>Trade Deficit</u>**: Led by petroleum products, electronic goods and chemicals, India's merchandise exports rose 15.46% on-year in May to $37.29 billion. A higher increase in imports of 56.14% at $60.62 billion left a wider trade deficit of $23.33 billion against $6.53 billion in the year-ago period and $20.07 billion in April 2022.

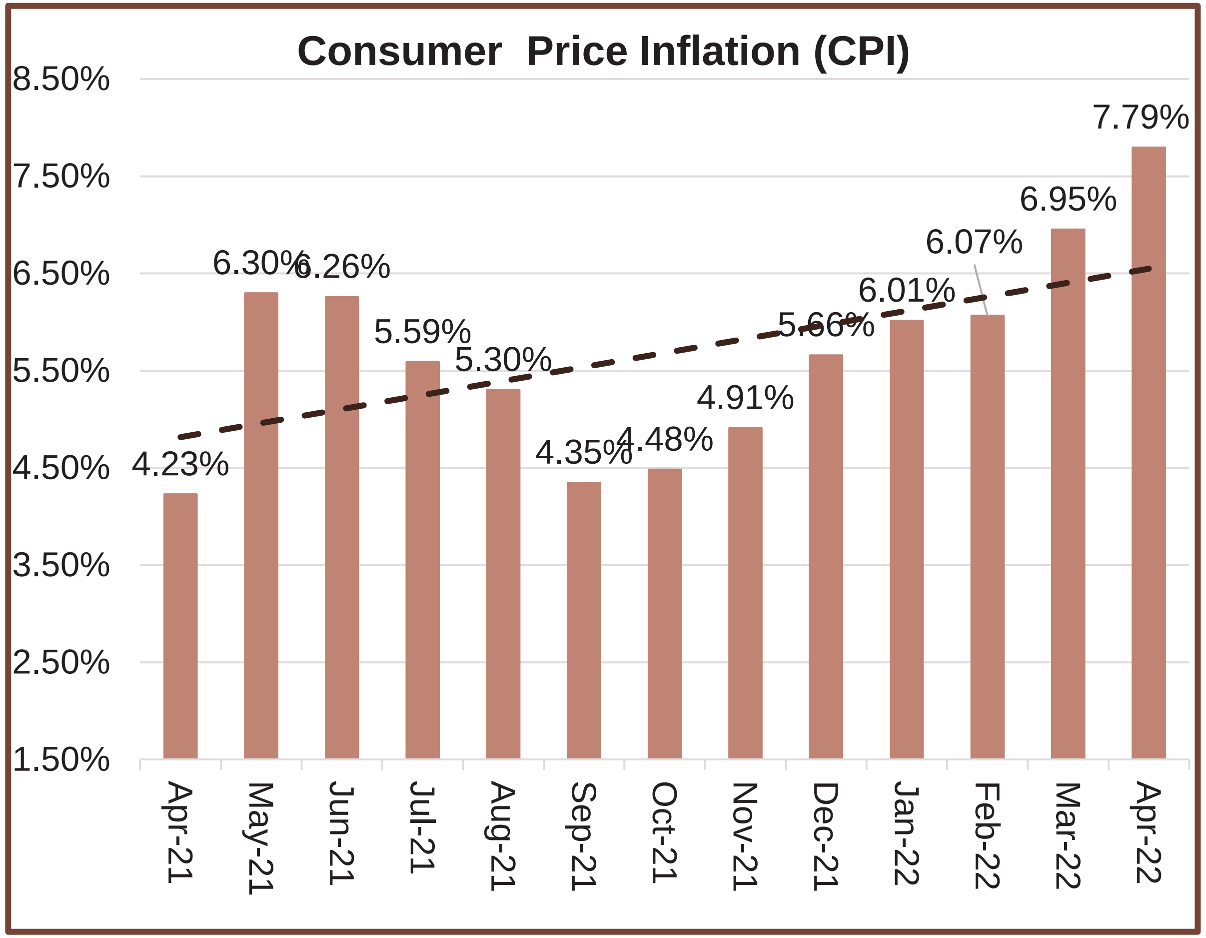
## IIP, Core Sector and PMI:

**<u>Index of Industrial Production (IIP) & Core Sector:</u>** Inidi's industrial growth, as per the Index of Industrial Production (IIP), edged up to 1.9% in March from 1.7% in February. For the month of April., the 8 core sectors which comprise of 40.27% of IIP grew by 8.4% as against 4.9% in March.

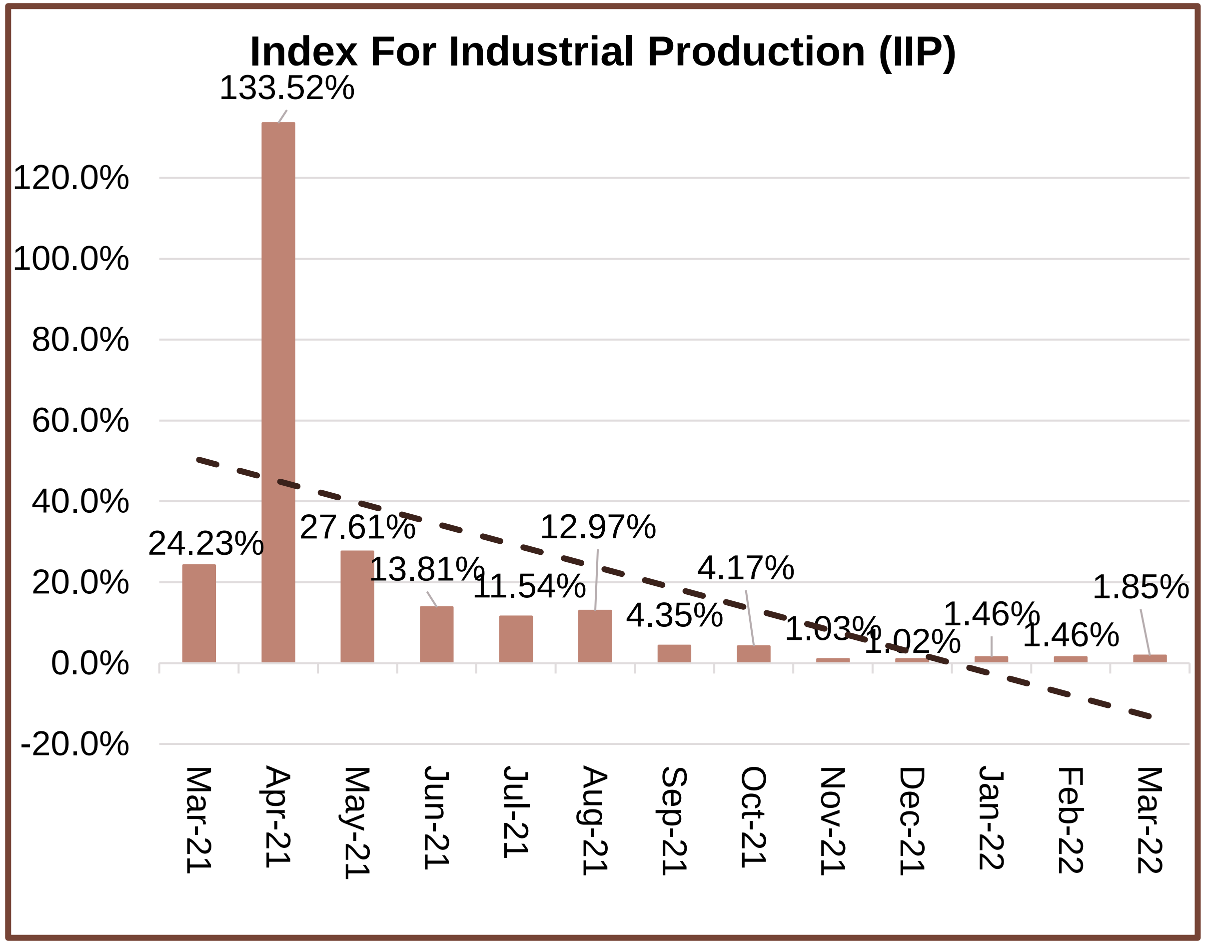
**<u>Manufacturing & Services PMI:</u>** India Manufacturing Purchasing Managers' Index (PMI) was at 54.6 in May, little-changed from 54.7 in April and 'sustained strong growth' despite historically high inflation. India Services Purchasing Managers' Index rose to 58.9 in May from 57.9 in April, its highest since April 2011.

# Inflation and Industrial Production Trajectory

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




**Industrial Production grew at a moderate pace in March '22 as the low base effect started waning off.**






Source: DBIE, RBI

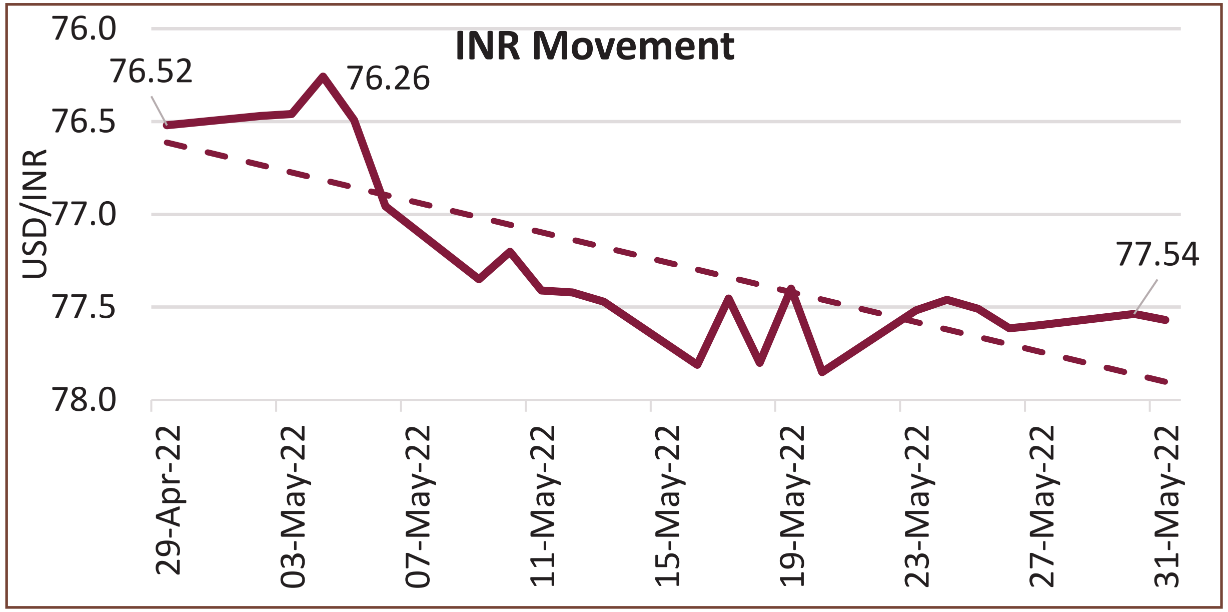
# Macro Indicators

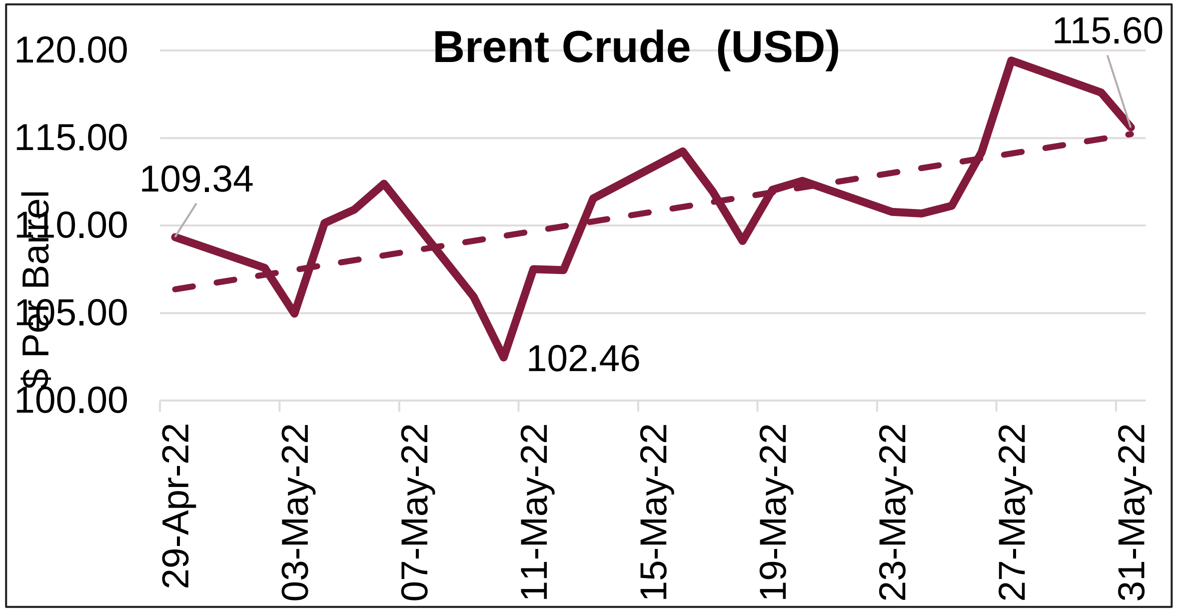
| | Current | Month Ago | Quarter Ago | Year Ago |
|---|---|---|---|---|
| **Economic Indicator** | | | | |
| Consumer Price Index (CPI) | 15.08% (Apr-22) ↑ | 14.55% (Mar-22) | 13.68% (Jan-22) | 10.74% (Apr-21) |
| Wholesale Price Index (WPI) | 7.79% (Apr-22) ↑ | 6.95% (Mar-22) | 6.01% (Jan-22) | 4.23% (Apr-21) |
| Industrial Production (IIP) | 1.85% (Mar-22) ↑ | 1.46% (Feb-22) | 1.02% (Dec-21) | 24.23% (Mar-21) |
| GDP | 4.1% (Mar-22) ↓ | NA | 5.4% (Dec-21) | 2.5% (Mar-21) |
| Trade Deficit ($ bn) | 23.33 (May-22) ↑ | 20.07 (Apr-22) | 19.89 (Feb-22) | 6.53 (May-21) |
| **Commodity Market** | | | | |
| Brent Crude ($/barrel) | 115.60 (31-May-22) ↑ | 109.34 (29-Apr-22) | 100.99 (28-Feb-22) | 69.32 (31-May-21) |
| Gold ($/oz) | 1,848.40 (31-May-22) ↓ | 1,918.60 (29-Apr-22) | 1,907.40 (28-feb-22) | 1,911.15 (31-May-21) |
| Silver ($/oz) | 21.69 (31-May-22) ↓ | 23.09 (29-Apr-22) | 24.37 (28-Feb-22) | 28.19 (31-May-21) |
| **Currency Market** | | | | |
| USD/INR | 77.57 (31-May-22) ↑ | 76.52 (29-Apr-22) | 75.49 (28-Feb-22) | 72.52 (31-May-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




**<u>INR Performance:</u>** The **rupee fell by about 102 paise during the month of May 2022** to close lower at 77.54 up from 76.52 in April 2022 after touch a high of 76.26 in the beginning of the month. Rupee fell against the U.S. dollar following **losses in the domestic equity market** amid concerns over **surging global and domestic inflation** along with **slowing economic growth**. However, a free fall was prevented as the RBI governor opined that the central bank would take steps to prevent depreciation of the rupee.

**<u>Brent Crude:</u>** Brent crude oil prices had an upward moving rally during the month of May 2022 as it **closed at $115.60/barrel up by ~5.7%**. Brent crude oil prices rose on supply fears after **European Union** announced more sanctions against Russia, including a **proposed ban of Russian crude imports** which includes carve-outs for EU states most dependent on Russian oil such as Hungary. Prices were further supported by a prospect of a **tight market** due to rising gasoline consumption in the United States in summer. However, worries over likely **slowdown of global economic growth**, triggered by inflation and worries about **weakening Chinese demand** pushed the prices down.



Source: Investing.com

# Equity Market - Review

# Equity Market Roundup - Key Takeaways

**Performance:** Indian equity indices witnessed a **sharp fall** in the month of May. The key benchmark indices S&P BSE-30 and Nifty-50 indices fell by 2.62% and 3.03% respectively, after struggling against strong headwinds arising concerns over **aggressive rate hike by Fed, RBI and other central banks** across the globe and **the geopolitical tension in Europe leading to escalating commodity prices and hurting growth across nations.**

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

- Investor sentiments were dampened as the RBI kicked off the interest rate hike cycle in an off-cycle policy meeting in the beginning of the month and also hinted that the rate hikes will be front loaded in the coming month
- While **rising inflation** also weighed on investor sentiments and record high **GST numbers** restricted the losses.
- The market cheered as the central government announced a steep cut in excise duty on fuel.
- **Upbeat earning numbers** from some of the major companies helped uplift the market sentiments.

**Global factors that shaped the graph of the Indian markets:**

- **Lockdown restriction in China**, following fresh COVID-19 cases, too weighed on market sentiments.
- Military conflicts between **Russia and Ukraine** and its impending effect on global commodity prices, especially crude, dampened market sentiments.
- Weak global cues also dragged bourses with **Bank of England and Fed raising interest rates**.

**Outlook:** Overall, valuations have corrected across capitalisations and become more reasonable. Investors are suggested not to time the reversal in any of the recent unfavourable dynamics like global crude oil prices, elements of supply shock inflation and geopolitical issues and should 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 – May 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 | 55,566 | -2.62 | -4.61 | 6.99 | 22.53 | 3.22 | 1.19 |
| Nifty 50 | 16,585 | -3.03 | -4.43 | 6.43 | 20.44 | 4.24 | 1.43 |
| Nifty 100 | 16,768 | -3.95 | -4.83 | 6.13 | 20.53 | 4.27 | 1.50 |
| Nifty 200 | 8,746 | -4.14 | -5.13 | 6.59 | 20.69 | 4.09 | 1.45 |
| Nifty 500 | 14,120 | -4.49 | -5.85 | 6.75 | 21.07 | 4.06 | 1.40 |
| Nifty Midcap 100 | 28,288 | -5.33 | -7.08 | 9.75 | 21.83 | 3.24 | 1.14 |
| Nifty Smallcap 100 | 9,209 | -10.22 | -18.43 | -0.63 | 20.22 | 3.28 | 1.00 |

Data as on 31 May '22; Source: NSE and BSE

Markets **continued to be volatile during the month** as the Sensex touched a **low of ~52,600 level** mid month from a **high of ~57,000 level** in the beginning of the month and then to **close at ~55,600 level down by 2.6% for the month of May**. The movement of the market were governed by the following factors:

- Domestic Factors – Indian equity markets witnessed sharp decline during the initial days of the month as **RBI** joined global central banks in **raising interest rates and tightening liquidity**.
- **Inflationary concerns** loomed large after domestic retail inflation rose above the RBI upper threshold for the fourth consecutive month.
- **Upbeat quarterly earning** numbers of some of the key stocks helped to uplift the market sentiments.
- Global cues – Weak global cues also dragged bourses with **Bank of England and Fed raising interest rates**. Bourses were weighed down by worries over higher interest rate, which might bring **global economy to a standstill.**
- **China's covid lockdown** and **Russia's war against Ukraine** continued to keep markets under pressure.

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

| Index* | 1-Mth Return (%) | YTD Return (%) | 1 Yr. Return (%) |
|---|---|---|---|
| Auto | 4.93 | 6.59 | 12.37 |
| FMCG | 0.60 | 2.77 | 7.89 |
| Capital Goods | -0.83 | -5.59 | 20.65 |
| Bankex | -1.51 | 1.23 | 1.39 |
| Energy | -3.60 | 8.92 | 18.43 |
| PSU | -4.13 | 4.20 | 11.53 |
| Oil & Gas | -4.57 | 6.28 | 12.96 |
| IT | -5.82 | -20.39 | 9.22 |
| Realty | -7.10 | -14.65 | 22.32 |
| Telecom | -7.11 | -9.84 | 21.47 |
| Health Care | -7.70 | -14.27 | -8.43 |
| Consumer Durables | -10.94 | -15.12 | 13.81 |
| Power | -11.50 | 21.39 | 50.06 |
| Metal | -16.41 | -5.95 | -4.12 |

*S&P BSE Sectoral Indices . Source: BSE

| Equity Flow (Rs. Cr.) | 1-Mth | YTD | 1 Yr. |
|---|---|---|---|
| FII | -54,292 | -225,293 | -351,135 |
| DII | 50,836 | 184,395 | 288,938 |

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 | 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 | U.K. 3.02 |
| 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 | India -4.43 |
| 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 | Japan -5.25 |
| 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 | Hong Kong -8.47 |
| 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 | Germany -9.42 |
| 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 -9.57 |
| 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 | South Korea -9.80 |
| 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 | China -12.46 |
| 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 | U.S.- S&P 500 -13.30 |
| 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 -22.78 |

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 31 May 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 6.18 |
| 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 -1.83 |
| 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 -2.61 |
| Intl 25.47 | Saml 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 -4.43 |
| 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 -8.03 |
| 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 -11.86 |
| 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 -14.24 |

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 31 May 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 – May 2022

- **During the month** under consideration all the categories were in the red with the of Mid & Small Cap being the worse performers. Among the sectoral funds, FMCG, was the only sector in the green, while the Heathcare and Technology were deep in the red. 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** all the categories were in the green registering gains in the late single digits to early double digit. Small Cap was the best performing category. Among the sector based and thematic funds FMCG was the best performing sector followed by Infrastructure, Technology 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 early double digit return with the exception of Technology which clocked in gains of ~26%.

| Category | Absolute Returns (%) | | | | CAGR (%) | | |
|---|---|---|---|---|---|---|---|
| | 1 M | 3 M | 6 M | 1 Y | 2 Y | 3 Y | 5 Y |
| Large Cap | -2.86 | -1.88 | -4.02 | 5.49 | 28.51 | 11.48 | 10.23 |
| Large & Mid Cap | -4.29 | -1.85 | -5.20 | 8.36 | 34.83 | 14.49 | 10.84 |
| Multi Cap | -4.45 | -1.61 | -5.12 | 9.12 | 38.10 | 15.50 | 12.71 |
| Flexi Cap | -3.95 | -2.64 | -5.32 | 6.20 | 31.74 | 13.37 | 11.04 |
| Mid Cap | -5.39 | -1.36 | -5.40 | 10.10 | 41.27 | 18.28 | 12.04 |
| Small Cap | -6.19 | -1.45 | -5.77 | 13.38 | 55.18 | 22.86 | 13.38 |
| Focused | -3.38 | -2.16 | -5.45 | 6.77 | 31.23 | 12.97 | 10.97 |
| ELSS | -3.63 | -1.96 | -4.94 | 6.29 | 32.19 | 13.00 | 10.67 |
| Contra | -3.24 | 0.39 | -1.61 | 10.21 | 40.24 | 16.33 | 13.30 |
| Dividend Yield | -3.22 | -0.84 | -1.84 | 11.77 | 36.37 | 15.99 | 11.27 |
| Value | -3.83 | -1.11 | -2.71 | 8.63 | 37.27 | 13.21 | 9.61 |
| **Sectoral / Thematic** | | | | | | | |
| Consumption | -2.95 | 1.19 | -2.71 | 11.83 | 31.55 | 15.64 | 12.23 |
| Infrastructure | -4.26 | 0.55 | -1.76 | 14.33 | 44.12 | 13.96 | 9.44 |
| Financial Services | -2.33 | -1.91 | -4.35 | -1.95 | 31.76 | 4.85 | 7.24 |
| FMCG | 0.96 | 7.43 | 6.01 | 19.16 | 22.78 | 12.71 | 11.42 |
| Healthcare | -6.55 | -3.56 | -10.60 | -6.78 | 19.82 | 23.10 | 13.60 |
| Technology | -5.15 | -9.07 | -15.33 | 11.87 | 50.17 | 27.97 | 25.50 |



Source: Morningstar Direct

# Valuations on the Trailing P/E Metrix

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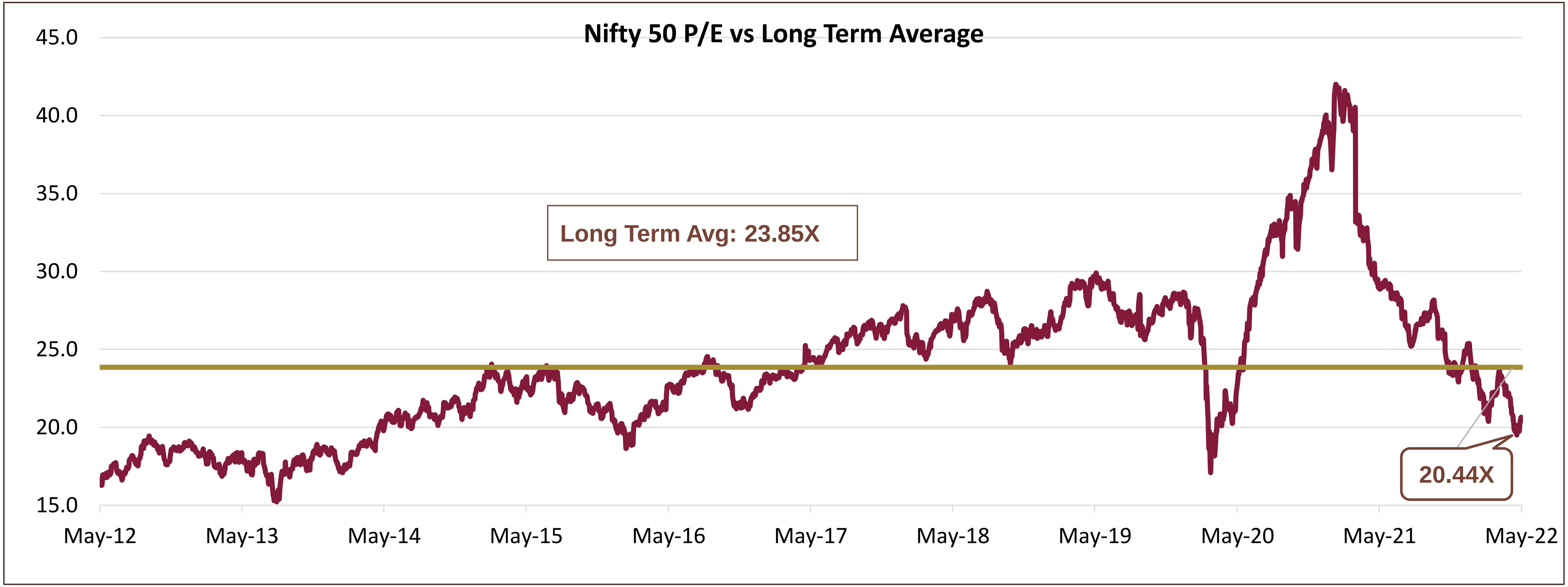
**Nifty 12-month trailing P/E of 20.44x is in lower than its historical long-term average of 23.85x**



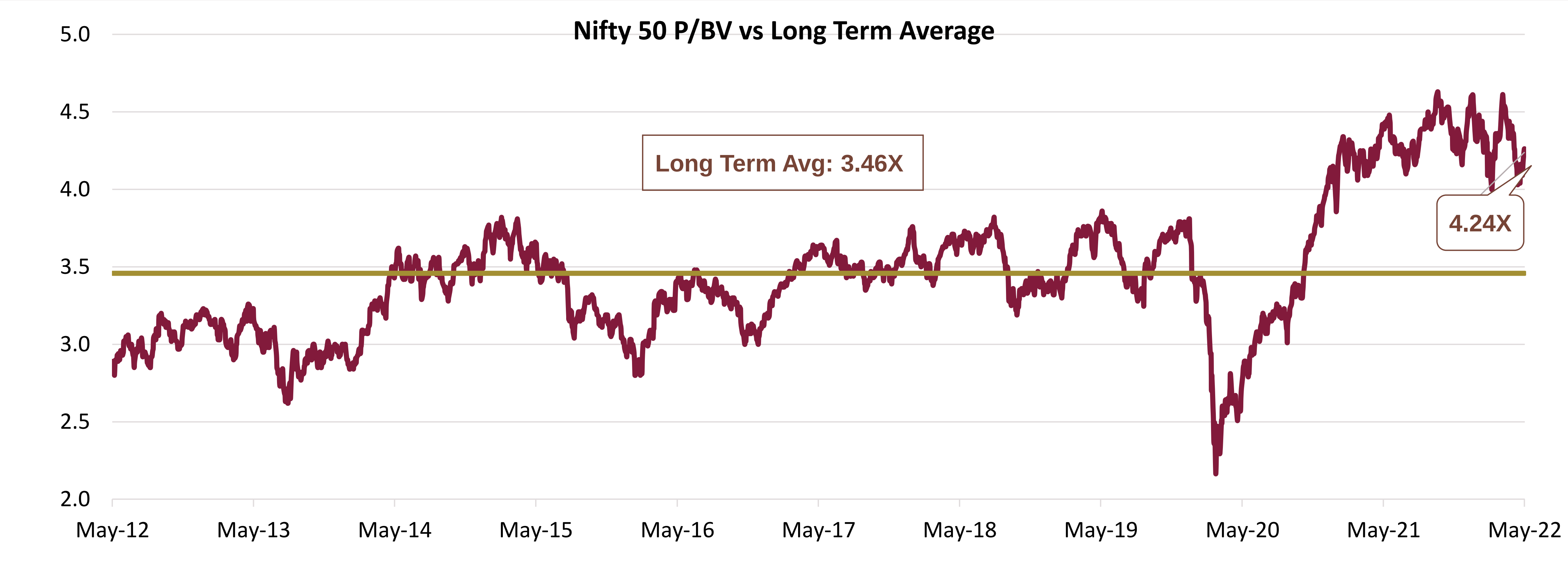

The content does not construe to be any investment, legal or taxation advice.

For Client Circulation.

Source: NSE India

# Valuations on the Trailing P/BV Metrix

**At 4.24x, the Nifty Trailing P/B is above the historical long-term average of 3.46x.**






Source: NSE India

# Valuations on a Trailing Dividend Yield perspective

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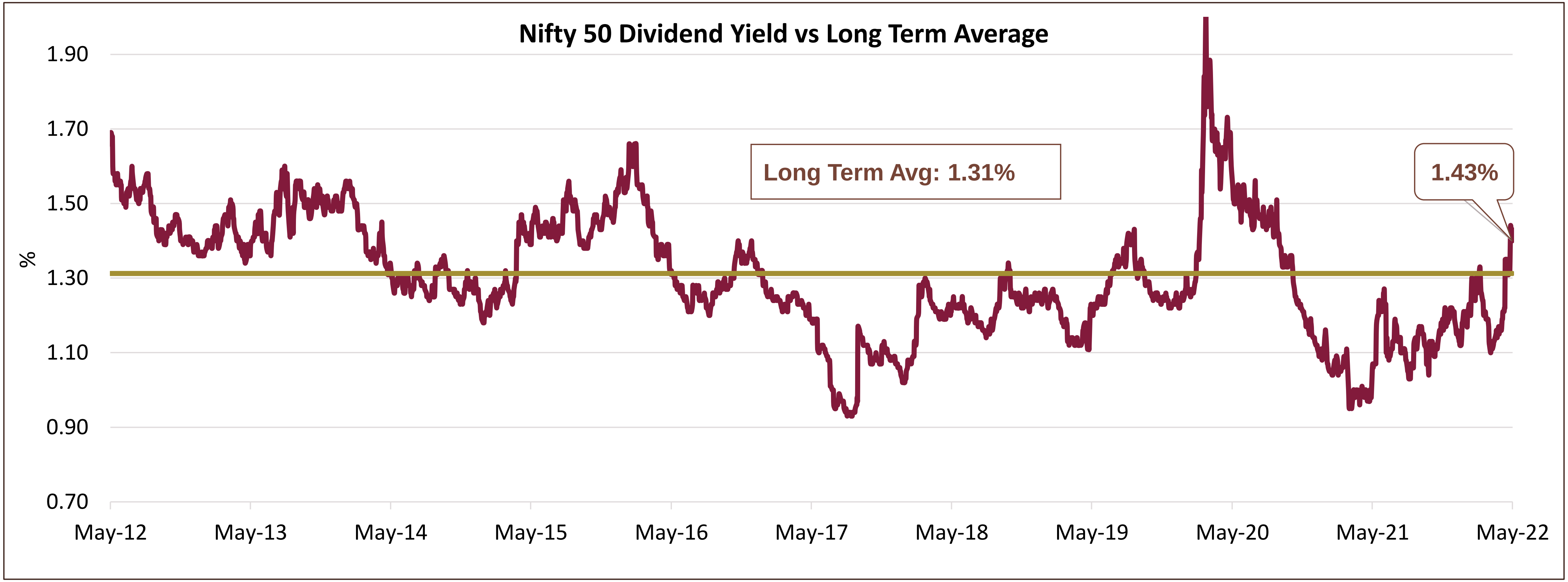
**At 1.43%, the Nifty Trailing Dividend Yield is in line with the historical long-term average of 1.31%.**

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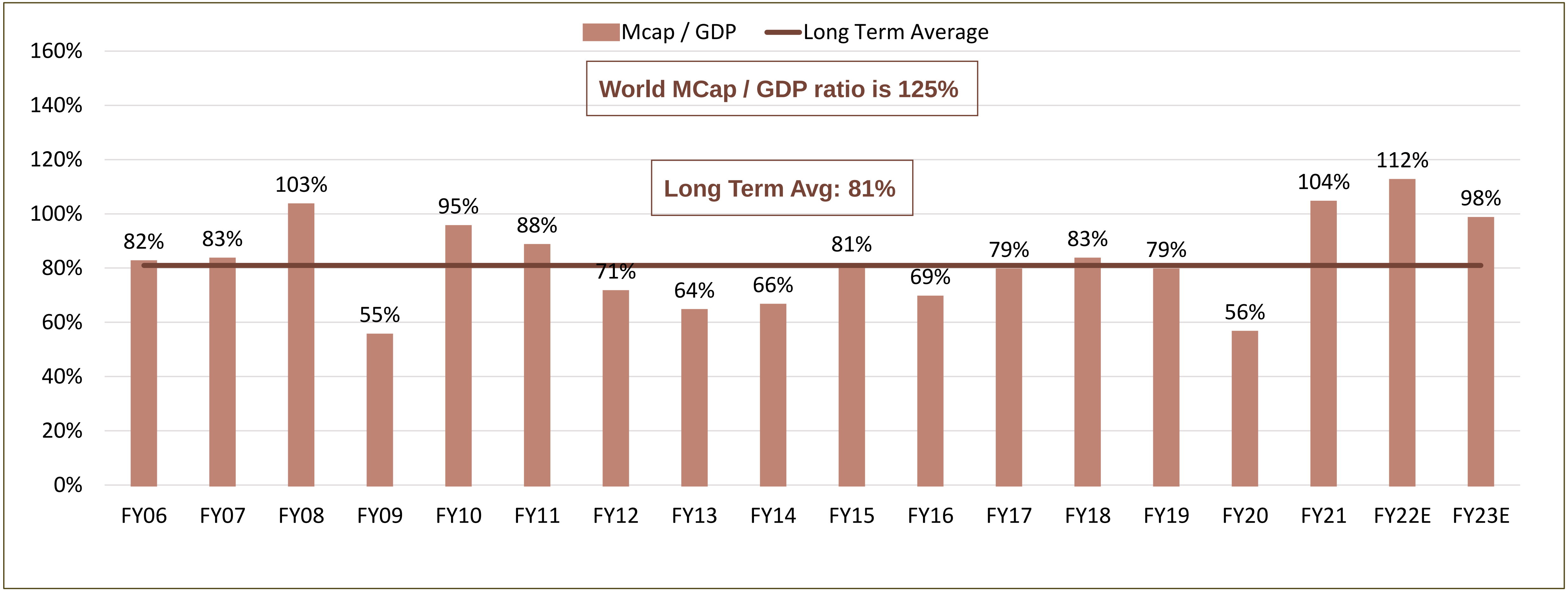
Source: NSE India

# Valuations on a MCap / GDP perspective

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

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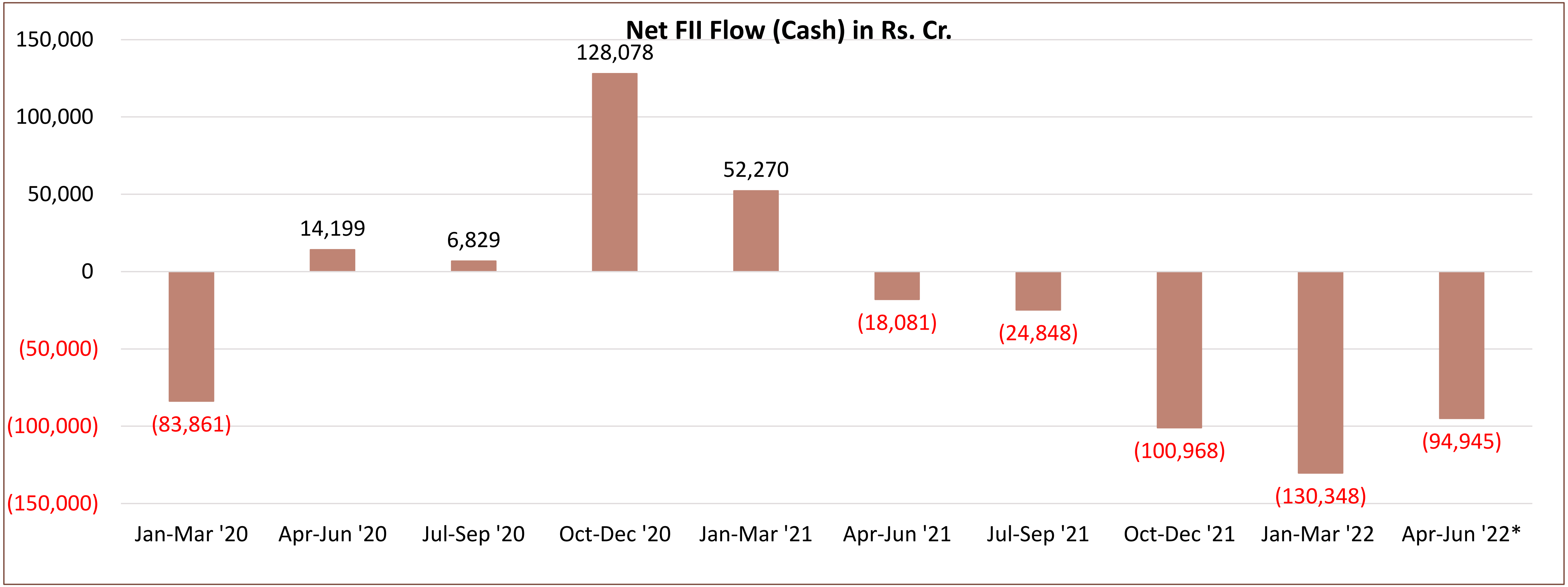
Source: Kotak AMC, Monthly Market Outlook, May '22

# FII Flow into Equity

**FII registered an outflow to the tune of Rs. 54,292 cr in May ’22 for the eight consecutive month**

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* Data upto 31 May 2022

Source: Moneycontrol

# DII Flow into Equity

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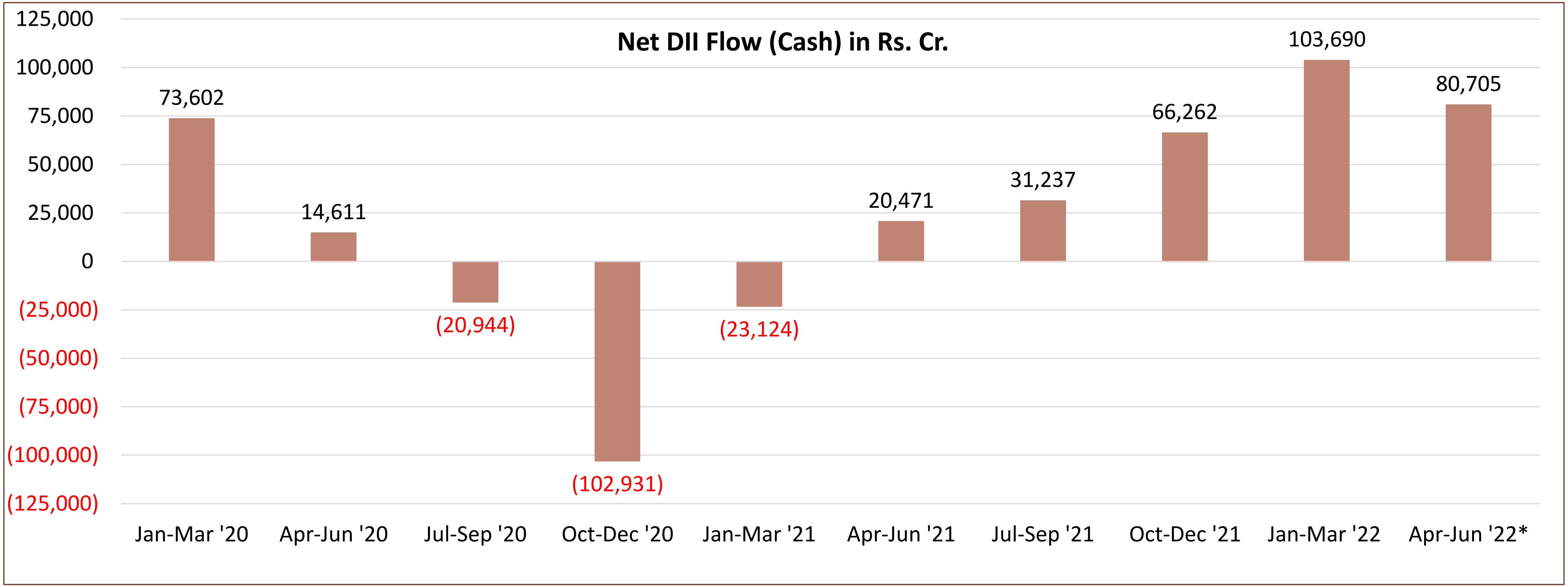
**DII were net buyers in the cash market to the tune of Rs. 50,836 cr in May ’22 for the fifteenth consecutive months**

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For Client Circulation.

* Data upto 31 May 2022

Source: Moneycontrol

# Debt Market - Review

# Debt Market Roundup - Key Takeaways

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- **The India 10-Year Government Bond yields hardened** during for the month of May to close at 7.42% as against 7.14% at the end of April mainly on the back of **global commodity prices rose and putting pressure on global and domestic central banks to tighten liquidity and increase interest rates.**
- Bond yields rose initials as the **MPC unexpectedly kicked off its rate hike cycle** to put a check on rise in domestic inflationary pressures. However, bond yields fell as reports that **the government is in discussion with the RBI to either buy back government bonds or conduct open market operations** to put a check on rising bond yields. Yields rose as the minutes of the monetary policy meeting held in May hinted at more **frontloading of policy rate hikes by the MPC** in the months ahead.
- **GST collection not only stayed above the one-trillion rupees mark** for the 10th consecutive month in April, but it also touched an all time high of 1.67 lakh crore.
- While April **CPI** surged to **8 year high of 7.79%** as crude spiked &food prices surged; **March IIP growth edged up** to 1.85% as against 1.46% in February.
- **Brent crude oil prices rose** as European Union announced more sanctions against Russia, including a proposed ban of Russian crude imports.

**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 – May 2022

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| | Latest (31 May '22) | One Month Ago (30 Apr '22) | One Quarter Ago (28 Feb '22) | Half Year Ago (30 Nov '21) | One Year Ago (31 May '21) | M-o-M Change (bps) |
|---|---|---|---|---|---|---|
| **Interest Rates** | | | | | | |
| Repo rate | 4.40% | 4.00% | 4.00% | 4.00% | 4.00% | 40 |
| SLR | 18.00% | 18.00% | 18.00% | 18.00% | 18.00% | 0 |
| **CD Rates** | | | | | | |
| 3 month | 5.10% | 4.15% | 3.83% | 3.53% | 3.38% | 95 |
| 6 month | 5.73% | 4.48% | 4.38% | 3.98% | 3.63% | 125 |
| 1 Year | 6.33% | 5.13% | 4.78% | 4.33% | 3.98% | 120 |
| **T-Bill/G-sec** | | | | | | |
| 91 Days | 4.88% | 3.98% | 3.69% | 3.49% | 3.39% | 90 |
| 364 Days | 5.93% | 4.77% | 4.49% | 4.11% | 3.71% | 116 |
| India 10 Year G-Sec Yield | 7.42% | 7.14% | 6.77% | 6.33% | 6.02% | 28 |
| **AAA Corp. Bonds (PSU)** | | | | | | |
| 1 Year | 6.76% | 5.13% | 4.90% | 4.74% | 4.08% | 163 |
| 3 Year | 7.24% | 6.41% | 5.95% | 5.55% | 5.06% | 83 |
| 5 Year | 7.48% | 6.77% | 6.52% | 6.03% | 5.88% | 71 |
| **AAA Corp. Bonds (NBFC)** | | | | | | |
| 1 Year | 6.85% | 5.19% | 5.07% | 4.87% | 4.30% | 166 |
| 3 Year | 7.39% | 6.80% | 6.04% | 5.80% | 5.46% | 59 |
| 5 Year | 7.69% | 6.99% | 6.67% | 6.13% | 6.03% | 70 |
| **International Markets** | | | | | | |
| 10 Year US Treasury Yield | 2.85% | 2.94% | 1.82% | 1.46% | 1.61% | -9 |

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 softened** as the Fed raised interest rates on expected lines. While in **India the RBI** in an off-cycle policy meet announced a rate hike which led to the **hardening of yields**.
- **Both the AAA Corp. PSU & NBFC witnessed significant** losses as repo rate was hiked in the economy.
- 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 – May 2022

- **During the month** under consideration only the Money Market funds were largely in the green as RBI in an unscheduled MPC meet announced a repo rate and CRR hike.
- 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 recommended categories such as Ultra Short Duration, Low duration, Floating rate, Money Market, Short Duration, Banking & PSU and Corporate Bond Fund were one of the best performing.
- **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 | 0.33 | 0.89 | 1.72 | 3.29 | 3.14 | 3.62 | 4.48 |
| Liquid | 0.29 | 0.84 | 1.64 | 3.17 | 3.07 | 3.81 | 4.92 |
| Ultra Short Duration | 0.05 | 0.64 | 1.46 | 3.36 | 3.65 | 4.67 | 5.28 |
| Low Duration | -0.13 | 0.43 | 1.22 | 3.21 | 4.96 | 4.12 | 5.27 |
| Money Market | 0.03 | 0.65 | 1.51 | 3.23 | 3.58 | 4.97 | 5.79 |
| **Accrual** | **Absolute Returns (%)** | | | | **CAGR (%)** | | |
| Category | 1 M | 3 M | 6 M | 1 Y | 2 Y | 3 Y | 5 Y |
| Short Duration | -0.55 | 0.18 | 0.82 | 3.27 | 5.06 | 5.03 | 5.55 |
| Medium Duration | -1.07 | -1.51 | -0.65 | 3.05 | 5.38 | 4.02 | 4.71 |
| Banking & PSU Debt Fund | -0.36 | -0.32 | 0.33 | 2.42 | 4.37 | 6.42 | 6.65 |
| Corporate Bond Fund | -0.71 | -0.64 | 0.06 | 2.15 | 4.59 | 6.16 | 6.45 |
| Floating Rate | -0.20 | 0.39 | 0.92 | 3.01 | 4.90 | 5.99 | 6.43 |
| Credit Risk | -0.51 | 0.02 | 0.94 | 6.63 | 7.66 | 4.28 | 4.74 |
| **Duration** | **Absolute Returns (%)** | | | | **CAGR (%)** | | |
| Category | 1 M | 3 M | 6 M | 1 Y | 2 Y | 3 Y | 5 Y |
| Medium To Long Duration | -0.82 | -1.54 | -1.32 | 1.47 | 3.25 | 4.98 | 5.01 |
| Long Duration Fund | -1.96 | -2.93 | -3.32 | -0.83 | 0.65 | 5.16 | 5.68 |
| Dynamic | -0.38 | -0.59 | -0.54 | 2.22 | 3.60 | 5.57 | 5.59 |
| Gilt | -0.83 | -1.28 | -1.65 | 0.61 | 2.15 | 5.98 | 6.02 |

Source: Morningstar Direct

# Money parked in Reverse Repo window

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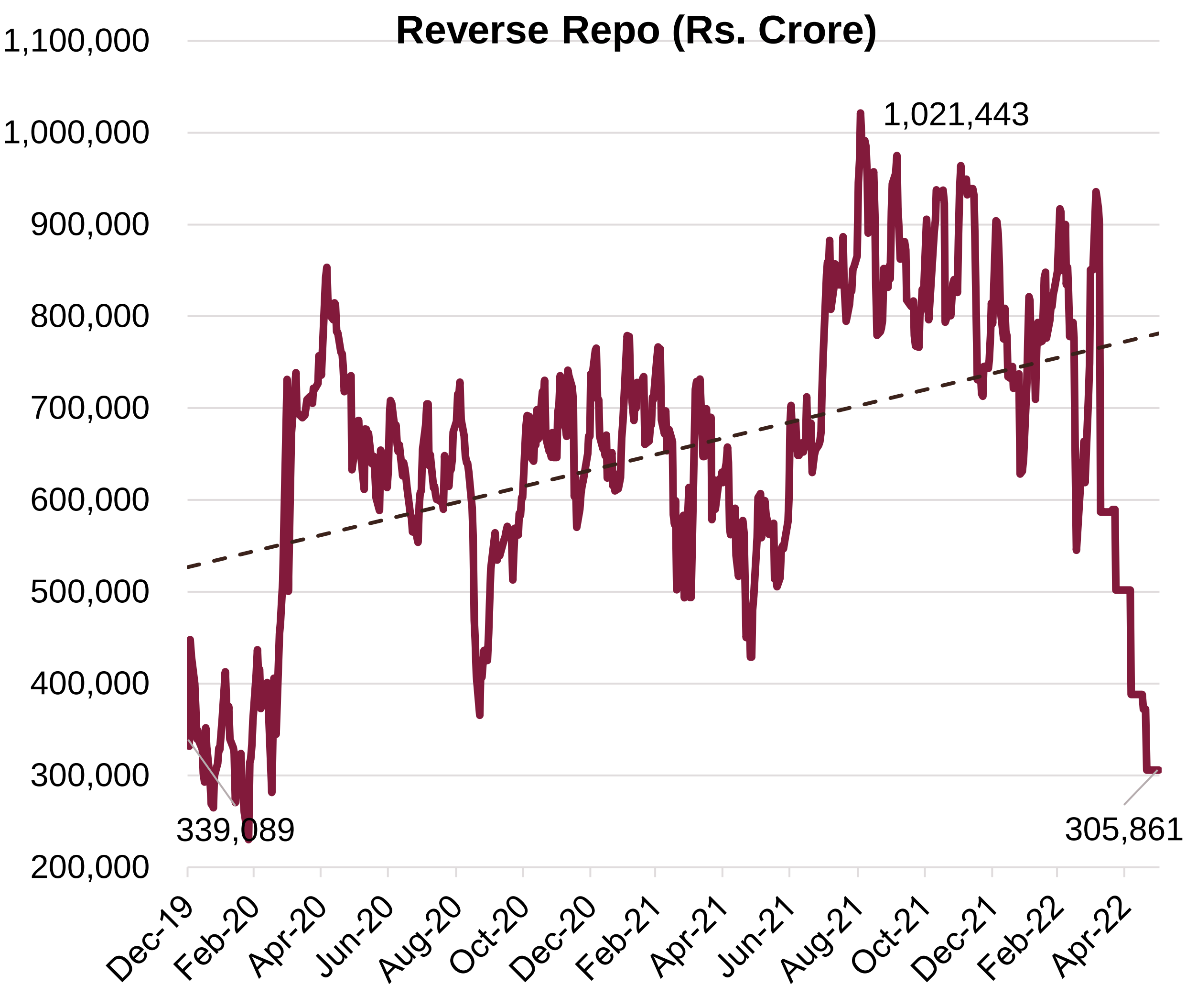
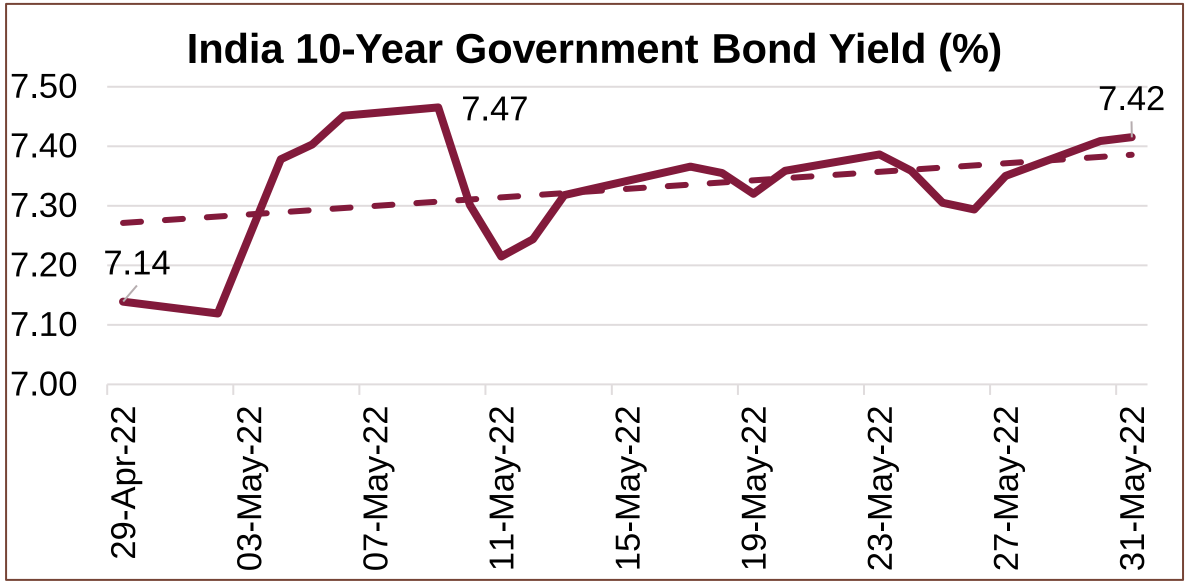
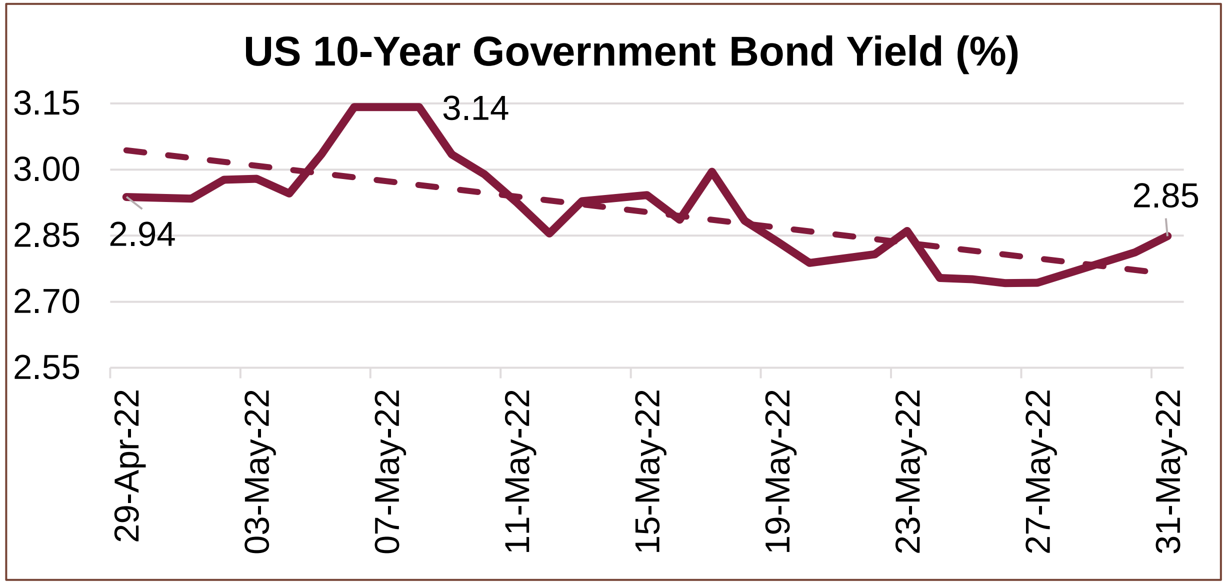
The RBI during the 2 pandemic-stricken years provided liquidity to the tune of Rs. 17 lakh crore by announcing various measures such as **system-level liquidity (LTRO), targeted liquidity (TLTRO) and on-tap liquidity window.** However, once there was sufficient liquidity the RBI got legroom for liquidity 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.




- **10-year India Government Bond Yield:** The India **10-Year Government Bond yields hardened** during for the month of May to close at 7.42% as against 7.14% at the end of April after touching a high of 7.47% in the beginning of the month. Bond yields rose initials as the **MPC unexpectedly kicked off its rate hike cycle** to put a check on rise in domestic inflationary pressures. However, bond yields fell as reports that the government is in discussion with the **RBI to either buy back government bonds or conduct open market operations** to put a check on rising bond yields. Yields rose as the minutes of the latest monetary policy meeting held in May 2022 hinted at more **frontloading of policy rate hikes by the MPC** in the months ahead.

- **U.S. Treasury Yield:** U.S. Treasury yields **closed the month on a flat note at 2.85%** after touching a **high of 3.14%** in the beginning of the month; thereby hitting the 3% mark for the first time since Dec 2018. Initially during the month U.S. Treasury prices fell further after the U.S. Federal Reserve Chief **raised the fed funds target rate by 50 basis points**, the **biggest interest rate hike in 22 years**, and said it would begin trimming its bond holdings next month as a further step to put a check on rising inflation. U.S. Treasury prices rebounded after touching fresh three- and half-year low as market participants are **weighing the chances that the US Federal Reserve will be able to protect the economy from slipping into recession** by slamming the brakes on a growing, albeit slowing, rate of inflation.

Source: Investing.com

# Event Update

# Q4FY22 GDP in the positive territory for the sixth straight quarter

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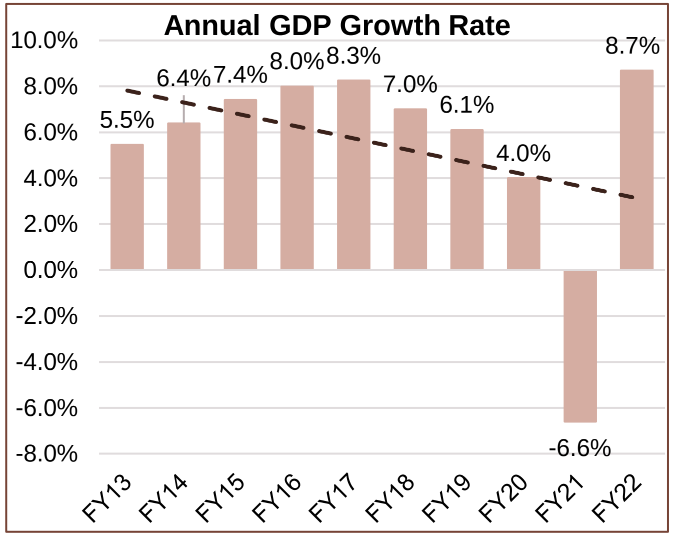


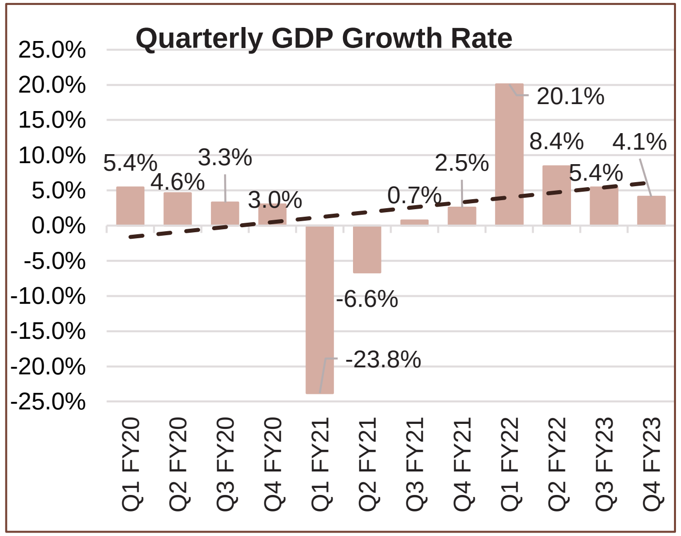


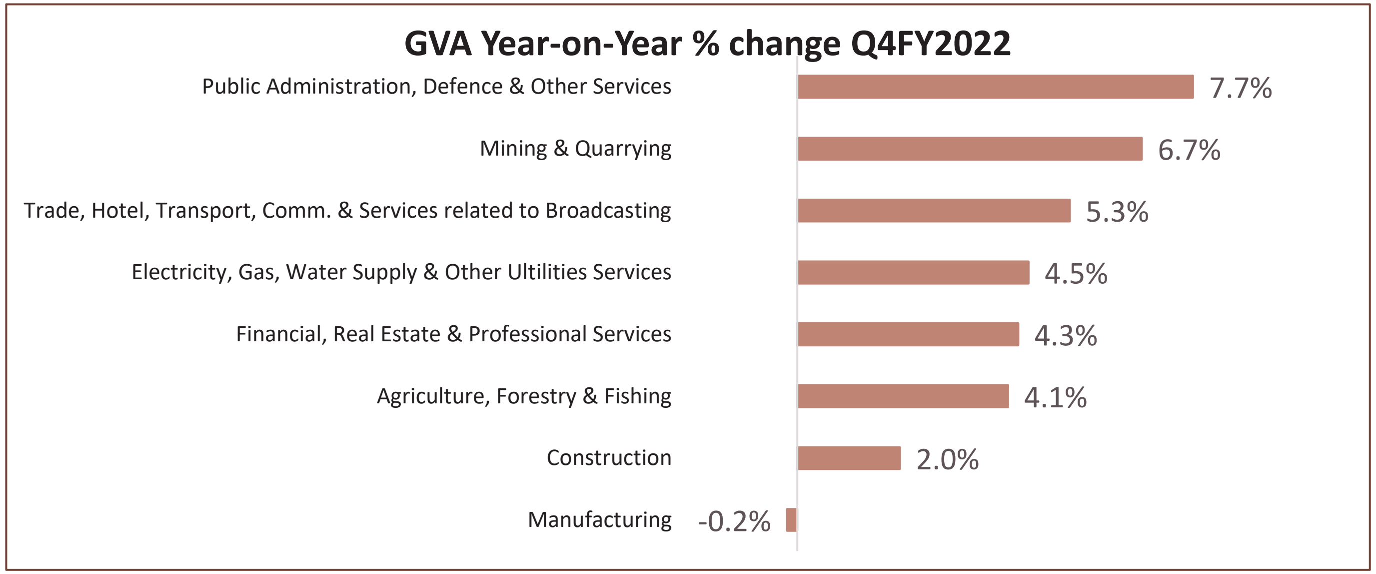


## Key Highlights

- Data released by the Ministry of Statistics and Programme Implementation on May 31 showed **India's GDP grew by 4.1% in the Q4FY22,** while for the **full year FY22 it came at 8.7%**. **In absolute terms for FY22 GDP** (Rs. 147.36 lakh crore) **just inched above the FY20 levels** of Rs. 145.16 lakh crore.
- **Gross Value Added (GVA) in Q4FY22 grew at a slower pace (3.9%)** as against a growth of 5.7% during the same period last year. For the full year GVA grew by 8.1% in FY22 as against a contraction of 4.8% in FY21.
- The **Private Final Consumption Expenditure (PFCE),** which is a significant component of overall Gross Domestic Product (GDP) numbers, rose by 1.76% in Q4FY22 over Q4FY21 number, and came in at Rs. 22.62 lakh crore. At the same time, when calculated against Q4FY20, PFCE grew at 8.33%.
- **Government final consumption expenditure (GFCE)** rose by 4.78%, after the Centre announced a slew of schemes hoping to raise demand in the economy. Thus, remaining significantly above the FY19-20 levels by 35.12%. At Rs. 4.62 lakh crore, GFCE constituted 11.3% of the GDP, same as Q4FY21.
- **Investments, as reflected by gross fixed capital formation (GFCF),** rose by 5.15% in quarter y-o-y, compared to 10.1% expansion in the same quarter previous year. Its share in GDP recovered to 33.6% in the March quarter after falling to a five-quarter low of 30.1% in the December quarter.



Source: MOSPI; News Articles

# RBI hikes repo rate, in line with expectation, to fight inflation

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**RBI's Stance** → **Withdrawal of Accommodation**

## Key Highlights

- Unanimously **hiked Repo Rate by 50 bps to 4.90%.**
- Cash reserve ratio **(CRR) kept unchanged at 4.50%.**
- The MPC unanimously voted on **"withdrawal of accommodation".**
- **Inflation projection for FY23 increased by 100 bps to 6.7%** assuming a normal monsoon and average crude basket at US$ 105 / bbl.
- **Growth** projection maintained at **7.2% for FY23**.
- Both the **bond and the equity market reacted positively.**

| Policy Rates / Reserve Ratio | 4 May '22 | 8 Jun '22 | Status |
|---|---|---|---|
| CRR | 4.50% | 4.50% | ⟷ |
| SLR | 18.00% | 18.00% | ⟷ |
| SDF | 4.15% | 4.65% | ↑ |
| Repo Rate | 4.40% | 4.90% | ↑ |
| MSF | 4.65% | 5.15% | ↑ |
| Bank rate | 4.65% | 5.15% | ↑ |
| Fixed Reverse Repo Rate | 3.35% | 3.35% | ⟷ |

## Growth

- India's real gross domestic product (GDP) growth in FY22 is estimated at 8.7%. **The level of real GDP in FY22 has exceeded the pre-pandemic i.e. FY20 level.**
- Available information for April and May 2022 indicates that the recovery in **domestic economic activity remains firm, with growth impulses getting increasingly broad based.** This is also corroborated by purchasing managers' indices (PMIs) numbers, and other fast moving macroeconomic indicators. Going by the early results of RBI surveys, capacity utilisation (CU) in the manufacturing sector increased.
- Based on the above the **RBI maintained the growth target for this fiscal year at 7.2%.**

## Inflation

- The CPI headline inflation in **April** registered a further sharp increase to **7.8%**. It was the **fourth consecutive month** when inflation was above the upper tolerance level of 6.0%.
- Based on this backdrop the RBI increased the full year target by 100 bps to 6.7% **assumes** a **normal monsoon** in 2022 and average **crude oil price (Indian basket) of US$ 105 per barrel**; however, it **does not take into account** the impact of **monetary policy actions** taken on 8 June.

## Summary

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".**


Source: RBI

# Thank You!

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