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Market Outlook – August 2022

Macro Economic Update

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Inflation:

Consumer Price Index (CPI): Rretail inflation inched down marginally to 7.01% in June from 7.04% in the previous month due to moderation in food inflation. The inflation rate, however, continued to remain above the RBI's target of 2%+/-4% for the medium term, marking completion of the second quarter of it.

Wholesale price index (WPI): India's wholesale price-based inflation eased to 15.18% in June on a y-o-y basis from 15.88% in May, due to rise in prices of mineral oils, food articles, crude petroleum & natural gas, basic metals, chemicals & chemical products, food products etc. as compared to the corresponding month of the previous year.

Deficit:

Fiscal Deficit: The fiscal deficit at the end of May stood at 21.2% of the annual budget target for FY23, mainly due to higher expenditure, as against 18.2% of the Budget Estimate (RE) of FY22 during the corresponding period. The country's fiscal deficit is projected at 6.4% of the GDP for this fiscal as against 6.71% for the previous year.

Trade Deficit: India's trade deficit in July 2022 widened to $31.02 bn from $26.18 bn in June due to inflated commodity prices, and against $10.63 bn for the same month last year. In the April-July 2022 period, the trade deficit crossed $100 bn, almost 2.5 times the trade deficit in the same period last year.

IIP, Core Sector and PMI:

Index of Industrial Production (IIP) & Core Sector: Inidi's industrial growth, as per the IIP, stood at an twelve-month high in May at 19.64% helped by a low base, pointing to a gradual and continuing recovery. Growth in the output of 8 core infrastructure sectors which make up 40.3% of IIP moderated to 12.7% in June.

Manufacturing & Services PMI: India Manufacturing Purchasing Managers' Index (PMI) hit a eight month high to 56.4 in July from 53.9 in June, driven by a significant rise in business orders. However, India's services activity fell to a four month low of 55.5 in July on the back of weaker sales growth and inflationary pressures.

Inflation and Industrial Production Trajectory

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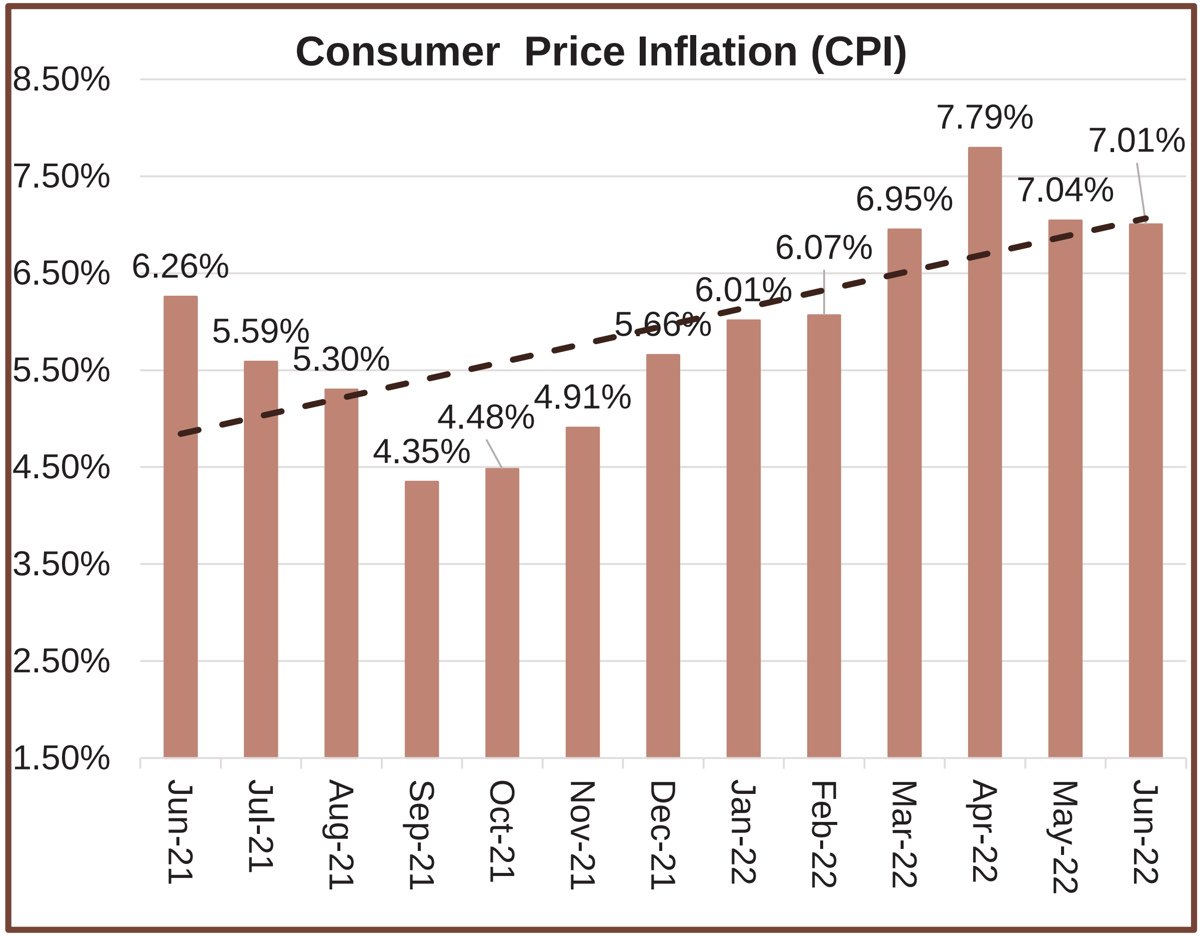
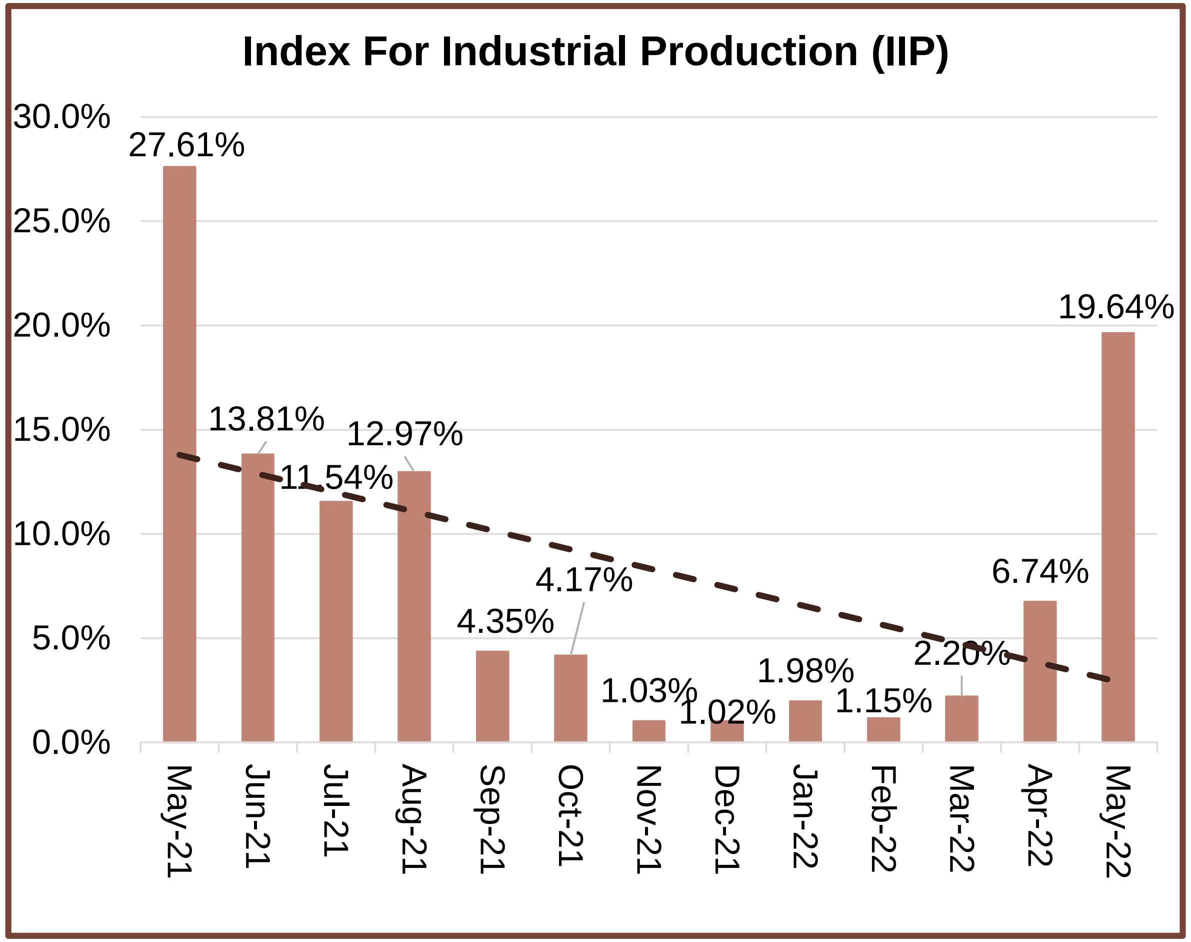
After being below the RBI upper tolerance level for July to December 2021; January to June 2022 witnessed inflation inching above the same.



Industrial Production accelerated in May '22 to an twelve month high on favourable base.



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Source: DBIE, RBI

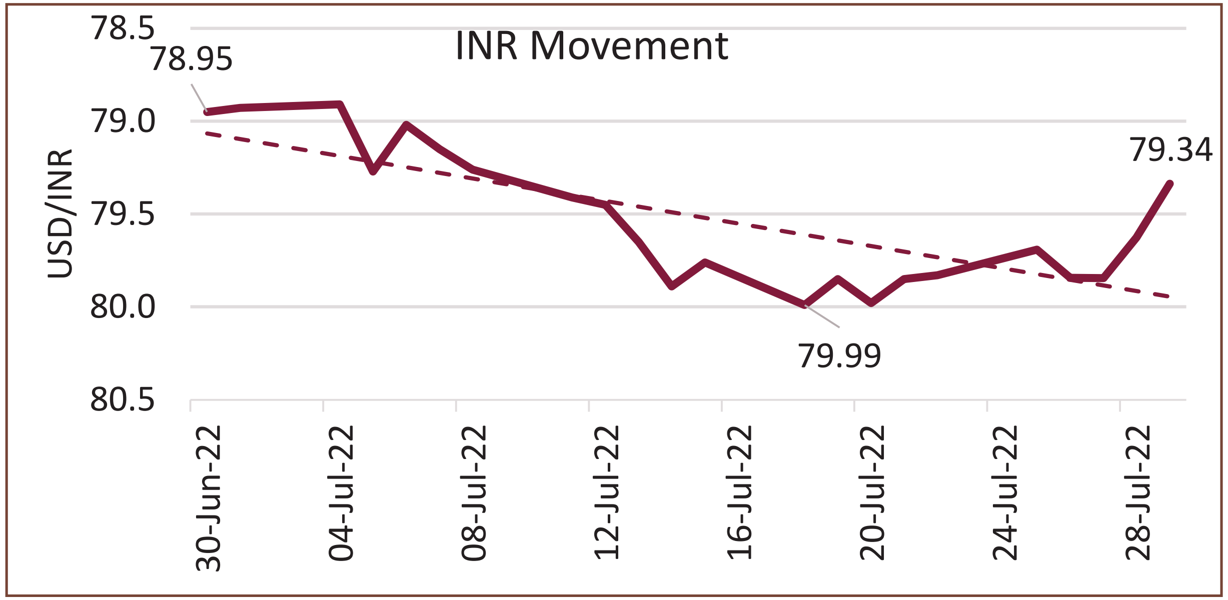
Macro Indicators

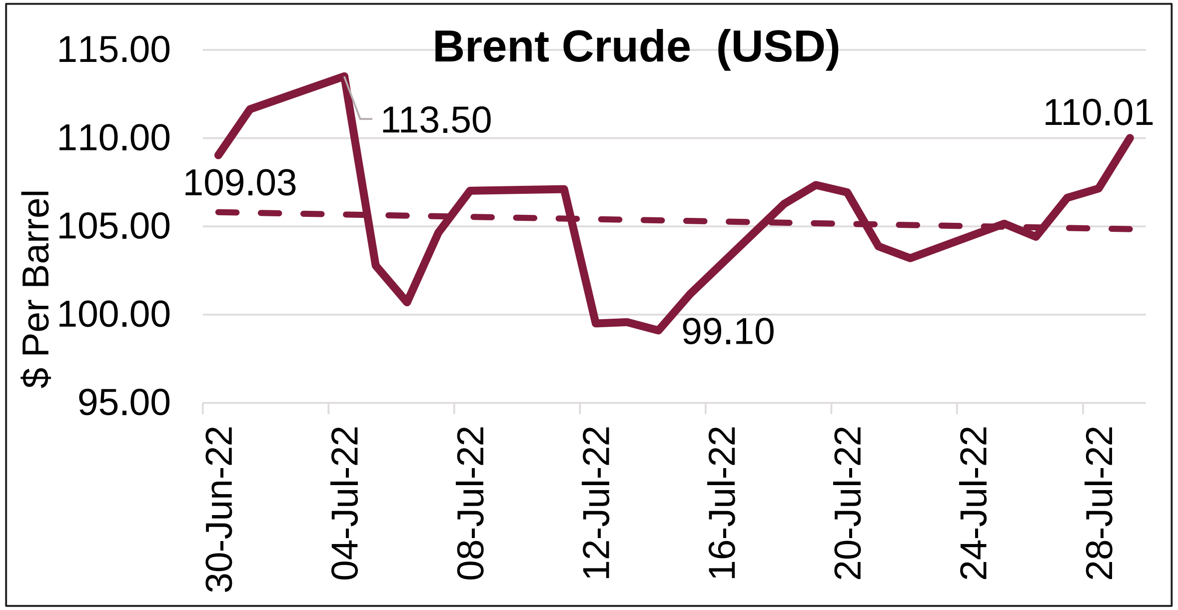
	Current	Month Ago	Quarter Ago	Year Ago
Economic Indicator				
Consumer Price Index (CPI)	7.01% (Jun-22) ↑	7.04% (May-22)	6.95% (Mar-22)	6.26% (Jun-21)
Wholesale Price Index (WPI)	15.18% (Jun-22) ↑	15.88% (May-22)	14.63% (Mar-22)	12.07% (Jun-21)
Industrial Production (IIP)	19.64% (May-22) ↑	6.74% (Apr-22)	1.15% (Feb-22)	27.61% (May-21)
GDP	4.1% (Mar-22) ↓	NA	5.4% (Dec-21)	2.5% (Mar-21)
Trade Deficit ($ bn)	31.02 (Jul-22) ↑	26.18 (Jun-22)	20.48 (Apr-22)	10.63 (Jul-21)
Commodity Market				
Brent Crude ($/barrel)	110.01 (29-Jul-22) ↑	114.81 (30-Jun-22)	109.34 (29-Apr-22)	76.33 (30-Jul-21)
Gold ($/oz)	1,778.75 (31-Jul-22) ↓	1,807.30 (30-Jun-22)	1,911.70 (29-Apr-22)	1,817.20 (30-Jul-21)
Silver ($/oz)	20.20 (31-Jul-22) ↓	20.35 (30-Jun-22)	23.09 (29-Apr-22)	25.55 (30-Jul-21)
Currency Market				
USD/INR	79.34 (29-Jul-22) ↑	78.95 (30-Jun-22)	76.52 (29-Apr-22)	74.34 (30-Jul-21)

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

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

INR and Brent Crude Performance





INR Performance: The **rupee fell by about 39 paise during the month of July 2022** to close lower at 79.34 up from 78.95 in June 2022. The rupee fell again to a record low against the greenback **amid concerns over slowdown in global growth** and uncertainty in the global macro environment. Further, the rupee rose against the greenback following **gains in the domestic equity market**. Gains were extended after the **U.S. Fed** indicated in its monetary policy review that pace of rate hikes may slow down.

Brent Crude: Brent crude oil prices gyrated during the month of July 2022 to close flat at **$110.01/barrel from $109.03/barrel in June**. Crude prices fell amid concerns that a potential recession may lead to a **slowdown in global growth** which may hit the demand outlook of the commodity. Further fall was on account fresh **COVID-19 restrictions in China** that could hamper the outlook for fuel demand. However, further losses were restricted amid reports that **Saudi Arabia may not be able to immediately boost oil production**. Prices fell further as supply fears eased to some extent after Norway's government intervened to end the strike by **Norwegian oil and gas workers** and in **Libya production resumed** at several oil fields.

Source: Investing.com

Equity Market - Review

Equity Market Roundup - Key Takeaways

Performance: Markets witnessed a relief rally as for the month of **July 2022 up by 8.58% to close 57,570 levels**, as global crude oil prices cooled down which eased concerns over rising inflation.

Domestic factors that played out for the Indian markets:

- The investor sentiment improved on account of better **corporate earnings** announcements. Downbeat domestic quarterly earning numbers for the quarter ended Jun 2022 from the major IT companies restricted further upside. However, later during the month upbeat domestic corporate earning numbers from FMCG sector and banking sector rejuvenated the markets.
- Worries over rising **inflation cooled down** as markets participants indicated that inflation has peaked out.
- July witnessed **net reduction in FPI selling** which uplifted overall market sentiments.

Global factors that shaped the graph of the Indian markets:

- A **decline in global crude oil prices** gave comfort to market participants regarding the country's rising import bill.
- The **U.S. recorded a more than 40-year-high inflation** of 9.1% for the month of June. Market sentiments were boosted after the **U.S. Federal Reserve raised interest rates by 75 bps** which was along market expectations.

Outlook: While major developed economies are struggling with concerns of rising inflation, interest rate, falling economic activity post-pandemic which led to disruptions in demand and supply-side and Russia-Ukraine crisis, **India has shown consistent recovery and is back to pre-pandemic levels**. **GDP growth projections for 2022 are still the highest for India compared to its emerging market peers.** This gives confidence in the long-term prospects of the economy. There can be some **headwinds in the near term** emanating from the worsening global economic situation and expected earning downgrade. 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 will to **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.**

Equity Dashboard – July 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	57,570	8.58	-1.17	9.48	22.73	3.33	1.24
Nifty 50	17,158	8.73	-1.13	8.85	20.73	4.12	1.29
Nifty 100	17,401	9.24	-1.24	8.48	20.90	4.18	1.41
Nifty 200	9,088	9.61	-1.42	8.24	21.10	4.03	1.38
Nifty 500	14,666	9.55	-2.20	7.33	21.47	4.01	1.34
Nifty Midcap 100	29,634	12.03	-2.66	6.54	22.42	3.28	1.20
Nifty Smallcap 100	9,171	8.60	-18.76	-12.84	19.29	3.25	1.11

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

Markets witnessed a relief rally as for the month of **July 2022 up by 8.58% to close 57,570 levels**, as global crude oil prices cooled down which eased concerns over rising inflation. The movement of the market were governed by the following factors:

- Domestic Factors – Downbeat **domestic quarterly earning numbers** for the quarter ended Jun 2022 from the major IT companies restricted further upside. However, later this month upbeat domestic corporate earning numbers from FMCG sector and banking sector rejuvenated the markets.
- Worries over **rising inflation** cooled down as markets participants indicated that inflation has peaked out.
- Global Cues – A decline in **global crude oil prices** gave comfort to market participants regarding the country's rising import bill.
- The **U.S.** recorded a more than **40-year-high inflation of 9.1%** for the month of June. Market sentiments were boosted after the **U.S. Federal Reserve raised interest rates by 75 bps** which was along market expectations.

A slowdown in sell off by **foreign institutional investors** and however remained relatively away from the markets as it rallied. **domestic investors**

Index*	1-Mth Return (%)	YTD Return (%)	1 Yr. Return (%)
Realty	17.04	-6.51	12.84
Metal	16.96	-5.49	-13.43
Capital Goods	14.19	3.36	25.54
Consumer Durables	14.04	-11.61	8.75
FMCG	12.52	12.37	14.90
Bankex	12.10	6.74	10.06
Power	12.03	30.86	74.13
PSU	8.04	6.34	11.82
Auto	7.32	15.76	27.74
Health Care	6.00	-12.61	-12.44
Oil & Gas	5.42	8.52	23.04
IT	4.15	-22.08	-4.40
Telecom	4.10	-10.18	13.30
Energy	3.71	10.31	27.54

*S&P BSE Sectoral Indices . Source: BSE

Equity Flow (Rs. Cr.)	1-Mth	YTD	1 Yr.
FII	-6,568	-2,89,973	-3,92,595
DII	10,546	2,41,540	3,20,646

Source: Moneycontrol

International Equity Market Performance

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2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022* (%)
U.S.-S&P 500 0.00	Germany 29.06	Japan 56.72	China 52.87	Gemany 9.56	U.K. 14.43	Hong Kong 35.99	India 3.15	U.S.-Nasdaq 35.23	U.S.-Nasdaq 43.64	France 28.85	U.K. 0.53
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 -1.13
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 -3.44
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	France -9,85
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	China -10.62
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	U.S.- S&P 500 -13.34
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	Hong Kong -13.85
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	Germany -15.11
China -21.68	U.K. 5.84	South Korea 0.72	U.K. -2.71	U.K. -4.93	Hong Kong 0.39	U.K. 7.63	Germany -18.26	Hong Kong 9.07	France -7.14	South Korea 3.63	South Korea -17.67
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 -20.88

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 July 2022. Source: MorningStar 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 7.10
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 -0.50
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 -0.99
Intl 25.47	Samll Cap 16.25	Intl -0.51	Intl 13.84	G-Sec 2.65	G-Sec 15.28	G-Sec 8.17	Intl 9.7	Intl 19.4	Large Cap 3.13	G-Sec 11.34	Intl 18.81	Large Cap 24.12	Large Cap -1.13
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 -3.03
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 -10.67
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 -14.32

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 July 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 – July 2022

- **During the month** under consideration all the categories were in the green with the all the categories falling between 8-11%. Among the sectoral funds too all the sectors were in the green, while the Financial, Consumption and FMCG. For **the trailing 3-months** most of the Categories & Sectors were in the green, while for trailing 6-months most of categories were in the red.

- **For the full year** all the categories were in the green with Contra, and Dividend Yield delivering the highest return. Among the sector based and thematic funds FMCG was the best performing sector followed by Consumption; however, Healthcare and Technology sector were in the red.

- **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 delivered early double digit return with the exception of Technology which clocked in gains of ~24%.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	8.83	0.97	-1.88	5.71	23.16	15.06	10.08
Large & Mid Cap	9.64	0.13	-2.77	5.26	29.46	18.98	10.83
Multi Cap	9.64	0.11	-2.48	5.26	32.41	20.23	12.70
Flexi Cap	9.50	-0.08	-3.24	4.08	26.28	17.40	10.86
Mid Cap	10.63	-0.17	-1.67	5.26	35.67	24.38	12.29
Small Cap	8.82	-2.04	-4.42	3.91	45.68	30.01	13.16
Focused	9.06	0.55	-2.85	5.34	25.56	17.09	10.61
ELSS	9.21	0.21	-2.79	4.55	26.39	17.48	10.44
Contra	9.20	1.41	-0.14	8.65	32.66	21.69	13.14
Dividend Yield	8.42	-0.18	-1.27	7.02	29.21	19.72	10.75
Value	9.05	-0.21	-2.46	5.33	30.68	18.04	9.41
Sectoral / Thematic							
Consumption	11.17	3.88	4.23	12.85	29.98	20.82	12.80
Infrastructure	9.85	0.26	-0.86	9.45	39.95	19.98	9.63
Financial Services	12.79	3.84	-1.73	4.04	27.59	9.76	6.78
FMCG	10.10	9.01	13.58	25.12	24.11	16.65	12.69
Healthcare	6.03	-3.98	-4.52	-10.08	13.29	24.33	12.89
Technology	4.78	-6.15	-13.32	-4.05	32.91	28.10	24.37

Source: Morningstar Direct

Valuations on the Trailing P/E Metrix

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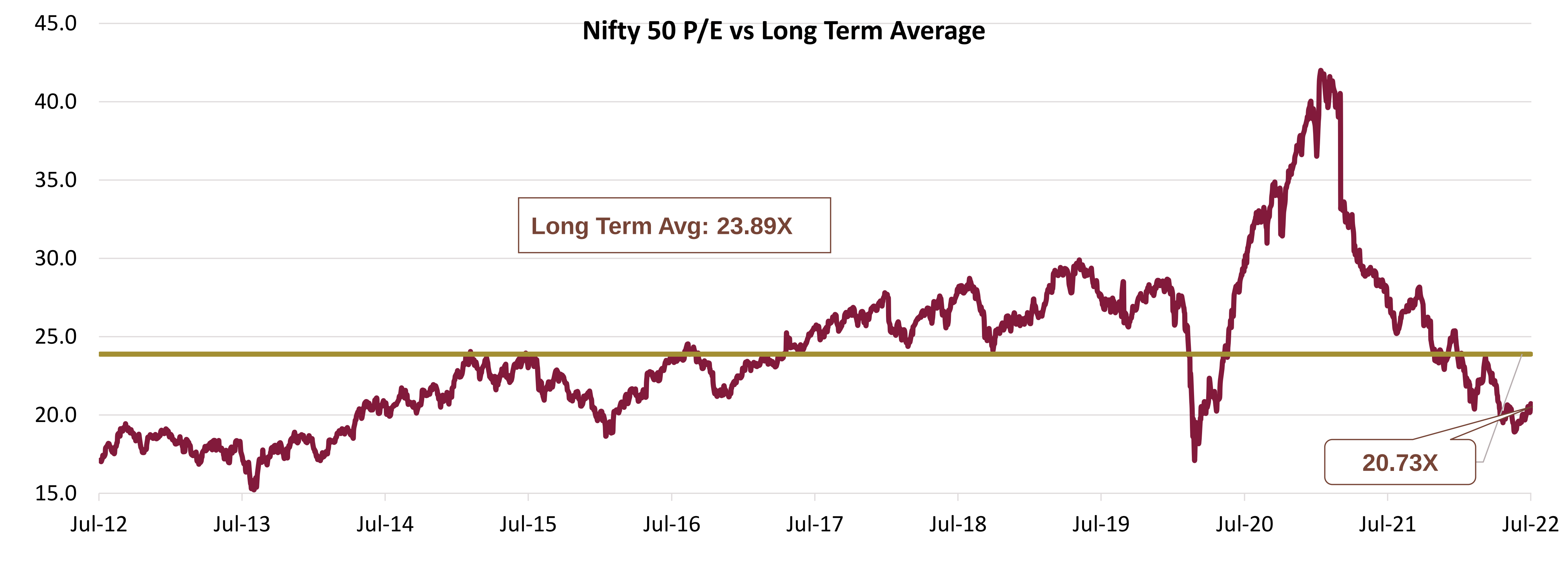
Nifty 12-month trailing P/E of 20.73x is in lower than its historical long-term average of 23.89x



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Source: NSE India

Valuations on the Trailing P/BV Metrix

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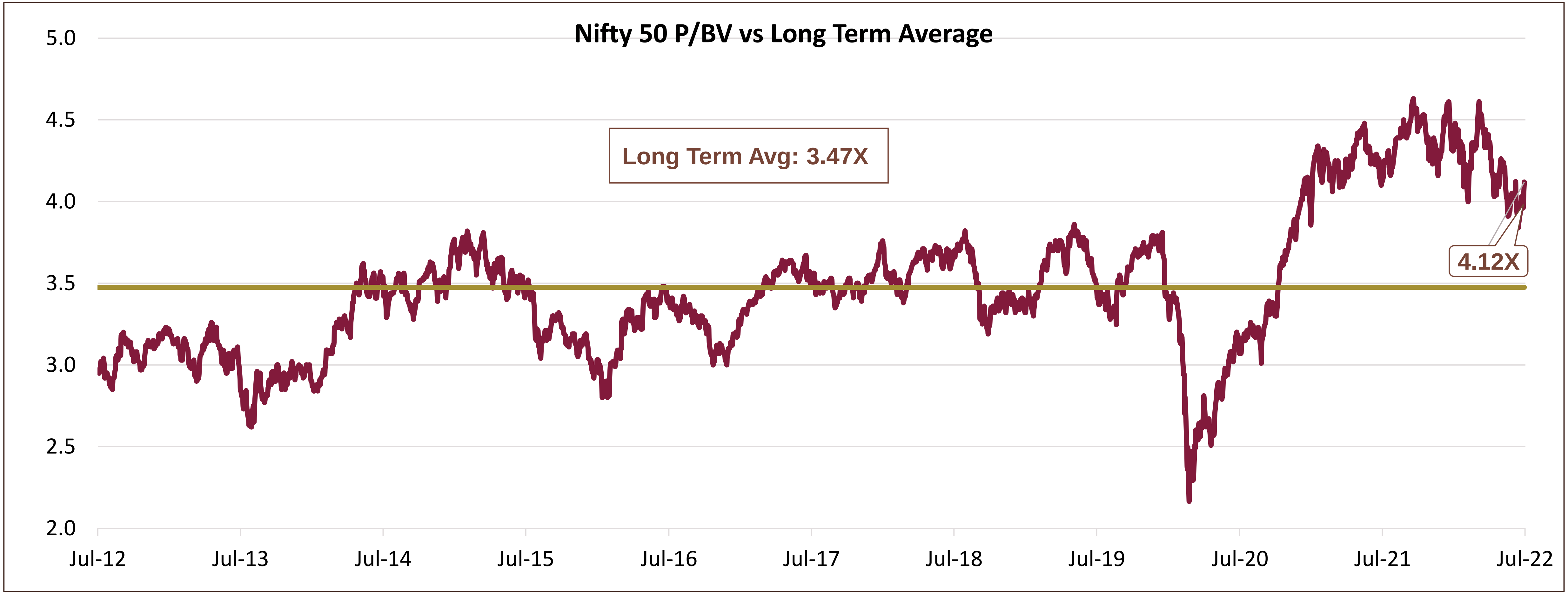
At 4.12x, the Nifty Trailing P/B is above the historical long-term average of 3.47x.



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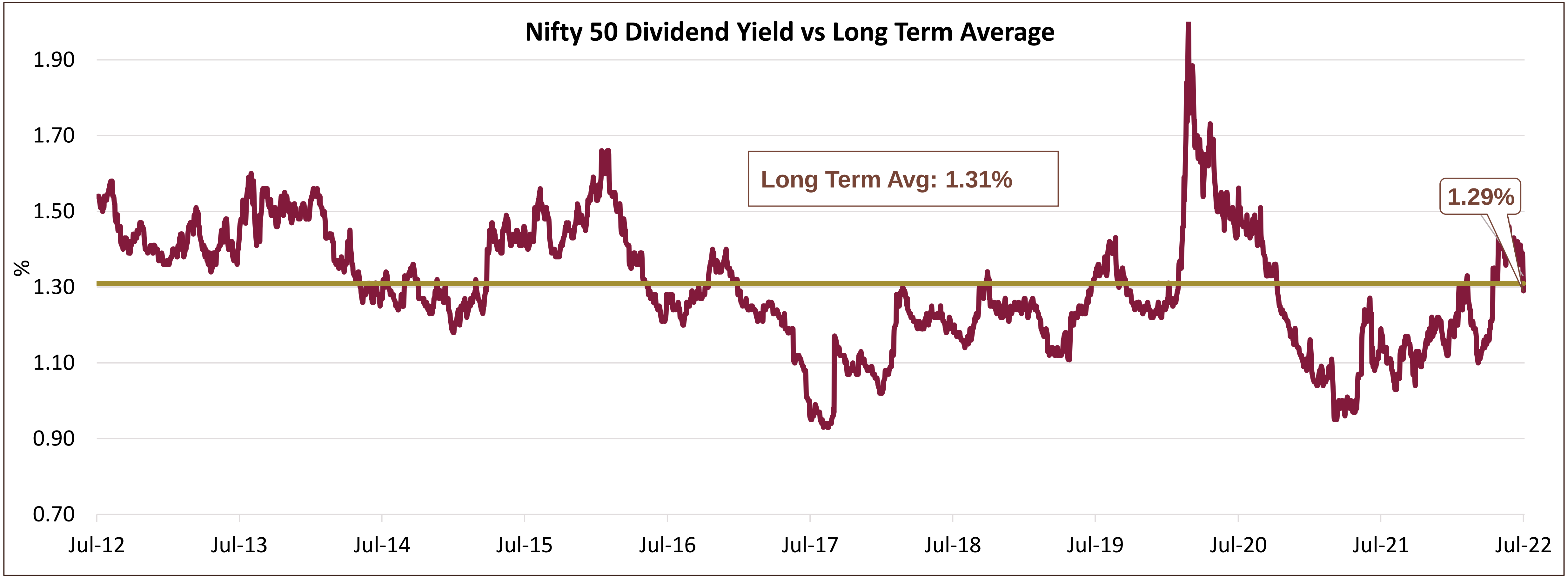
Source: NSE India

Valuations on a Trailing Dividend Yield perspective

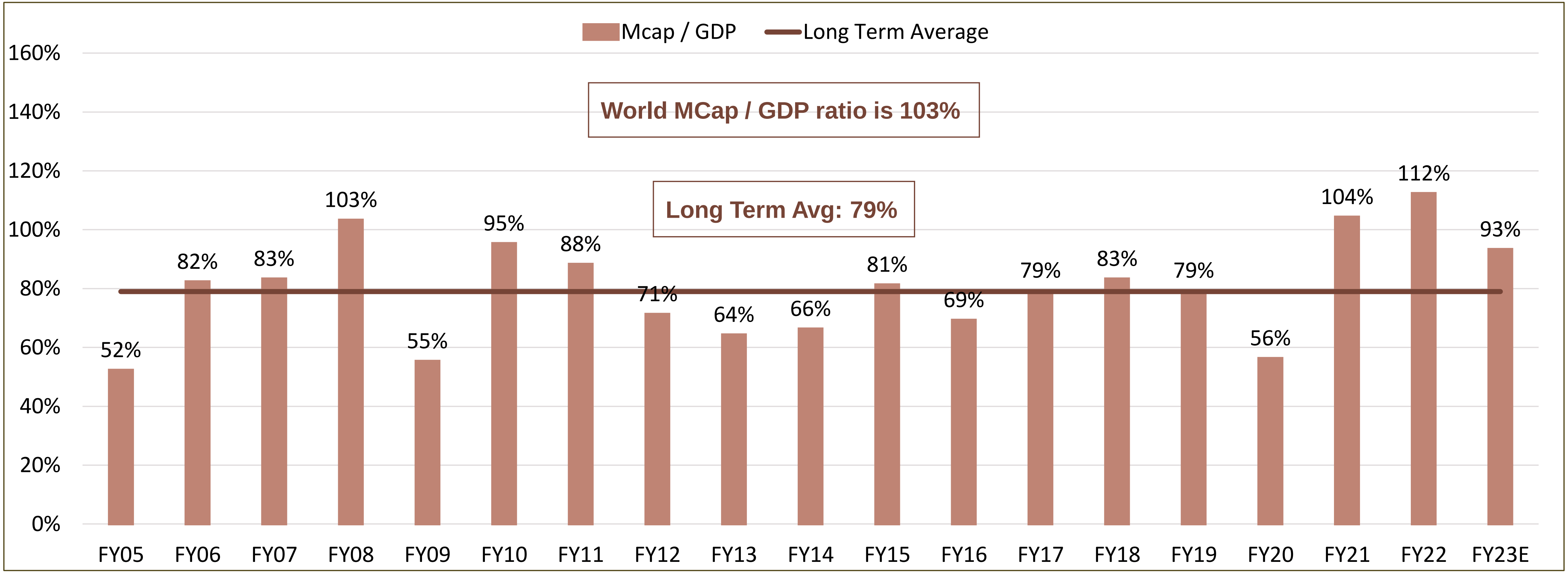
At 1.29%, the Nifty Trailing Dividend Yield is in line with the historical long-term average of 1.31%.



Source: NSE India

Valuations on a MCap / GDP perspective

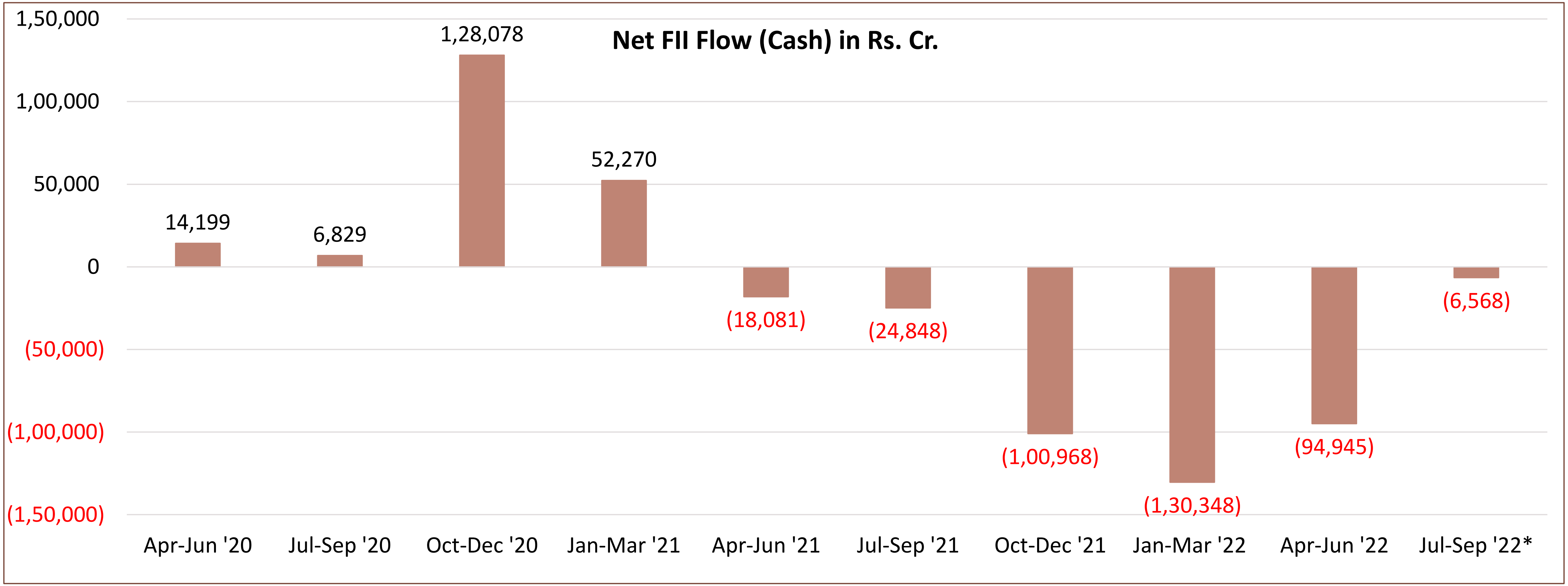
On Market Capitalisation to GDP parameter the market is trading above the historical long-term average but below the global average



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

FII Flow into Equity

FII registered an outflow to the tune of Rs. 6,568 cr. in July ‘22 cooling down from Rs. 58,112 cr in June ’22

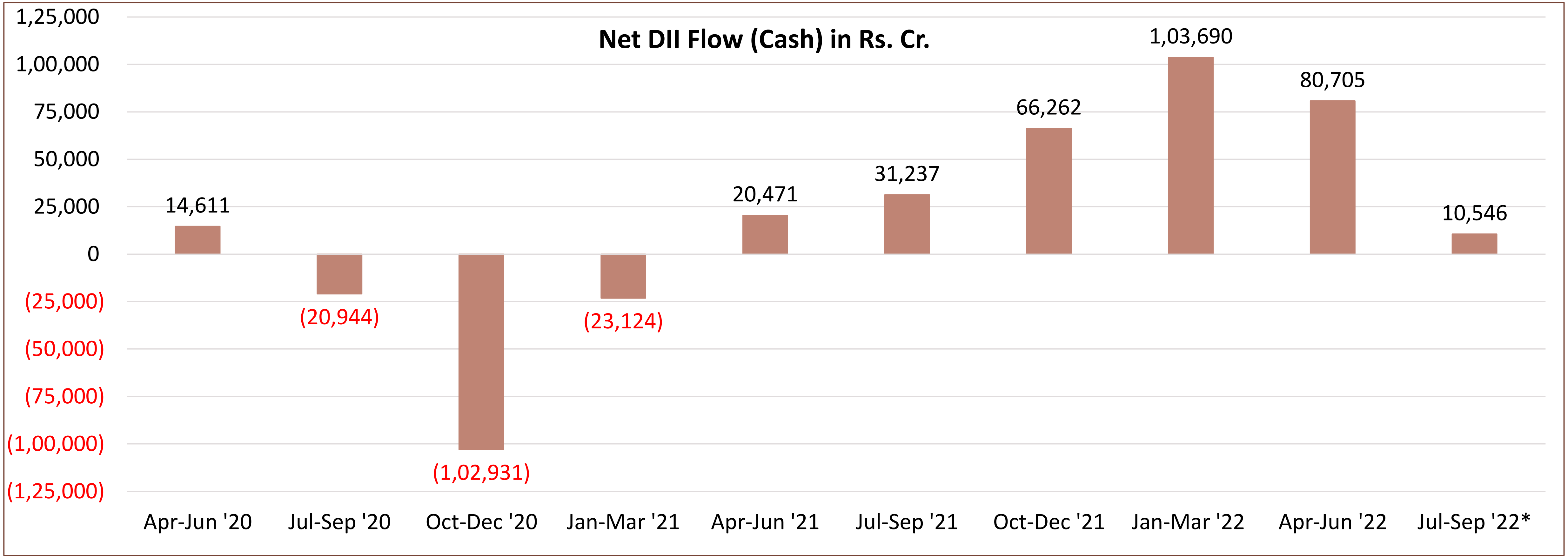


* Data upto 31 July 2022

Source: Moneycontrol

DII Flow into Equity

DII were net buyers in the cash market to the tune of Rs. 10,546 cr in July ’22 for the seventeenth consecutive months



Data upto 31 July 2022

Source: Moneycontrol

Debt Market - Review

Debt Market Roundup - Key Takeaways

- The **India 10-Year Government Bond yields** gyrated to close the month of **July on flat note at 7.32%** as against 7.45% at the end of June and touched a low of 7.29% beginning of the month. Bond yields fell as global crude oil prices came down and as yields on U.S. Treasuries which eased.
- Gains increased after the **U.S. Fed raised interest rates by 75 bps which was as per market expectations**. This is the third consecutive rate hike to clamp down U.S. inflation which had touched a 4-decade high in June. However, India's **depleting foreign exchange reserve** played a spoil sport.
- **GST collection stayed above the Rs. 1.4 lakh crore mark** for the fourth consecutive month in June.
- While **CPI further inched down from 7.04% in May to 7.01% in June**; the **May IIP growth stood at 19.64%** on favorable base effect.

Outlook:

- The August MPC meet was on the backdrop of **rising U.S. interest rates** which presented 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. Thus, RBI would need to **ensure that the interest rate differential between India and the U.S.** to attract dollar at a time when India is expected to witness a record current account deficit. Further, a weakening rupee has put pressure on inflation via higher cost of imported goods and services.
- With the **RBI stance of taking out excess liquidity from the system** directly through CRR hike and interest rate hike initiated in the economy we continue to maintain our stance of **investing in shorter end of the curve** through mutual fund categories like Low Duration / Floating Rate Funds till the time rates stabilize. For **longer term investments** Short Term Funds and Target Maturity Funds continue to be our preferred categories. 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.
- 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 – July 2022

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	Latest (31 Jul '22)	One Month Ago (30 Jun '22)	One Quarter Ago (30 Apr '22)	Half Year Ago (31 Jan '22)	One Year Ago (31 Jul '21)	M-o-M Change (bps)
Interest Rates						
Repo rate	4.90%	4.90%	4.00%	4.00%	4.00%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	5.90%	5.15%	4.15%	4.00%	3.48%	75
6 month	6.23%	5.98%	4.48%	4.13%	3.63%	25
1 Year	6.68%	6.53%	5.13%	4.43%	3.98%	15
T-Bill/G-sec						
91 Days	5.60%	5.14%	3.98%	3.70%	3.38%	46
364 Days	6.28%	6.28%	4.77%	4.50%	3.65%	0
India 10 Year G-Sec Yield	7.32%	7.45%	7.14%	6.68%	6.20%	-13
AAA Corp. Bonds (PSU)						
1 Year	6.31%	6.59%	5.13%	4.92%	4.05%	-28
3 Year	7.10%	7.35%	6.41%	5.79%	5.06%	-24
5 Year	7.27%	7.46%	6.77%	6.28%	6.03%	-19
AAA Corp. Bonds (NBFC)						
1 Year	6.69%	6.66%	5.19%	5.27%	4.28%	3
3 Year	7.33%	7.62%	6.80%	6.05%	5.37%	-29
5 Year	7.63%	7.70%	6.99%	6.50%	6.24%	-7
International Markets						
10 Year US Treasury Yield	2.66%	3.02%	2.94%	1.78%	1.23%	-36

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. At the same time in **India the yields of 10 year Gsec too softened** in line with U.S. markets.
- **Both the AAA Corp. PSU & NBFC largely** witnessed softening of the yields even as liquidity tightened.
- In the **unscheduled** May MPC meet the RBI took a rather **hawkish stance** by **increasing the repo rate & CRR** to cut down the inflationary pressure. Further, in **Jun & Aug scheduled MPC meeting** too the interest rates were hiked.

Debt Category Average Performances – July 2022

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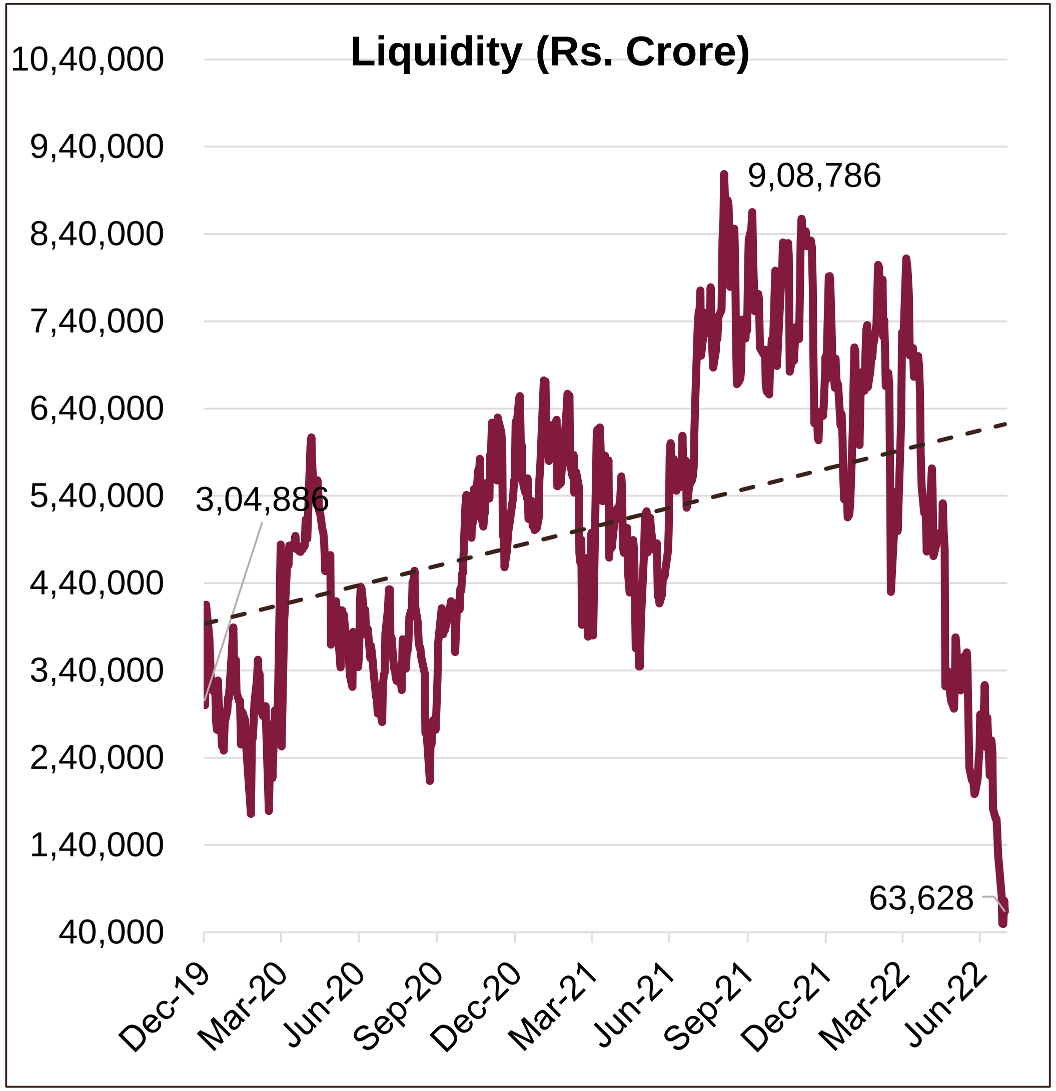
- **During the month** under consideration all the three broad categories were in the green even as yields largely fell across the curve on softening of inflation.
- With respect to the **3 months and 6 months trailing returns the duration** categories underperformed the Money Market & Accrual categories on the back of rising yields. There were some shades of red seen in the Duration category.
- **For the full year largely** all the categories were in the green with our suggested categories such as Ultra Short Duration, Low duration, Floating rate, Money Market, Short Duration, Banking & PSU and Corporate Bond Fund delivered decent returns.
- **On a 2-year CAGR** basis all of the categories delivered an early to mid single digit growth. In addition to the Medium Duration & Credit Risk Funds, our recommended categories - the Ultra Short Duration, Low duration, Money Market, 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 early to mid single returns.

Money Market	Absolute Returns (%)				CAGR (%)		
Category	**1 M**	**3 M**	**6 M**	**1 Y**	**2 Y**	**3 Y**	**5 Y**
Overnight	0.40	1.10	1.91	3.55	3.28	3.57	4.42
Liquid	0.36	1.01	1.83	3.41	3.19	3.74	4.90
Ultra Short Duration	0.37	0.79	1.67	3.44	3.63	4.60	5.23
Low Duration	0.45	0.61	1.43	3.28	3.73	5.20	5.15
Money Market	0.37	0.79	1.70	3.41	3.48	4.67	5.70
Accrual	**Absolute Returns (%)**				**CAGR (%)**		
Category	**1 M**	**3 M**	**6 M**	**1 Y**	**2 Y**	**3 Y**	**5 Y**
Short Duration	0.67	0.35	1.42	3.54	3.95	5.59	5.39
Medium Duration	1.00	0.20	0.21	2.35	4.35	4.74	4.55
Banking & PSU Debt Fund	0.69	0.56	1.02	2.69	3.52	6.00	6.48
Corporate Bond Fund	0.73	0.21	0.68	2.39	3.61	6.09	6.26
Floating Rate	0.57	0.52	1.23	3.00	4.00	5.70	6.25
Credit Risk	0.94	0.63	1.68	3.99	5.76	5.62	5.18
Duration	**Absolute Returns (%)**				**CAGR (%)**		
Category	**1 M**	**3 M**	**6 M**	**1 Y**	**2 Y**	**3 Y**	**5 Y**
Medium To Long Duration	1.09	0.55	0.28	2.36	2.61	4.69	4.79
Long Duration Fund	1.24	-0.44	-0.27	1.15	1.09	3.68	5.39
Dynamic	0.95	0.82	0.89	2.91	3.18	5.16	5.39
Gilt	0.96	0.45	0.10	1.56	2.05	4.72	5.74

Source: Morningstar Direct

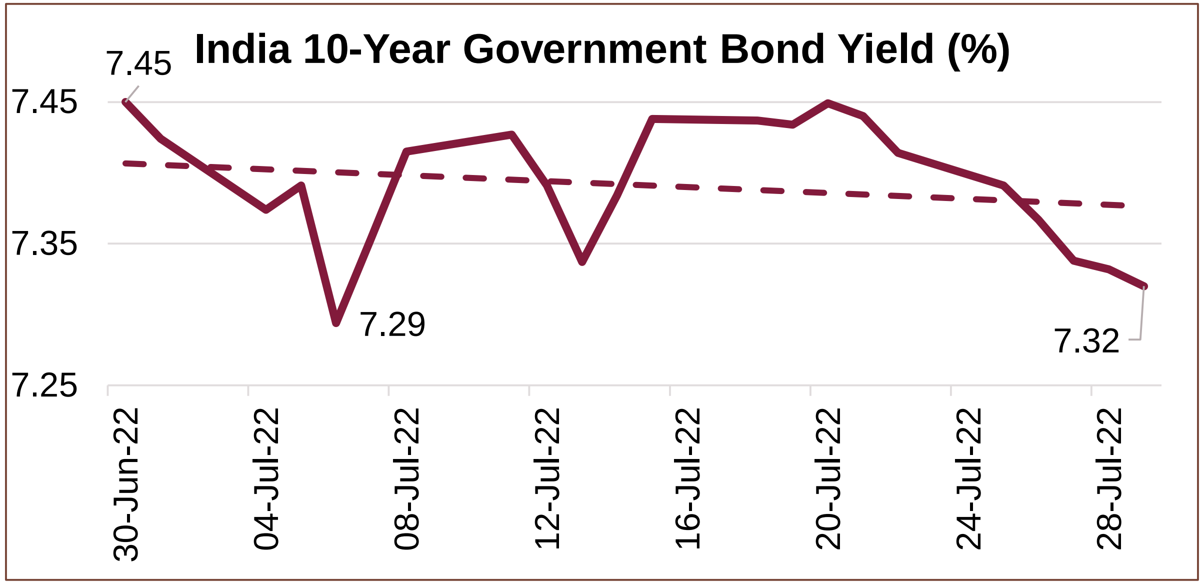
Liquidity in the system

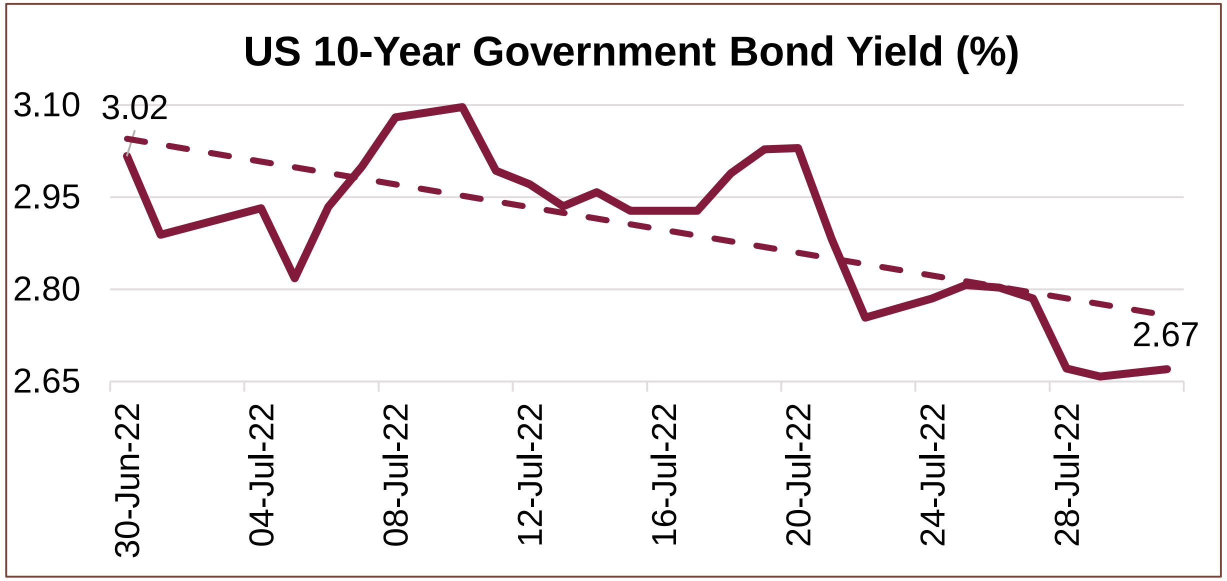
The RBI during the 2 pandemic-stricken years provided liquidity to the tune of Rs. 17 lakh crore by announcing various measures such as **system-level liquidity (LTRO), targeted liquidity (TLTRO) and on-tap liquidity window.** However, once there was sufficient liquidity the RBI got legroom for liquidity management and normalization by **the rollback of CRR in a phased manner and** conducting and steadily stepping-up the **variable rate reverse repo (VRRR) auction.** Over time, the idea is to push up the rate at which liquidity is absorbed via these VRRR auctions, which would make it easier for the RBI to eventually raise that benchmark. Hinting that normalisation of liquidity overhang is on the anvil, in the last quarter of 2021 **G-sec Acquisition Programme (G-SAP)** was discontinued. In the April '22 policy meet **Standing Deposit Fecality (SDF) was introduced** and the **Liquidity Adjustment Fecality (LAF) corridor** was narrowed to 50 bps **making the Reverse Repo Rate redundant**. Further in an **off-cycle policy meet in May the RBI increased the CRR by 50 bps to 4.50%** and later in June it stated that "**RBI will ensure availability of adequate liquidity to meet the productive requirements of the economy".** Later in August policy meet the RBI said that the **surplus liquidity in the banking system**, as reflected in average daily absorptions under the LAF (both SDF and variable rate reverse repo auctions), moderated to Rs. 3.8 lakh crore during June-July 2022 from Rs. 6.7 lakh crore during April-May.



Source: IDFC AMC

Yields Movement Across - India and U.S.





- **10-year India Government Bond Yield:** The India 10-Year Government Bond yields **gyrated to close the month of July on flat note at 7.32%** as against 7.45% at the end of June and touched a low of 7.29% beginning of the month. Bond yields fell as **global crude oil prices came down**. Sentiments were further boosted following a **decline in yields on U.S. Treasuries** which eased concerns over foreign fund outflow from the domestic debt market. Gains increased after the **U.S. Fed raised interest rates by 75 bps** which was as per market expectations. However, India's depleting **foreign exchange reserve** played a spoil sport.

- **U.S. Treasury Yield:** U.S. Treasury yields **closed the month of July 35 bps lower at 2.67% from 3.02% in Jun 2022**. U.S. Treasury prices rose as **economic worries hurt risk appetite and improved demand for safe-haven U.S. bonds**. However, gains were capped on concerns that the U.S. Federal Reserve would hike interest rates by 100 bps at its July end meeting after annual U.S. inflation hit a more than 40-year peak in Jun 2022. Nonetheless, later during the month as the **U.S. Fed. announced rate hike of 75 bps** in line with expectation and the growth of the U.S. economy contracted for the second consecutive quarter in 2022 which led to speculation that the **U.S. Fed might slow down the pace of rate hikes moving ahead** amid growing fears of a recession; U.S. Treasury prices rose.

Source: Investing.com

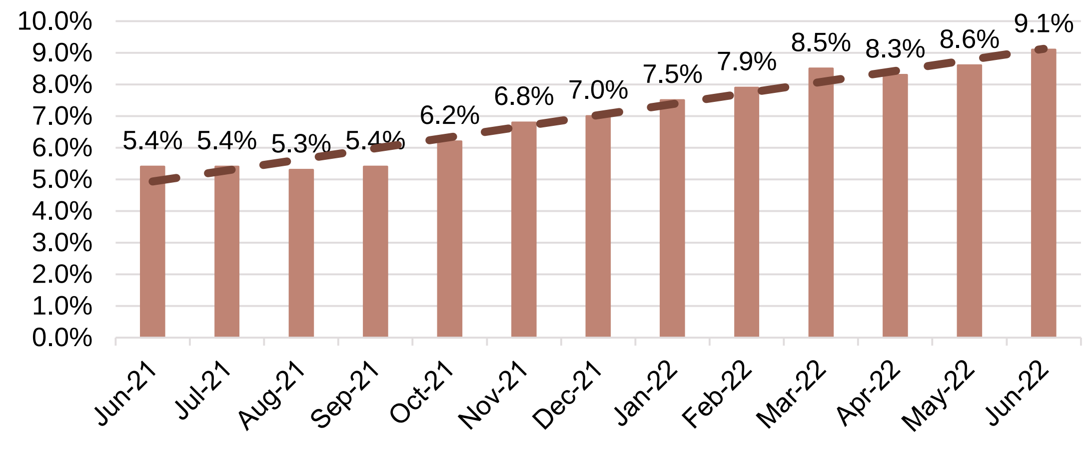
Event Update

Fed raises interest rates by 75 bps again to clamp down inflation

Key Highlights

- Fed **raised interest rates by 75 bps** - to lift their key rate to a target range of **2.25% to 2.50%.**
- "As the stance of monetary policy tightens further, it likely will become appropriate to **slow the pace of increases** while we assess how our cumulative policy adjustments are affecting the economy and inflation," Fed Chairman Jerome Powell said.
- The Fed Chairman said that he **did not believe the economy was in recession**, citing a **"very strong labour market"** as evidence.
- He also added that they are continuing with the process of **significantly reducing the size of its balance sheet**.

U.S. Inflation touched a fresh 4 decade high of 9.1% in Jun '22



U.S. Inflation Peaking

The **US consumer price index rose by 9.1% in June** from a year earlier, topping forecasts and hitting a **fresh four-decade high**. High inflation had briefly fueled speculation that the Fed would lift rates by a full percentage point this month. But those bets got called back after Fed officials voiced caution and key readings on consumer expectations for future inflation were better than expected.

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.

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

Source: Trading economics

RBI hikes repo rate for third time in a row, to fight inflation

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RBI's Stance → Withdrawal of Accommodation

Key Highlights

- **Unanimously hiked Repo Rate by 50 bps to 5.40%.**
- The MPC voted on **"withdrawal of accommodation"** to ensure that inflation remains within the target going forward, while supporting growth; however, this decision was **not unanimously**.
- **Inflation** projection for FY23 retained at 6.7%.
- **Growth** projection maintained at 7.2% for FY23.
- While the **bond market** reacted negatively on a rather hawkish stance by MPC; the **equity markets** remained flat.

Policy Rates / Reserve Ratio	8 Jun '22	5 Aug '22	Status
CRR	4.50%	4.50%	
SLR	18.00%	18.00%	
SDF	4.65%	5.15%	
Repo Rate	4.90%	5.40%	
MSF	5.15%	5.65%	
Bank rate	5.15%	5.65%	
Fixed Reverse Repo Rate	3.35%	3.35%	

Growth

- The **south-west monsoon rainfall and reservoir levels are above normal**; kharif sowing is progressing well, although it is marginally below last year's level due to uneven rainfall distribution.
- On the **demand side**, indicators such as production of consumer durables, domestic air passenger traffic and sale of passenger vehicles suggest improvement in urban demand; however, **rural demand indicators, however, exhibited mixed signals.**
- **High frequency indicators** of the services sector remained robust in June and July.
- Based on the above the **RBI maintained the growth target for this fiscal year at 7.2%.**

Inflation

- **The CPI headline inflation in June cooled down to 7.0%.** It was the sixth consecutive month when inflation touched or was above the upper tolerance level of 6.0%.
- The **global geopolitical situation remains fluid** and however now commodity markets has softened particularly in prices of industrial metals and some softening in global food prices; thus, now inflation trajectory is now poised at a decisive point.
- Assuming a **normal monsoon in 2022** and **average crude oil price (Indian basket) of US$ 105** per barrel inflation projection for FY23 maintained at 6.7%

Conclusion

With the RBI stance of taking out excess liquidity from the system directly through CRR hike and interest rate hike initiated in the economy we continue to maintain our stance of investing in **shorter end of the curve** through mutual fund categories like Low Duration / Floating Rate Funds till the time rates stabilize. For **longer term investments** Short Term Funds and Target Maturity Funds continue to be our preferred categories. Along with MF good quality Corporate Fixed Deposits and Bonds can be looked at allocation in the debt portfolio for diversification and enhancing overall return.

 Source: RBI

Thank You!

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