



# **TATA CAPITAL WEALTH**

## **Market Outlook - August 2023**



# Macro Indicators



	Current		Month Ago	Quarter Ago	Half Year Ago	Year Ago
<b>Economic Indicators:</b>						
PMI Manufacturing	57.7 (Jul-23)	↑	57.8 (Jun-23)	57.2 (Apr-23)	55.4 (Jan-23)	56.4 (Jul-22)
PMI Services	62.3 (Jul-23)	↑	58.5 (Jun-23)	62.0 (Apr-23)	57.2 (Jan-23)	55.5 (Jul-22)
Consumer Price Index (CPI)	4.8% (Jun-23)	↓	4.3% (May-23)	5.7% (Mar-23)	5.7% (Dec-22)	7.0% (Jun-22)
Wholesale Price Index (WPI)	-4.1% (Jun-23)	↓	-3.5% (May-23)	1.3% (Mar-23)	5.0% (Dec-22)	16.2% (Jun-22)
Industrial Production (IIP)	5.2% (May-23)	↓	4.2% (Apr-23)	5.6% (Feb-23)	7.3% (Nov-22)	19.7% (May-22)
GDP	6.1% (Mar-23)	↑	NA	4.4% (Dec-22)	6.3% (Sep-22)	4.1% (Mar-22)
Trade Deficit (\$ bn)	20.1 (June-23)	↑	22.1 (May-23)	19.7 (Mar-23)	23.8 (Dec-22)	22.3 (Jun-22)
<b>Commodity Market:</b>						
Brent Crude (\$/barrel)	85.6 (31-Jul-23)	↑	74.9 (30-Jun-23)	79.5 (28-Apr-23)	84.5 (31-Jan-23)	110.0 (29-Jul-22)
Gold (\$/oz)	2,009.2 (31-Jul-23)	↑	1,929.4 (30-Jun-23)	1,999.1 (28-Apr-23)	1,929.5 (31-Jan-23)	1,781.8 (29-Jul-22)
Silver (\$/oz)	25.0 (31-Jul-23)	↓	22.8 (30-Jun-23)	25.2 (28-Apr-23)	23.8 (31-Jan-23)	20.2 (29-Jul-22)
<b>Currency Market:</b>						
USD/INR	82.2 (31-Jul-23)	↑	82.1 (30-Jun-23)	81.7 (28-Apr-23)	81.7 (31-Jan-23)	79.3 (29-Jul-22)

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

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

# Equity Market - Review



# Equity Market Roundup - Key Takeaways



**Performance:** In July 2023, key benchmark indices S&P BSE Sensex and Nifty 50 surpassed momentarily the psychological levels of 67,000 and 19,900 respectively. The rally in Indian markets is broad-based with Mid & Small caps (5.7% & 7.8%) gaining more than Largecap (3.0%) names, thus highlighting the strength of domestic focused sectors.

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

- Domestic equities rallied on all cylinders initially during the month on expectations that the U.S Federal Reserve might not raise interest rates at an aggressive pace and could be closer to end its monetary policy tightening cycle. However later during the month as the Fed hiked interest rates by 25 bps and added that future rate actions will be dependent on incoming data. Losses were restricted after China's top leaders pledged to roll out further policy support to aid country's economic recovery.
- Despite global macro concern, **macro indicators in India continue to remain strong**. Continued buying by foreign institutional investors contributed to the bullish market sentiment despite major domestic IT company reported downbeat earning numbers for the quarter ended June 2023 and downgraded its FY24 growth.

## Outlook:

- **Favorable and continuous improvement in macroeconomic factors and reversal of FII flows** have played a key role in the market rally. **Domestic high frequency indicators** like GST collections, Credit Growth, Purchasing Managers' Index (PMI), strong domestic capex triggers, etc. **point to elevated activity levels**.
- Therefore, **investors are suggested not to time the markets and focus on the medium to long term potential of the equity markets**. The important drivers for equity market are - **global economic trends, oil prices, progress of south west monsoons, kharif crop output, earning growth of corporates, foreign and domestic flows, global liquidity conditions and central banks actions**. We believe, market may remain volatile for the next few months, investors need to be cautious **and invest in staggered manner and follow the prescribed asset allocation**.

# Indian Equity Market Dashboard – July 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
<b>Indian Market Performance &amp; Valuation</b>										
S&P BSE Sensex	2.90	9.42	12.70	15.96	13.83	22.38	13.42	24.93	3.57	1.23
Nifty 50	3.03	9.70	12.55	15.09	13.20	22.71	13.02	23.01	4.83	1.28
Nifty 100	3.13	10.21	12.47	12.90	11.97	21.95	12.35	23.87	4.86	1.31
Nifty 200	3.48	11.33	13.91	14.64	12.73	23.61	12.85	24.08	4.54	1.29
Nifty 500	3.93	12.29	14.83	15.95	12.89	24.91	13.29	24.24	4.52	1.25
Nifty Midcap 150	5.65	18.30	22.38	25.32	16.99	35.20	17.24	27.41	3.71	1.07
Nifty Smallcap 250	7.82	20.67	23.00	28.11	12.52	39.21	14.93	22.67	3.70	1.07
Nifty Microcap 250	9.97	28.31	33.30	43.54	20.26	55.03	18.49	29.03	2.62	0.85
<b>Sectoral Indices</b>										
Nifty PSU Bank	12.42	11.44	16.18	64.59	39.64	50.15	8.44			
Nifty Pharma	9.32	18.93	22.16	18.72	2.84	11.23	11.16			
Nifty Realty	9.25	27.10	38.10	25.94	19.71	41.76	16.24			
Nifty Metal	8.94	16.28	4.62	21.68	10.39	49.46	17.32			
Nifty Energy	8.73	12.91	13.29	1.23	21.31	23.17	14.61			
Nifty Oil & Gas	8.04	8.49	7.36	2.57	13.58	19.07	12.54			
Nifty Healthcare	7.36	19.34	22.73	20.41	4.35	14.60	13.32			
Nifty Infrastructure	6.66	14.00	20.99	23.64	18.75	26.33	15.96			
Nifty Auto	4.14	19.20	18.48	22.16	26.14	30.53	8.72			
Nifty Bank	2.03	6.10	12.97	21.47	15.71	29.01	10.96			
Nifty Services Sector	1.75	7.18	7.67	8.05	8.61	21.73	11.69			
Nifty IT	1.47	8.65	1.57	4.23	1.01	20.54	17.74			
Nifty Financial Services	1.43	6.76	13.22	16.73	12.04	24.64	12.45			
Nifty India Consumption	1.16	12.12	15.03	11.28	16.04	20.78	11.14			
Nifty FMCG	0.86	10.19	19.61	25.47	22.92	21.83	12.96			

## Equity Market Flow

Equity Flow (₹ Cr.)	1-Mth	CYTD	1 Yr.
FII	13,922	-2,54,247	35,726
DII	-1,184	3,61,110	1,19,570

Source: Moneycontrol

# Global Equity Market Dashboard - July 2023



Country	Index Name	Absolute(%)				CAGR (%)		
		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
<b>Global Market Indices</b>								
Hong Kong	HangSeng	6.15	0.91	-8.07	-0.43	-12.04	-6.54	-6.82
Malaysia	KLSE	6.01	3.01	-1.75	-2.85	-1.18	-3.09	-3.94
Singapore	Strait Times	5.24	3.10	0.25	4.19	3.21	10.06	0.32
U.S.	Nasdaq 100	3.81	19.30	30.20	21.82	2.63	13.05	16.84
Indonesia	Jakarta Composite	3.69	0.22	1.35	-0.54	6.85	10.40	3.15
U.S.	Russell 1000	3.34	10.64	12.18	11.38	0.99	11.52	10.04
Brazil	Ibovespa Sao Paulo	3.27	16.41	7.50	19.34	0.06	5.82	9.00
India	Nifty 50	2.94	9.15	11.84	13.96	11.93	21.28	11.70
China	SSE Composite	2.78	-0.95	1.09	0.96	-1.57	-0.19	2.73
South Korea	Kospi	2.66	5.13	8.56	7.37	-9.32	5.38	2.78
UK	FTSE	2.23	-2.13	-0.93	3.87	4.63	9.29	-0.13
Pan - Europe	Euronext 100	2.01	2.03	5.57	11.95	4.58	13.66	5.38
Germany	DAX	1.85	3.22	8.72	22.07	2.86	10.13	5.13
Taiwan	Taiwan Capitalization Weighted Stock	1.36	9.84	12.32	14.48	-0.30	10.62	9.16
France	CAC 40	1.32	0.08	5.86	16.53	6.47	16.16	6.35
Switzerland	Swiss Market	0.26	-1.09	0.21	1.46	-3.39	4.17	4.27
Japan	Nikkei	-0.05	14.06	21.39	18.55	10.25	15.18	8.02

Data as on 31<sup>st</sup> July 2023. Performance shown is for Price Return Index. Source: ICRA MFI



# Global Equity Market Performance across Calendar years



2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	YTD (%)
Germany 29.06	Japan 56.72	China 52.87	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	India 4.33	U.S.- Nasdaq 37.07
India 27.70	U.S.- Nasdaq 38.32	India 31.39	China 9.41	U.S.-S&P 500 9.54	India 28.65	U.S.- Nasdaq -3.88	U.S.-S&P 500 28.88	South Korea 30.75	U.S.- S&P 500 26.89	U.K. 0.91	Japan 27.12
Japan 22.94	U.S.-S&P 500 29.60	U.S.- Nasdaq 13.40	Japan 9.07	U.S.- Nasdaq 7.50	U.S.- Nasdaq 28.24	U.S.-S&P 500 -6.24	France 26.37	U.S.-S&P 500 16.26	India 24.1	Japan -9.37	U.S.- S&P 500 19.52
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 18.12
U.S.- Nasdaq 15.91	France 17.99	Japan 7.12	U.S.- Nasdaq 5.73	France 4.86	U.S.-S&P 500 19.42	Japan -12.08	China 22.30	India 14.90	Germany 15.79	Germany -12.35	South Korea 17.72
France 15.23	U.K. 14.43	Germany 2.65	South Korea 2.39	South Korea 3.32	Japan 19.10	U.K. -12.48	Japan 18.20	China 13.87	U.K. 14.30	China -15.13	France 15.82
U.S.-S&P 500 13.41	India 6.76	Hong Kong 1.28	U.S.-S&P 500 -0.73	India 3.01	Germany 12.51	Hong Kong -13.61	U.K. 12.10	Germany 3.55	Japan 4.91	Hong Kong -15.46	India 9.11
South Korea 9.38	Hong Kong 2.87	France -0.54	India -4.06	Japan 0.42	France 9.26	South Korea -17.28	India 12.02	Hong Kong -3.40	China 4.80	U.S.- S&P 500 -19.44	China 6.53
U.K. 5.84	South Korea 0.72	U.K. -2.71	U.K. -4.93	Hong Kong 0.39	U.K. 7.63	Germany -18.26	Hong Kong 9.07	France -7.14	South Korea 3.63	South Korea -24.89	U.K. 3.32
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 1.50

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

YTD Performance as on 31 July 2023. Source: MorningStar Direct

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# Asset Class Performance



2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	YTD (%)
Mid Cap 44.02	Intl 30.44	Small Cap 69.57	Small Cap 10.20	G-Sec 14.24	Small Cap 57.43	G-Sec 8.00	Intl 28.89	Gold 27.88	Small Cap 61.94	Gold 13.94	Intl 19.5
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	Small Cap 19.67
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	Mid Cap 18.88
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 9.06
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 8.62
Gold 12.27	G-Sec 2.65	Bonds 14.04	G-Sec 8.17	Cash 7.45	Cash 6.57	Large Cap 3.13	Cash 6.74	Bonds 13.46	Cash 3.56	G-Sec 2.34	G-Sec 4.97
G-Sec 11.11	Mid Cap -3.01	Intl 11.07	Intl -1.09	Mid Cap 5.41	Bonds 5.55	Intl -6.55	Real Estate 2.99	G-Sec 13.20	G-Sec 3.13	Real Estate 1.43	Bonds 4.66
Bonds 10.18	Gold -4.50	Cash 9.23	Large Cap -4.06	Large Cap 3.01	Gold 5.12	Mid Cap -13.26	Mid Cap -0.28	Cash 4.43	Real Estate 3.12	Small Cap -3.66	Cash 4.19
Cash 9.42	Small Cap -8.14	Gold -7.91	Gold -6.65	Small Cap 0.36	G-Sec 3.52	Small Cap -26.65	Small Cap -8.27	Real Estate 2.19	Gold -4.21	Intl -20.47	Real Estate -1.72

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

a. Large Cap: 1st -100th company in terms of full market capitalization  
 b. Mid Cap: 101st -250th company in terms of full market capitalization  
 c. Small Cap: 251st company onwards in terms of full market capitalization

YTD Performance as on 31 July 2023. Source: ICRA MFI & RBI - DBIE

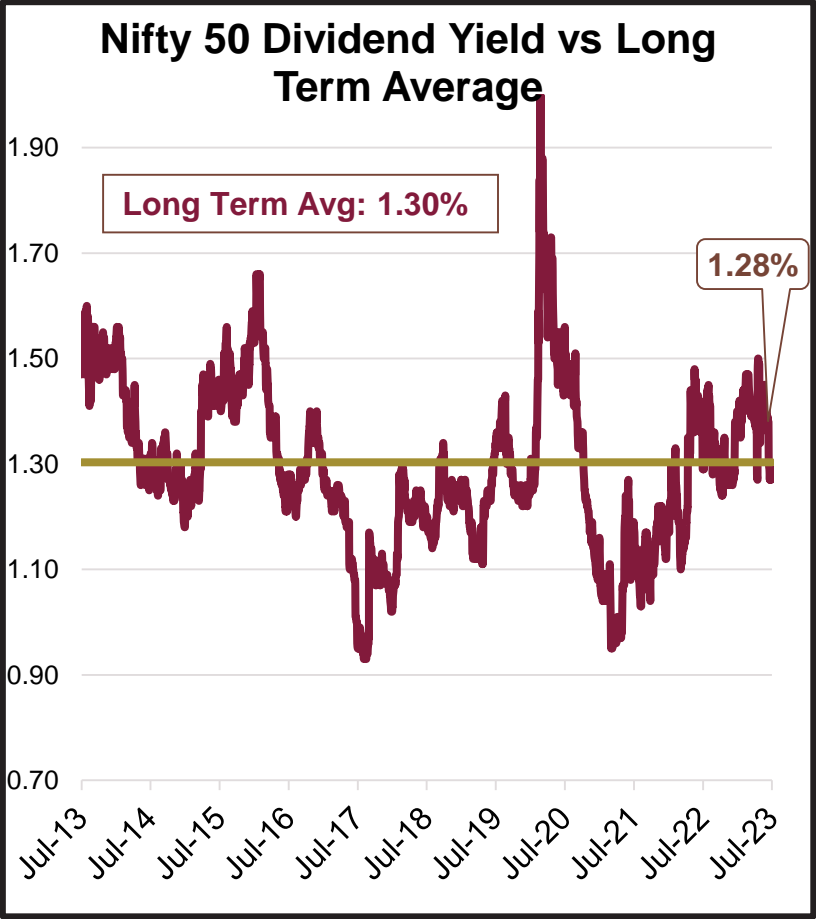
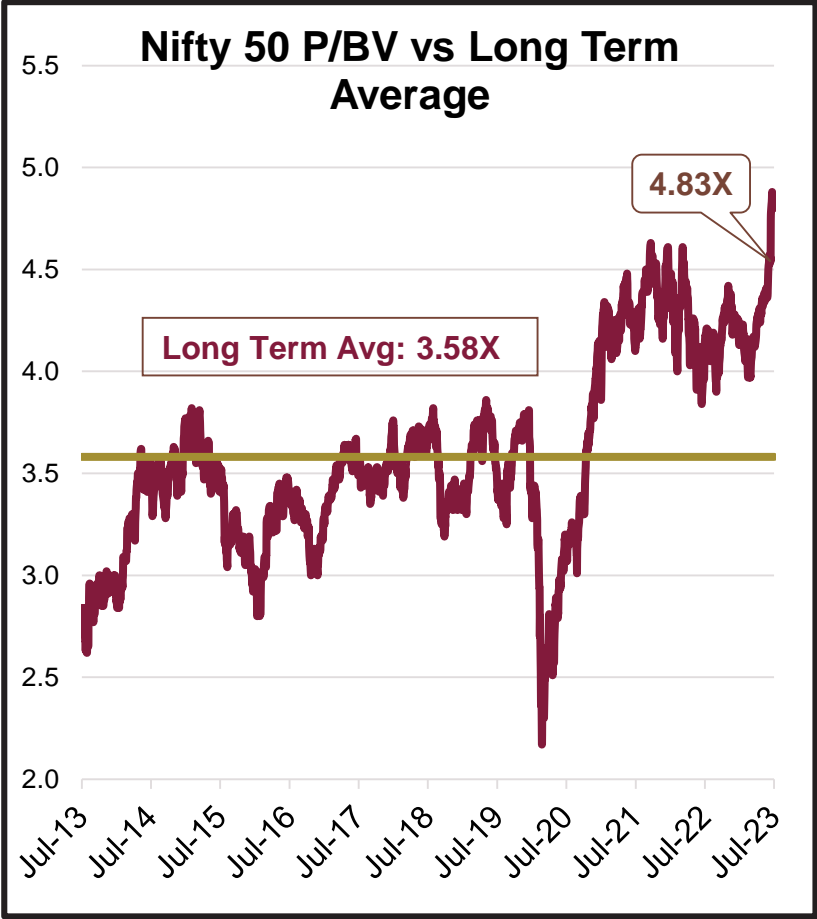
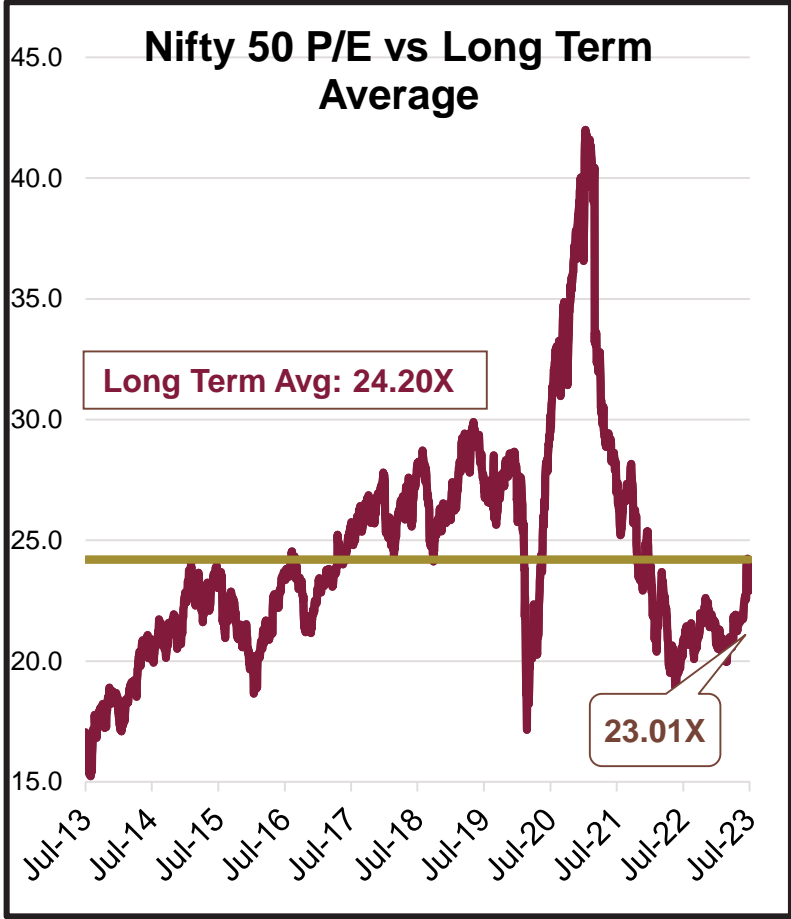


# Valuations on the Trailing P/E, P/BV & Div. Yield Metrics

**Nifty 12-month trailing P/E of 23.01X is lower than its historical long-term average of 24.20X**

**At 4.83X, the Nifty Trailing P/B is above the historical long-term average of 3.58X**

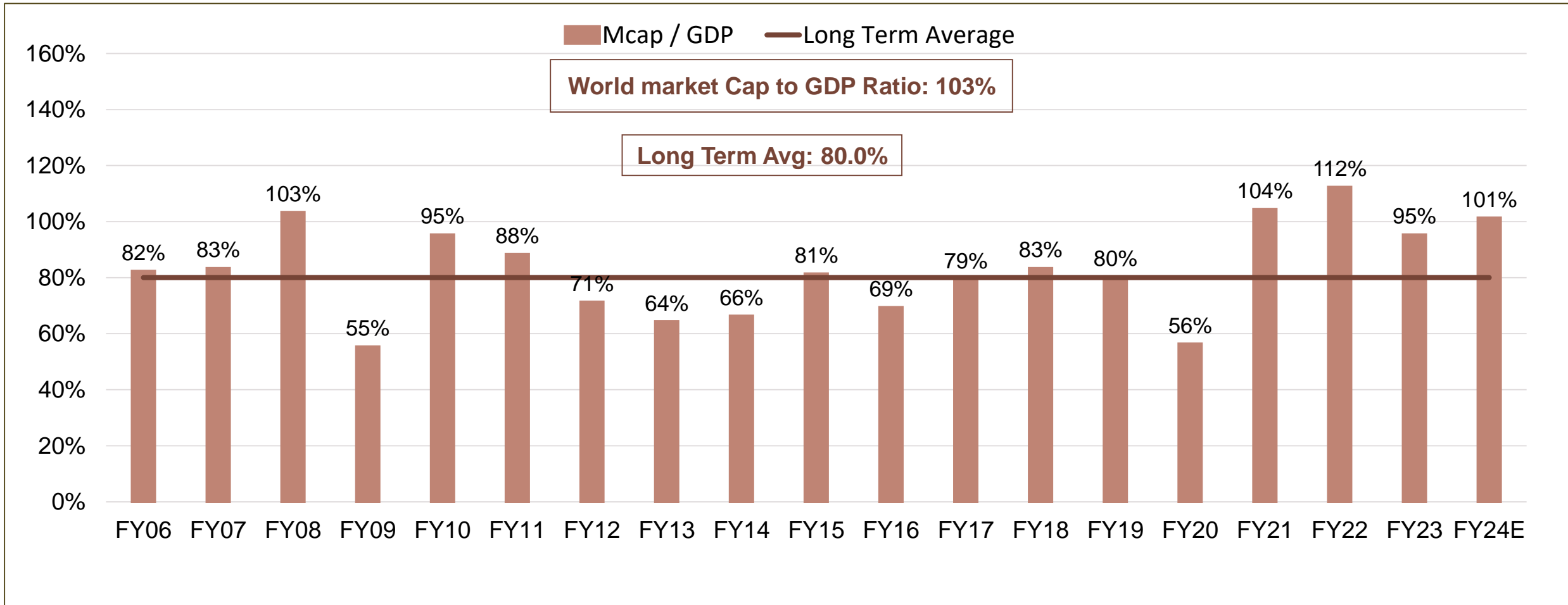
**At 1.28%, the Nifty Trailing Dividend Yield is in line with the historical long-term average of 1.30%**



# Valuations on a Market Capitalisation / GDP perspective



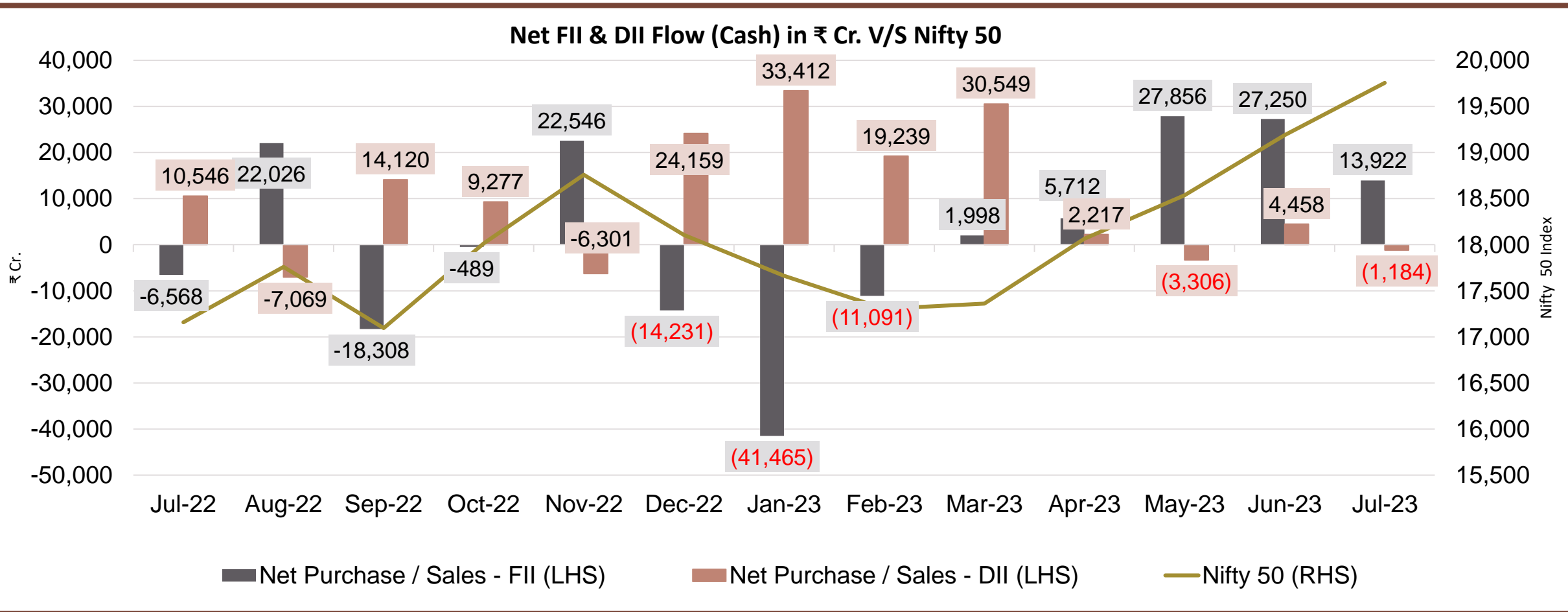
On Market Capitalisation to GDP parameter (FY24E 101%), India is trading above the long-term average of 80%



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

# FII & DII Flow into Equity

- FIIs continued to be net buyers of Indian equities in July (₹~13,900 cr, lower than ~₹ 27,250 in June-23).
- On the other hand, DIIs were net sellers in July of ~ ₹ 1,200 cr in equities as compared to being net buyers in June-23.



# Equity Mutual Fund Category Average Performance – July 2023



- **For July month**, performance of equity categories was in green with Small Cap, Value, Multi Cap & Dividend Yield outperforming the rest. Among the sectoral funds, Healthcare and Infrastructure outperformed. While IT sector has started seeing recovery in the past few months.
- On a **1-year CAGR basis**, all the equity and sectoral/thematic categories delivered positive returns. **Small Cap category has emerged as the top performer** followed by Value, Contra, Multi cap and Mid Cap categories. In case of sectoral/thematic categories, **Infrastructure category has been the top performer** across given time frames as on July end.
- On a **3-year CAGR** basis, among the sectoral category, **Healthcare generated lowest returns** as compared to other categories.
- With respect to the **5-year CAGR** returns, barring **Financial Services** which generated 10% CAGR returns; all other categories delivered returns above 10%.
- **Large Cap has been 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	3.16	10.93	13.54	16.10	10.73	20.77	11.50
Large & Mid Cap	4.16	13.55	16.32	19.19	12.06	26.04	13.58
Multi Cap	4.96	15.08	17.86	22.07	12.97	28.91	15.71
Flexi Cap	3.80	12.84	15.45	17.29	10.40	23.31	12.83
Mid Cap	4.92	16.70	19.19	21.64	13.11	30.78	15.66
Small Cap	5.49	18.18	21.24	27.25	15.08	39.79	18.65
Focused	3.70	12.54	14.99	16.93	11.08	22.81	12.30
ELSS	3.71	12.56	15.03	17.98	11.08	23.74	12.52
Contra	4.58	13.66	16.30	23.02	15.61	29.35	15.43
Dividend Yield	4.94	12.75	15.40	21.10	13.80	26.13	13.65
Value	5.32	14.36	16.52	23.59	13.77	28.02	12.86
<b>Sectoral / Thematic</b>							
Consumption	3.13	14.28	17.34	18.97	15.86	26.19	14.07
Infrastructure	7.12	17.50	22.89	31.65	20.01	36.95	16.10
Financial Services	3.21	11.66	16.02	23.58	13.53	26.43	10.40
FMCG	2.46	10.81	17.07	21.68	23.39	23.29	13.52
Healthcare	7.59	19.41	21.82	21.36	4.57	16.00	18.11
Technology	3.21	13.56	9.05	12.21	3.70	25.48	19.07
Others	5.16	14.32	17.18	22.02	13.12	26.12	12.66

Source: Morningstar Direct

# Debt Market - Review





# Debt Market Roundup - Key Takeaways



- The **India 10-Year G-sec yield rose** for the month of **July** to **close at 7.17%** as against **7.11%** at the end of **June**.
- Markets were volatile during the month; initially, yields rose following continuous rise in the US Treasury yields on growing possibility of continued interest rate hikes by the US Federal Reserve (Fed). Gains were registered as US inflation eased which increased confidence of the market participants that the Fed rate hikes will soon come to an end. However, the end of the month witnessed the markets to fall as **the Fed turned hawkish as against general expectations of nearing pause**.
- Losses were restricted as **IMF raised India's growth forecast to 6.1% for FY24 from 5.9% estimated in April**, citing strong domestic investment.

## Outlook:

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

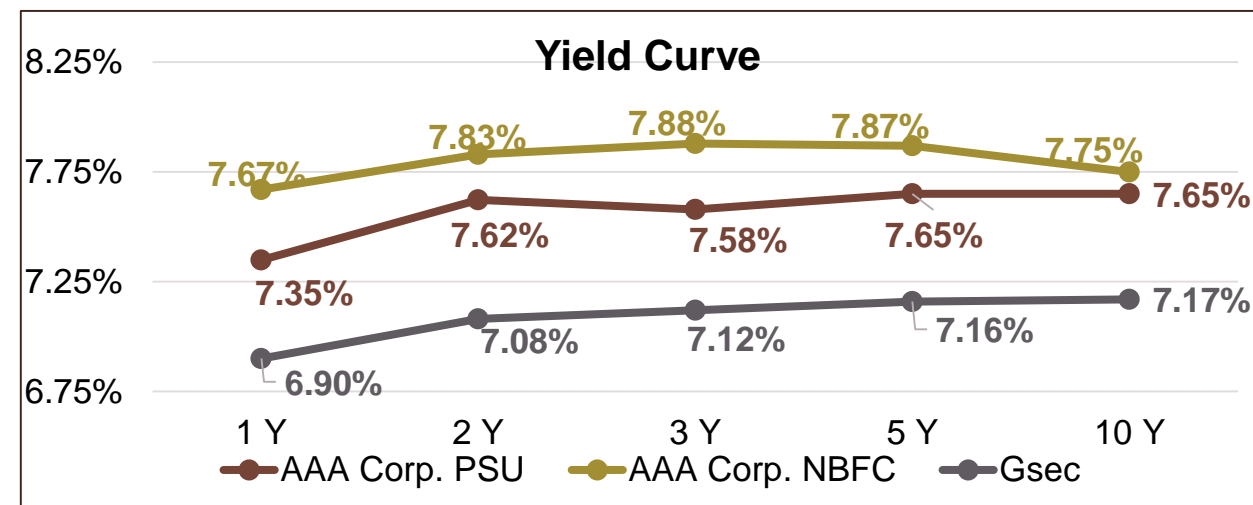
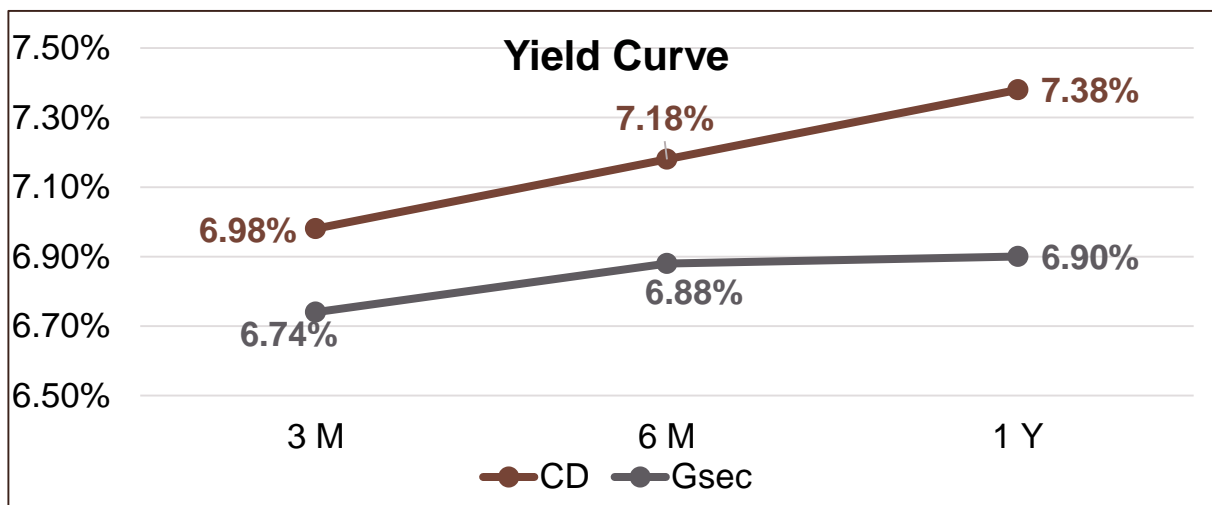
# Debt Dashboard



	Latest (31 Jul'23)	One Month Ago (30 Jun'23)	One Quarter Ago (30 Apr'23)	Half Year Ago, (31 Jan'23)	One Year Ago, (31 Jul'22)	M-o-M Change (bps)
<b>Interest Rates</b>						
Repo rate	6.50%	6.50%	6.50%	5.90%	4.90%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
<b>CD Rates</b>						
3 month	6.98%	6.98%	7.11%	7.27%	5.90%	0
6 month	7.18%	7.13%	7.34%	7.55%	6.23%	6
1 Year	7.38%	7.40%	7.46%	7.72%	6.68%	-2
<b>T-Bill/G-sec</b>						
91 Days	6.70%	6.73%	6.81%	6.47%	5.60%	-3
364 Days	6.88%	6.86%	6.98%	6.90%	6.28%	2
India 10 Year G-Sec Yield	7.17%	7.11%	7.12%	7.34%	7.32%	6
<b>AAA Corp. Bonds (PSU)</b>						
1 Year	7.35%	7.38%	7.56%	7.75%	6.31%	-3
3 Year	7.58%	7.48%	7.46%	7.70%	7.10%	10
5 Year	7.65%	7.56%	7.49%	7.68%	7.27%	9
<b>AAA Corp. Bonds (NBFC)</b>						
1 Year	7.67%	7.63%	7.70%	7.77%	6.69%	4
3 Year	7.88%	7.86%	7.74%	7.91%	7.33%	2
5 Year	7.87%	7.88%	7.80%	7.89%	7.63%	-1
<b>US Markets</b>						
10 Year US Treasury Yield	3.97%	3.84%	3.43%	3.55%	2.66%	13
<b>Currency &amp; Commodity</b>						
USD/ INR	82.24	82.09	81.72	81.74	79.34	↑
Crude Brent (\$/Barrel)	85.56	74.90	79.54	84.49	110.01	↑

- Yields on the 10-year U.S. Treasury rose 13 bps to close at 3.97%, from the previous month's close of 3.84%.
- Bond yields rose as the Fed turned hawkish as against general expectations of nearing pause.
- In line with the US markets, yield on the 10-year benchmark paper rose 6 bps to close at 7.17% as compared to the previous month's close 7.11%.
- Corporate bond yields of PSU's and NBFC's closed the month on a mixed note on variegated cues from the domestic and global markets.
- Though, for the past 3 policy meets (Apr, Jun & Aug-23) 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.

# Yield Curve and Policy Rates & Reserve Ratios – as on 31 July 2023

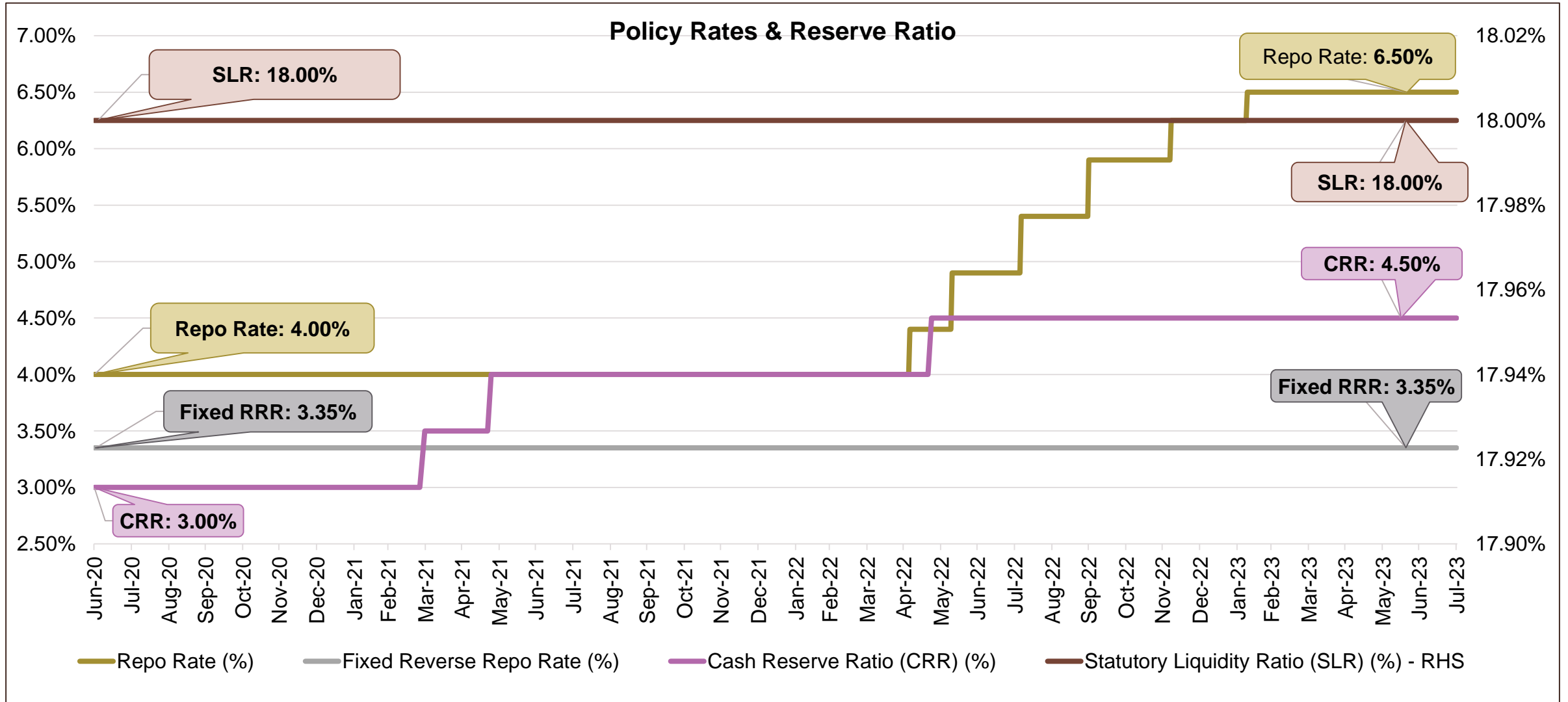


Data as on 31 Jul '23; Source: Bandhan AMC, Investing.com

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%

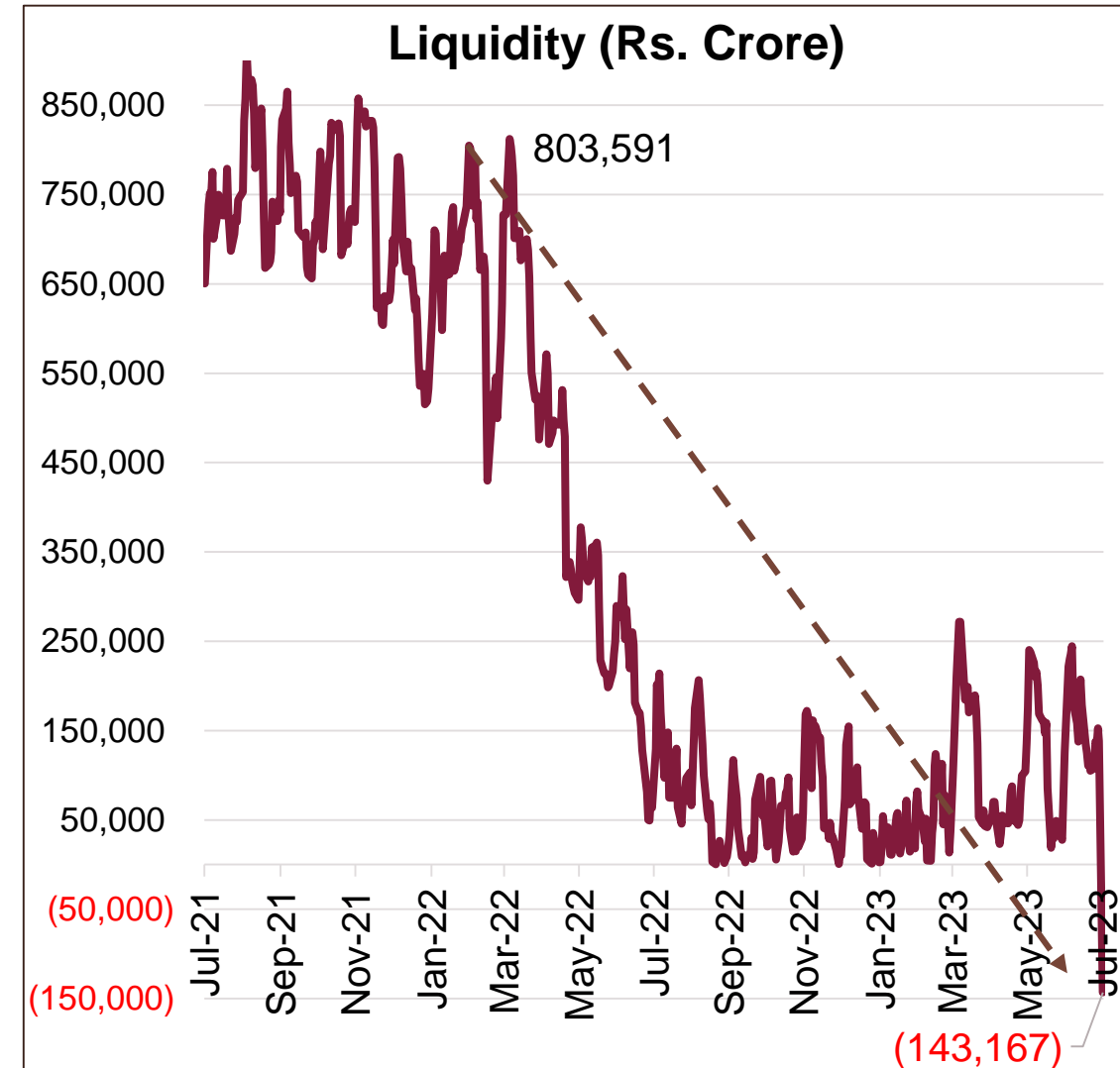
- In May-22, in an off cycle monetary policy committee (MPC) meeting the interest rates were increased. Then **the short end of the yield curve was placed between 4.9% to 6.9%. The yield curve was steep in shape.**
- Now over a year after the rate hike cycle had begun the yield curve has almost flattened. **The 10 Year minus 3 Months spread was at 172 basis points in July-22 whereas at the end of July-23 it has reduced to 43 basis points.**
- **Yields have remained mixed across categories and maturity profiles in June-23 & July-23.**
- **The spread between AAA corporate bond (NBFCs) and G-sec expanded from 30-60 bps from a year ago to 60-80 bps in the end of July.**
- In Aug '23 policy meet, though the RBI did not increase the policy rates but did introduce an incremental CRR which could dampen short term yields in the near term.

# Policy rate & Reserve Ratio movement since June '20



# Liquidity in the system

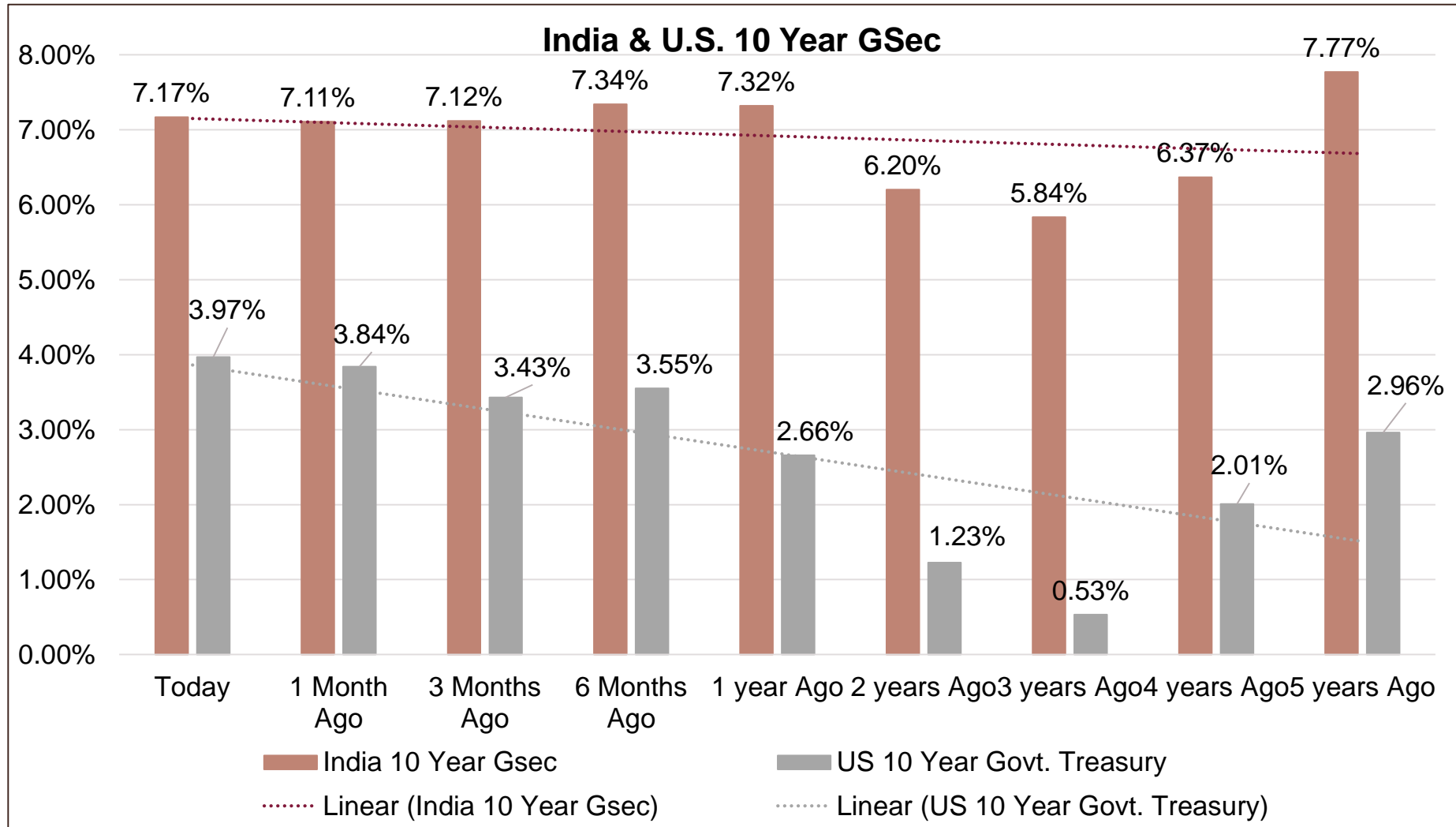
- In the April'22 policy meet, **Standing Deposit Facility (SDF) was introduced**, and the **Liquidity Adjustment Facility (LAF) corridor** was narrowed to 50 bps **making the Reverse Repo Rate redundant**.
- In the August '23 policy meet the governor stated that the level of **surplus liquidity in the system has gone up** in the recent months on the back of return of ₹2000 banknotes to the banking system, RBI's surplus transfer to the government, pick up in government spending and capital inflows. The **overall daily absorption under the liquidity adjustment facility (LAF)** was ₹1.7 lakh crore in June and ₹1.8 lakh crore in July 2023.
- In recent years, our stated stance on liquidity is to maintain adequate liquidity in the system to meet the productive requirements of the economy. Excessive liquidity, on the other hand, can pose risks to price stability and also to financial stability. Accordingly it has been temporarily decided to **introduce incremental CRR of 10.0%**, intended to absorb the surplus liquidity generated by various factors referred to earlier including the return of ₹2000 notes to the banking system.



Source: Bandhan AMC



# Yields Movement across India and U.S. - as on 31 July 2023



- The **10-year Indian G-sec** has now been trading above ~7% levels.
- **US Govt. Treasury yields** further increased in July-23 after the US Fed increased the policy rates by 25 bps at the end of July-23 after a pause in the earlier policy meet.
- In case of US, the yields have risen from 2.7% from a year ago to 3.9% at present. While for the Indian markets, the yields remained relatively flat to positive during the same period.

Source: G Sec – Investing.com

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



➤ The YTM's have gone up significantly in the past couple of months in the broad category of Money Market and Accrual Funds. This phenomena was not witnessed in the broad category of Duration Funds and Passives.

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

Category	YTM					Average Maturity					Modified Duration				
	Jun-23	Mar-23	Dec-22	Jun-22	Jun-21	Jun-23	Mar-23	Dec-22	Jun-22	Jun-21	Jun-23	Mar-23	Dec-22	Jun-22	Jun-21
<b>Money Market</b>															
Liquid	6.97	7.17	6.63	5.06	3.45	0.15	0.14	0.11	0.11	0.11	0.14	0.13	0.11	0.11	0.11
Ultra Short Duration	7.28	7.51	7.06	5.80	3.94	0.48	0.48	0.40	0.39	0.43	0.43	0.44	0.35	0.36	0.39
Low Duration	7.49	7.70	7.35	6.19	4.27	1.17	1.29	1.30	1.22	1.15	0.80	0.81	0.70	0.63	0.68
Money Market	7.23	7.52	6.96	5.77	3.85	0.52	0.67	0.34	0.40	0.44	0.51	0.65	0.33	0.39	0.43
<b>Accrual</b>															
Short Duration	7.46	7.64	7.46	6.63	4.86	2.89	2.55	2.35	1.96	2.30	2.17	1.99	1.78	1.43	1.73
Medium Duration	7.75	7.74	7.65	7.37	5.85	4.58	4.21	4.09	3.72	3.83	3.08	2.97	2.88	2.72	2.85
Banking & PSU Debt Fund	7.47	7.61	7.41	6.54	5.00	3.87	3.47	3.21	2.65	3.07	2.42	2.31	2.05	1.75	2.20
Corporate Bond Fund	7.54	7.68	7.49	6.76	4.99	3.53	3.00	2.85	2.39	2.57	2.52	2.10	1.88	1.60	1.94
Floating Rate	7.84	8.00	7.58	6.46	4.92	3.92	3.62	3.50	3.57	3.37	1.15	1.11	1.02	0.94	1.23
Credit Risk	8.17	8.20	8.07	7.45	6.16	3.19	2.50	2.55	2.22	2.24	1.58	1.64	1.65	1.62	1.66
<b>Duration</b>															
Medium To Long Duration	7.39	7.51	7.45	7.03	5.33	7.18	6.88	6.70	5.64	4.96	4.70	4.59	4.42	3.76	3.39
Long Duration Fund	7.40	7.52	7.51	7.59	6.91	19.71	17.08	16.72	16.86	19.27	9.19	8.72	8.40	8.80	9.84
Dynamic Bond	7.37	7.53	7.37	6.53	5.40	5.20	5.09	4.68	4.21	4.94	3.41	3.25	2.94	2.60	3.32
Gilt	7.19	7.40	7.21	6.35	5.23	6.25	6.34	6.54	4.16	5.82	4.05	4.19	3.90	2.51	3.45
Gilt - 10 Year	7.23	7.45	7.42	7.40	6.29	9.36	9.57	9.51	9.38	9.11	6.50	6.76	6.56	6.51	6.55
<b>Passives</b>															
Target Maturity Funds / Index Funds	7.34	7.46	7.45	7.43	6.27	4.95	5.32	5.10	4.97	6.34	3.83	4.08	3.93	3.88	4.77

# Debt Category Average Performances - July 2023



- **During the month** under consideration, all the categories were in the green even as yields largely hardened across most of points on the curve.
- With respect to the **3 months and 6 months trailing returns** too, all the categories were in the green delivering returns 1%-2% for 3 months time horizon and 3%-4% for 6 months time horizon.
- **For the full year**, all the categories were in the green, with our suggested categories such as Ultra Short Duration, Money Market, Low Duration, Liquid, Short Duration, Medium Duration, Floating Rate, Banking & PSU Debt Fund & Corporate Bond Fund delivered decent returns.
- **On a 2-year CAGR** basis, all the categories delivered an early single digit growth. In addition to the Medium Duration & Credit Risk Funds, our recommended categories - the Ultra Short Duration, Low duration, Money Market, Liquid, Medium Duration, Short Duration, Floating Rate and Target Maturity Funds were one of the best performing categories during this period.
- **With respect to the 3 and 5 year CAGR returns**, most the categories reported early to mid single returns.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
<b>Money Market</b>							
Overnight	0.54	1.62	3.18	6.14	4.84	4.23	4.60
Liquid	0.56	1.70	3.38	6.46	5.00	4.36	5.00
Ultra Short Duration	0.56	1.71	3.42	6.31	4.86	4.53	5.29
Low Duration	0.60	1.74	3.59	6.44	4.95	4.71	5.39
Money Market	0.58	1.78	3.61	6.65	5.04	4.55	5.79
<b>Accrual</b>							
Short Duration	0.47	1.45	3.48	6.42	4.87	4.69	5.92
Medium Duration	0.41	1.38	3.69	6.41	5.04	5.69	5.43
Banking & PSU Debt Fund	0.50	1.50	3.62	6.31	4.48	4.45	6.82
Corporate Bond Fund	0.52	1.57	3.70	6.45	4.37	4.51	6.52
Floating Rate	0.69	1.93	3.93	6.97	4.99	5.08	6.61
Credit Risk	0.58	1.61	3.96	6.84	9.86	9.29	4.43
<b>Duration</b>							
Medium To Long Duration	0.27	1.24	3.76	6.65	4.47	3.85	6.09
Long Duration Fund	0.32	0.96	4.42	8.79	4.67	2.94	7.76
Dynamic Bond	0.36	1.36	3.66	6.50	4.68	4.26	6.54
Gilt	0.29	1.28	3.85	6.76	4.27	3.71	7.20
Gilt - 10 Year	0.14	1.30	4.43	7.62	3.67	3.29	7.76
<b>Passives</b>							
Target Maturity Funds / Index Funds	0.33	1.39	3.84	6.83	4.66	4.78	NA

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

Source: Morningstar Direct

# Event Update

# RBI repo rate unchanged at 6.5%; RBI raises FY24 inflation projection to 5.4%



## Key Highlights

- RBI keeps **repo rate unchanged** at 6.50%
- **Cash reserve ratio (CRR)** kept unchanged at 4.50%
- The MPC voted on “**withdrawal of accommodation**”
- For FY24, **retail inflation raised to 5.4% from earlier 5.1%**
- FY24 **Real GDP** growth projection retained at 6.5%
- While the **bond market** ended on a flat to positive note; the **equity markets** ended the day marginally in the red

Policy Rates / Reserve Ratio	08 Jun '23	10 Aug '23	Status
CRR	4.50%	4.50%	↔
SLR	18.00%	18.00%	↔
SDF	6.25%	6.25%	↔
Repo Rate	6.50%	6.50%	↔
MSF	6.75%	6.75%	↔
Bank rate	6.50%	6.50%	↔
Fixed Reverse Repo Rate	3.35%	3.35%	↔

## Growth Outlook

- Indian economy has continued to grow at a reasonable pace, becoming the **fifth largest economy in the world** and **contributing around 15% to global growth**.
- On the **supply side**, crop sowing has picked up with steady progress in the south-west monsoon. Industrial activity is holding ground as reflected in the latest IIP, Core Sector growth and PMI numbers and services activity too remained buoyant.
- **Aggregate demand conditions continue to be buoyant**. Both Urban and rural indicators displayed improved numbers.
- The **biggest risks** to the outlook continue to be the headwinds emanating from protracted geopolitical tensions, weak external demand.
- The **real GDP growth for FY24 is projection was retained at 6.5%**.

## Inflation Outlook

- **High inflation, which has remained a key concern for policymakers, has again temporarily been exhibiting signs of concern on the back of vegetable price shock**.
- There has once again been a **clear emphasis on the 4% inflation target** this time, unlike the previous policies where deliberations were focused on bringing down the target to below 6% upper band.
- Considering all these factors, **inflation projection for the full year was revised upward to 5.4%**.



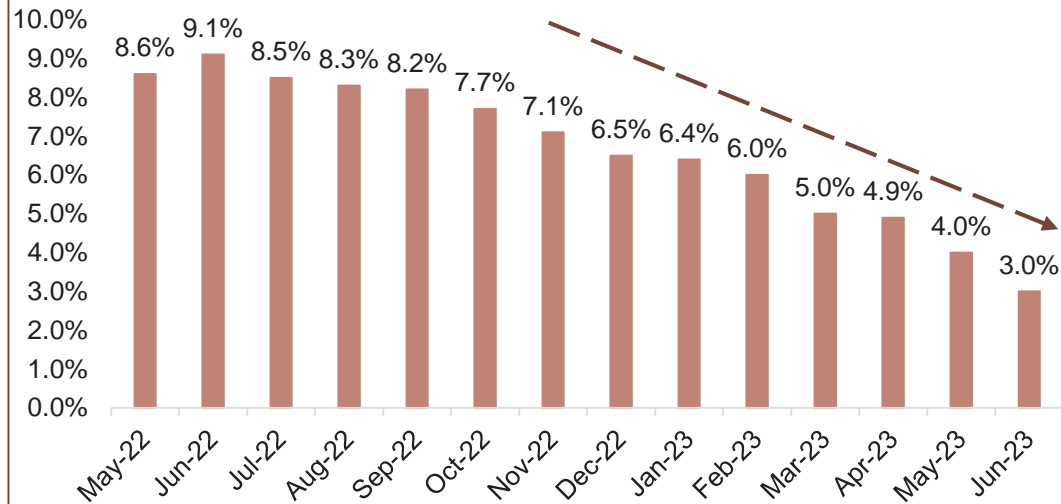
# U.S. Fed raises interest rate hike; more hikes expected to tackle inflation



## Key Highlights

- The Fed **raised interest rates by 25 bps to 5.25%-5.50% range**, after a recent pause in the rate hike in the previous month.
- The Fed **signaled that it may raise rates this year** to tackle the above-expected inflation.
- Fed signaled that it would assess a range of data points in **“determining the extent of additional policy firming”**.
- The **US CPI inflation stood at 3.0%** and the change in core CPI was at 4.8%.

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



Source: Trading Economics

For Client Circulation. The content does not constitute to be any investment, legal or taxation advice.

## U.S inflation Peaking

- Last year, inflation remained high, soaring to record-breaking levels in June, hitting a high of 9.1%
- Now, U.S. inflation data has shown a significant decrease over past few months. In June 2023, CPI inflation fell to 3.0% over the year.

## To Conclude

- **The U.S. key policy rates may remain at the higher levels for longer till core inflation comes down towards 2%. Recent production cuts by OPEC and tight US labor market may put upward pressure on inflation and may keep the Fed from rate cuts.**
- **U.S. equity market have been surging on the back of slowing inflation. However, with Fed signalling more rate hike to curb inflation it may have ripple effect on U.S. economy.** With the banking sector being sound & resilient and continued conflict between Ukraine and Russia and its impact on global economy, **we believe global equity markets, including the Indian markets may stay volatile in near term.** The Fed now expects the Fed funds rate to be around 5.6% by end 2023 and 4.7% by end 2024.

## Investment Approach

- Investors should not try to time the market and **investors should follow the desired asset allocation** to avoid unfavourable portfolio outcomes in case of any volatility that flows in the Indian markets due to tapering.

Source: US Fed policy document July '23

**Thank You!**

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