

TATA CAPITAL WEALTH

Market Outlook - February 2023



Macro Indicators



	Current		Month Ago	Quarter Ago	Half Year Ago	Year Ago
Economic Indicators:						
PMI Manufacturing	55.4 (Jan-23)	↑	57.8 (Dec-22)	55.3 (Oct-22)	56.4 (Jul-22)	54.0 (Jan-22)
PMI Services	57.2 (Jan-23)	↑	58.5 (Dec-22)	55.1 (Oct-22)	56.4 (Jul-22)	51.5 (Jan-22)
Consumer Price Index (CPI)	5.7% (Dec-22)	↓	5.9% (Nov-22)	7.4% (Sep-22)	7.0% (Jun-22)	5.7% (Dec-21)
Wholesale Price Index (WPI)	5.0% (Dec-22)	↓	5.8% (Nov-22)	10.6% (Sep-22)	16.2% (Jun-22)	14.3% (Dec-21)
Industrial Production (IIP)	7.1% (Nov-22)	↑	-4.0% (Oct-22)	-0.7% (Aug-22)	19.7% (May-22)	1.0% (Nov-21)
GDP	6.3% (Sep-22)	↓	NA	13.5% (Jun-22)	4.1% (Mar-21)	8.4% (Sep-21)
Trade Deficit (\$ bn)	23.8 (Dec-22)	↓	23.9 (Nov-22)	29.2 (Sep-22)	22.3 (Jun-22)	21.1 (Dec-21)
Commodity Market:						
Brent Crude (\$/barrel)	85.5 (30-Jan-23)	↓	85.9 (30-Dec-22)	94.8 (31-Oct-22)	110.0 (30-Jul-22)	91.2 (31-Jan-22)
Gold (\$/oz)	1,929.6 (31-Jan-23)	↑	1,826.2 (30-Dec-22)	1,640.7 (31-Oct-22)	1,781.8 (30-Jul-22)	1,796.4 (31-Jan-22)
Silver (\$/oz)	23.8 (31-Jan-23)	↑	24.4 (30-Dec-22)	19.1 (31-Oct-22)	20.2 (30-Jul-22)	22.3 (31-Jan-22)
Currency Market:						
USD/INR	81.7 (31-Jan-23)	↓	82.7 (30-Dec-22)	82.7 (31-Oct-22)	79.3 (30-Jul-22)	74.5 (31-Jan-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

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Equity Market - Review



Equity Market Roundup - Key Takeaways



Performance: For the month of January, both the **Sensex** and the **Nifty** slipped by 2.1% and 2.4% respectively, after falling substantially in October and November. For the **calendar year 2022**, both the indices **gained over 4% each** being one of the best performing markets across globally.

Domestic factors that played out for the Indian markets:

- During the month, the market remained volatile as the PMI remained in the expansion zone, inflation remained subdued, trade deficit contracted, crude closed on a positive note along with Industrial Production.

Global factors that shaped the graph of the Indian markets:

- Market sentiments were dampened after major central banks across the globe advocated for continued rise in interest rates to put a check on inflation.
- Market sentiments were further dampened as China continued to grapple with soaring COVID-19 infections and persisted on Zero-Covid policy until the end of the calendar year 2022.

Outlook:

- While major developed economies are struggling with concerns of rising inflation, interest rates, falling economic activity post-pandemic which led to disruptions in demand and supply-side amid Russia-Ukraine crisis, **India has shown consistent recovery and is back to pre-pandemic levels.**
- **Even after the RBI cutting the GDP forecast for FY23, the GDP growth projections are still the one of the highest for India compared to its emerging market peers.** This gives confidence in the long-term prospects of the economy.
- However, the anticipated global slowdown and interest costs **may lead to higher than usual volatility** especially in the short run.
- 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 be - **global economic trends, oil prices, earning growth of corporates, global liquidity conditions and central banks actions.** We believe, market may remain volatile for the next few months, investors need to be cautious **and invest in staggered manner and follow the prescribed asset allocation.**

Indian Equity Market Dashboard - January 2023



Index Name	Index Value	Absolute(%)				CAGR (%)			Valuations Trailing		
		1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	P/E	P/B	Div. Yield
Indian Market Performance & Valuation											
S&P BSE Sensex	59,550	-2.06	-1.97	2.48	2.65	10.71	13.49	10.61	23.28	3.37	1.18
Nifty 50	17,662	-2.37	-1.94	1.87	1.86	11.22	13.86	9.87	20.73	4.14	1.39
Nifty 100	17,601	-3.49	-3.52	0.01	0.31	10.72	13.33	9.08	21.51	4.23	1.43
Nifty 200	9,222	-3.37	-3.38	0.27	0.47	11.76	14.09	9.05	21.75	4.00	1.42
Nifty 500	14,936	-3.22	-3.17	0.60	0.09	12.66	14.83	9.02	21.76	3.94	1.37
Nifty Midcap 150	11,597	-2.36	-2.29	2.06	1.60	19.55	20.27	10.29	25.21	3.28	1.23
Nifty Smallcap 250	9,262	-2.24	-1.18	3.68	-5.62	21.64	21.19	5.69	18.48	2.99	1.06

Sectoral Indices									
Nifty Auto	13,324	5.47	-0.43	2.87	13.85	14.16	18.09	2.79	
Nifty IT	29,740	3.79	3.53	1.79	-14.60	9.25	22.56	18.01	
Nifty FMCG	44,457	0.63	0.36	4.56	21.91	14.89	13.03	10.38	
Nifty Pharma	12,360	-1.83	-6.45	-3.20	-6.22	1.06	14.93	5.66	
Nifty Healthcare	7,842	-1.93	-6.66	-2.27	-4.76	4.63	16.13	7.70	
Nifty India Consumption	7,350	-2.63	-7.73	-3.50	6.07	10.88	13.22	8.06	
Nifty Infrastructure	5,061	-3.52	-3.31	1.66	0.09	14.63	15.87	6.93	
Nifty Metal	6,468	-3.67	9.70	16.05	18.18	41.63	36.01	9.73	
Nifty Financial Services	18,095	-4.52	-2.39	2.92	1.45	7.36	8.11	9.94	
Nifty Realty	412	-4.54	-6.18	-9.13	-14.31	12.56	7.52	3.61	
Nifty Services Sector	23,671	-4.57	-4.27	-0.03	-2.72	8.03	11.18	10.03	
Nifty Bank	40,655	-5.25	-1.58	7.30	7.06	10.86	9.65	8.22	
Nifty PSU Bank	4,007	-7.00	15.76	41.74	34.35	43.17	19.17	1.70	
Nifty Energy	23,714	-8.07	-11.09	-11.40	-5.09	19.59	16.90	10.40	
Nifty Oil & Gas	7,586	-9.78	-6.07	-5.29	-2.17	17.48	15.64	7.86	

Equity Market Flow			
Equity Flow (₹ Cr.)	1-Mth	YTD	1 Yr.
FII	-41,465	-2,78,548	-2,78,548
DII	33,412	2,87,209	2,87,209

Source: Moneycontrol

Global Equity Market Performance as on 31 January 2023



Country	Index Name	Index Value	Absolute(%)				CAGR (%)			
			1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	
Global Market Indices										
U.S.	Nasdaq 100	12,102	10.29	6.11	-6.52	-18.94	-4.43	10.40	11.72	
U.S.	Russell 1000	2,245	6.39	5.48	-0.75	-10.01	2.52	7.95	7.52	
Pan - Europe	Euronext 100	1,327	7.53	11.16	6.05	0.67	9.81	5.81	4.54	
UK	FTSE	7,772	4.16	9.54	4.86	4.12	9.64	2.17	0.62	
France	CAC 40	7,082	9.11	13.02	10.08	1.19	13.89	6.84	5.25	
Germany	DAX	15,128	8.38	14.14	12.30	-2.22	5.39	5.23	2.78	
Switzerland	Swiss Market	11,286	5.02	4.23	1.24	-7.70	2.51	2.02	3.87	
South Korea	Kospi	2,425	7.93	5.73	-1.11	-8.87	-10.94	4.60	-1.13	
Japan	Nikkei	27,327	4.58	-0.94	-2.39	1.20	-1.37	5.60	3.42	
Hong Kong	HangSeng	21,842	10.09	48.72	8.36	-8.23	-13.07	-6.01	-7.85	
China	SSE Composite	3,256	5.22	12.52	-0.13	-3.12	-3.63	5.84	-1.33	
Taiwan	Taiwan Capitalization Weighted Stock	15,265	7.73	17.88	1.90	-13.45	-0.47	9.91	6.57	
Singapore	Strait Times	3,366	3.41	8.81	3.94	3.57	7.81	2.19	-0.97	
Indonesia	Jakarta Composite	6,839	-0.16	-3.66	-1.87	3.14	6.18	4.81	0.70	
Malaysia	KLSE	1,486	-0.65	1.72	-1.11	-1.77	-2.61	-1.00	-4.48	
Brazil	Ibovespa Sao Paulo	113,431	3.16	-2.25	11.02	1.15	-1.76	-0.10	5.96	
India	Nifty 50	17,662	-2.37	-1.94	1.87	1.86	11.22	13.86	9.87	

Data as on 31 January '23. Source: ICRA Analytics (<http://www.icraanalytics.com/legal/standard-disclaimer.html>)

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Global Equity Market Performance across Calendar years



2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	YTD* (%)
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	India 4.33	U.S.-Nasdaq 10.68
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	U.K. 0.91	Hong Kong 10.42
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 -9.37	France 9.40
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 -9.50	Germany 8.65
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 -12.35	South Korea 8.44
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	China -15.13	U.S.- S&P 500 6.18
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 -15.46	China 5.39
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	U.S.- S&P 500 -19.44	Japan 4.72
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 -24.89	U.K. 4.29
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 -33.10	India -2.45

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

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Asset Class Performance



2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	YTD* (%)
Gold 31.81	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 6.39
Real Estate 26.26	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	Gold 3.84
Cash 9.07	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	Cash 0.56
Bonds 6.92	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	G-Sec 0.54
G-Sec 5.29	Intl 13.85	Bonds 5.11	G-Sec 15.28	Cash 8.30	Real Estate 8.34	Real Estate 7.20	Real Estate 5.13	G-Sec 11.34	Large Cap 14.86	Bonds 4.22	Bonds 2.71	Bonds 0.46
Intl -0.51	Gold 12.27	G-Sec 2.65	Bonds 14.04	G-Sec 8.17	Cash 7.45	Cash 6.57	Large Cap 3.13	Cash 6.74	Bonds 13.46	Cash 3.56	G-Sec 2.34	Real Estate 0.00
Large Cap -24.69	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	Small Cap -2.24
Mid Cap -32.18	Bonds 10.18	Gold -4.50	Cash 9.23	Large Cap -4.06	Large Cap 3.01	Gold 5.12	Mid Cap -13.26	Mid Cap -0.28	Cash 4.43	Real Estate 3.12	Small Cap -3.66	Mid Cap -2.36
Small Cap -36.13	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	Large Cap -2.37

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

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

* Performance as on 31 January 2023. Source: ICRA Analytics (<http://www.icraanalytics.com/legal/standard-disclaimer.html>) & RBI - DBIE

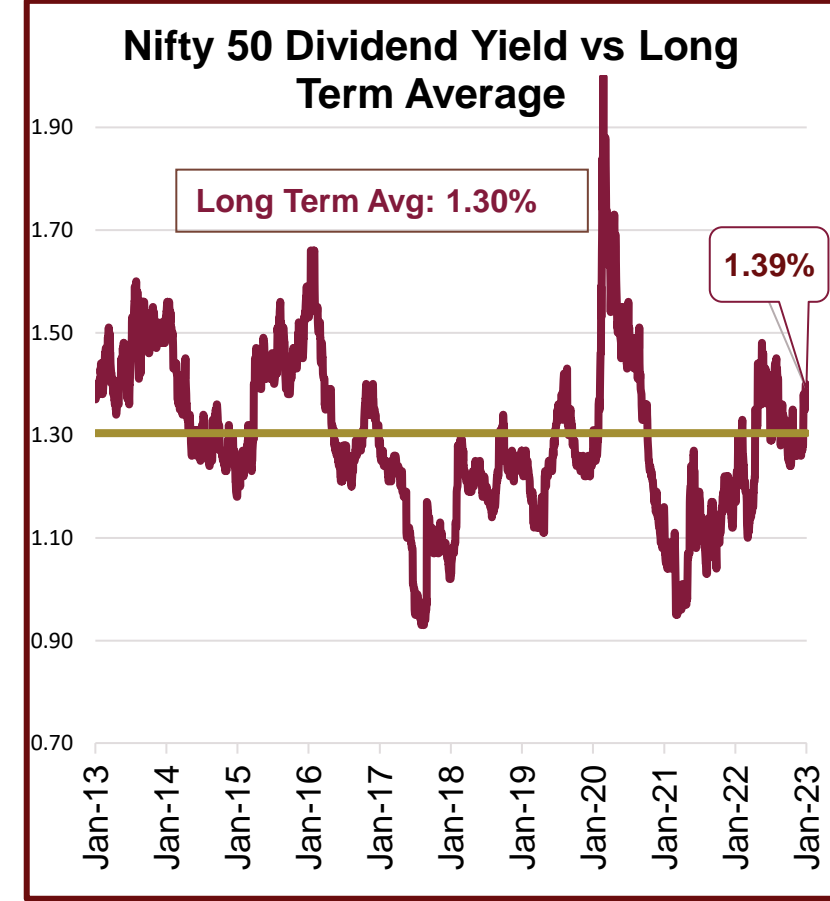
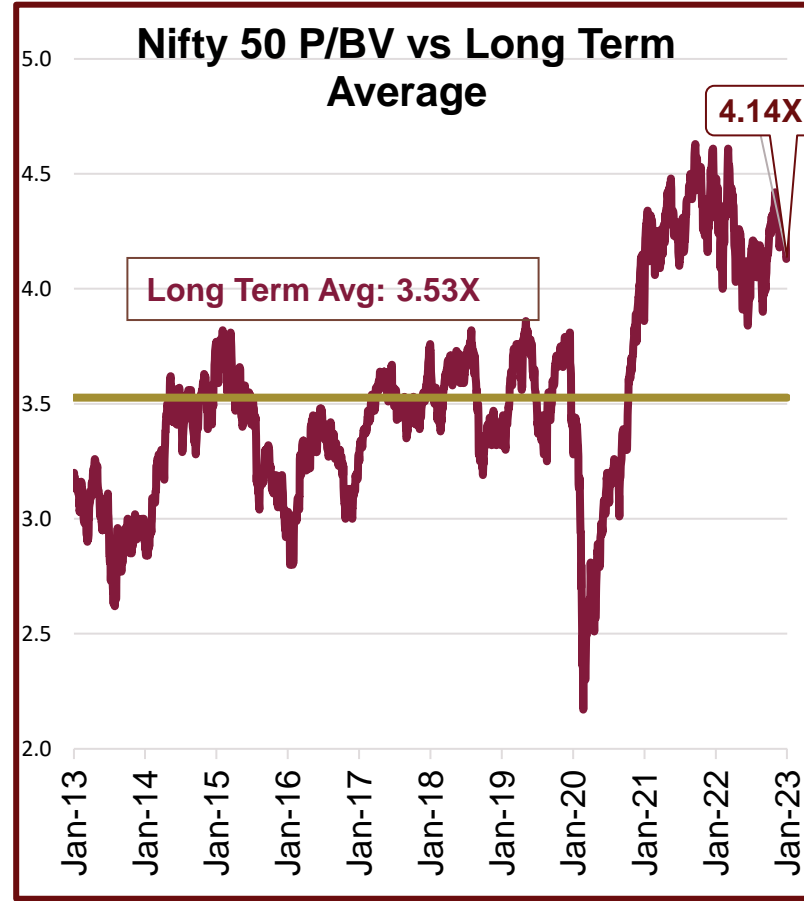
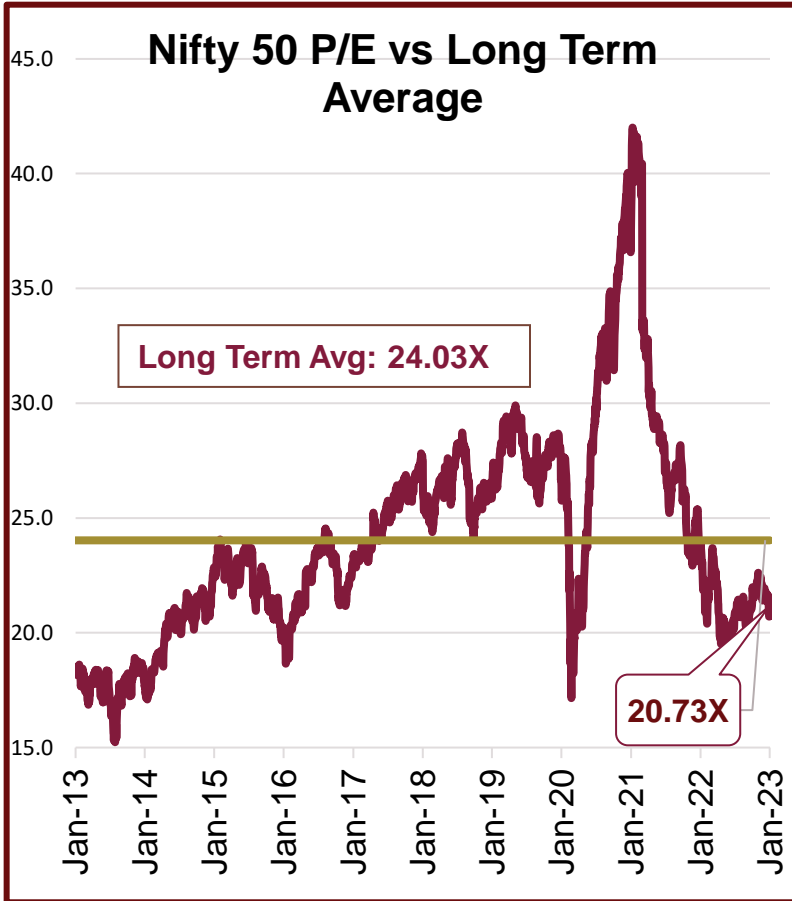
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Valuations on the Trailing P/E, P/BV & Div. Yield Metrics

Nifty 12-month trailing P/E of 20.73X is lower than its historical long-term average of 24.03X

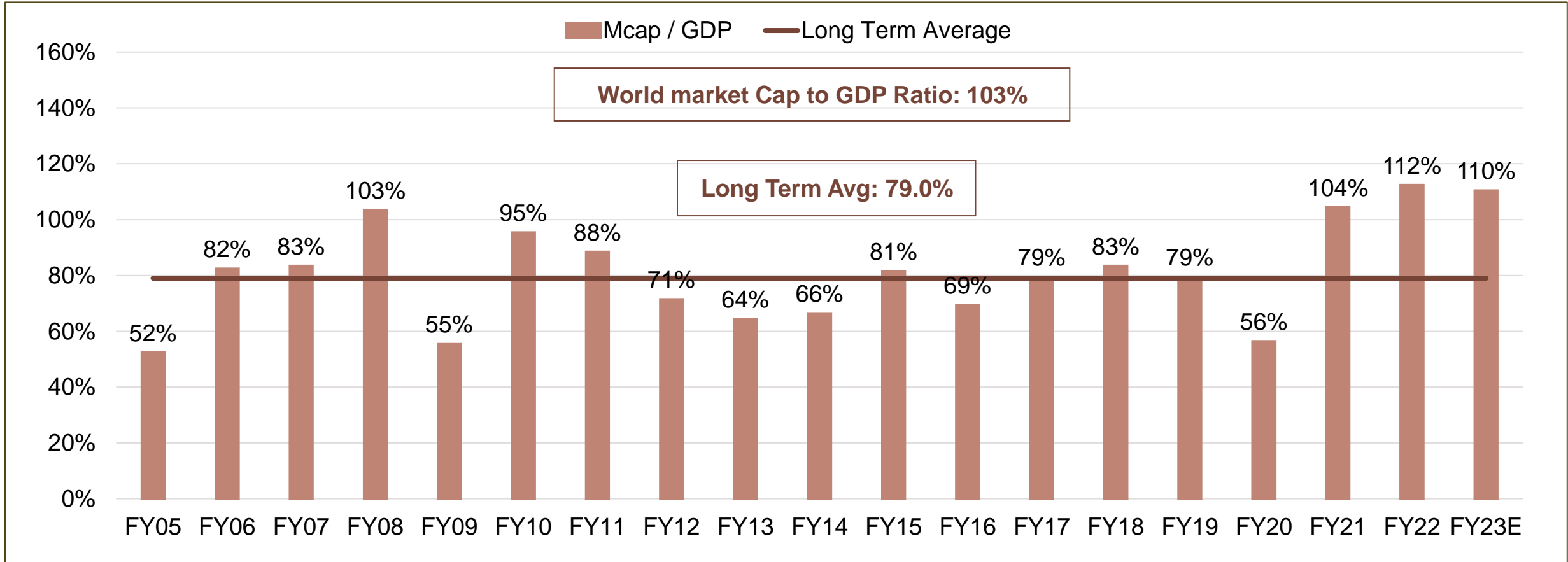
At 4.14X, the Nifty Trailing P/B is above the historical long-term average of 3.53X

At 1.39%, the Nifty Trailing Dividend Yield is above the historical long-term average of 1.30%



Valuations on a Market Capitalisation / GDP perspective

On Market Capitalisation to GDP parameter (FY23E 110%) India is trading above the long-term average of 79% and also above the world average of 103%.



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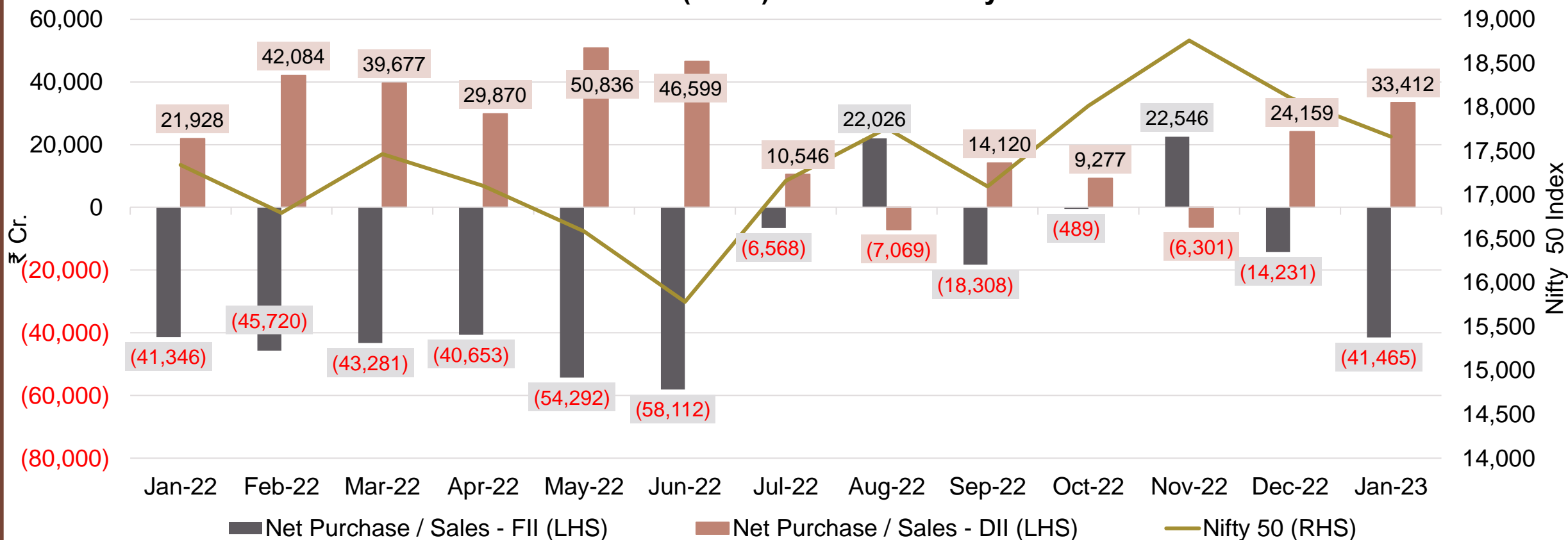
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Source: Kotak AMC, Monthly Market Outlook, December '22

FII & DII Flow into Equity

- The market turned the slate once again in January, FIIs were net sellers, while the DIIs were net buyers for the month.
- In line with the FIIs, the markets too slipped in January after displaying a comeback in November.

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



Mutual Fund Category Average Performance - January 2023



- **For January month**, all the categories were in the red with the Focused, Large Cap and Flexi Cap underperforming the rest. Mid and Small cap categories outperformed Large cap. Among the sectoral funds too, all the sectors were in red, leaving Technology.
- **For the trailing 3-months**, all the sectors were in red leaving FMCG & Technology **and trailing 6 months**, all the categories & sector funds were in the green, with the exception of healthcare category which was marginally in the red in the 3 month time horizon.
- **For the full year**, all the categories were in green with Contra and Dividend Yield delivering the highest return. Among the sector based and thematic funds, FMCG was the top performed; while Technology and Healthcare were the only sectors that were in the red.
- **On a 3-year CAGR** basis, all the categories delivered double digit returns with the broader categories such as Mid Cap & Small Cap outperforming the rest. Among the sector and theme-based funds Technology, Healthcare and Infrastructure were the top performers.
- **With respect to the 5-year CAGR returns**, majority of the categories delivered early double digit return with the exception of Technology which clocked in gains of ~19.67%.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	-2.50	-2.65	2.69	0.39	13.00	12.85	9.05
Large & Mid Cap	-2.57	-3.02	2.47	-0.34	17.23	15.60	9.63
Multi Cap	-2.35	-2.71	3.82	1.65	20.23	17.80	11.42
Flexi Cap	-2.60	-3.28	1.77	-1.23	14.84	14.28	9.63
Mid Cap	-2.15	-3.11	2.38	1.15	20.28	19.24	10.89
Small Cap	-1.31	-1.61	5.10	0.86	27.43	26.33	11.97
Focused	-2.83	-3.87	1.67	-1.16	14.43	14.00	8.98
ELSS	-2.71	-3.11	2.48	-0.29	14.77	14.24	8.75
Contra	-1.73	-1.08	5.74	5.62	20.09	20.27	11.60
Dividend Yield	-0.18	0.23	4.96	3.64	20.47	18.71	9.73
Value	-1.59	-0.59	6.04	3.43	18.87	17.43	8.37
Sectoral / Thematic							
Consumption	-2.57	-5.66	1.40	5.71	16.76	15.49	10.58
Infrastructure	-1.56	-0.85	7.11	6.21	27.42	19.84	8.77
Financial Services	-4.76	-1.32	6.28	4.44	13.89	8.23	7.45
FMCG	0.04	0.17	3.94	18.05	20.24	14.92	11.76
Healthcare	-2.02	-4.70	-0.40	-4.91	5.17	19.17	12.03
Technology	3.09	2.21	2.92	-10.74	14.93	26.46	19.67

Debt Market – Review



Debt Market Roundup - Key Takeaways



- The **India 10-Year G-sec yield remained flattish** for the month of January to closed **at 7.34%** as against 7.33% at the end of December.
- In India, the **G-sec market remained range-bound for most part of the month** driven by rally in US treasury, depreciation of dollar index and better than expected inflation print. It rose only towards end of the month on run-up to Union Budget and US Federal Reserve policy.
- While in case of Union Budget, **market expectations surrounding the Budget were centered on gross borrowing number** not exceeding Rs 16 trillion and a glidepath reduction in the Fiscal Deficit to less than 6%. The outcome in terms of gross borrowing of Rs 15.4 trillion and Fiscal deficit target of 5.9% of GDP for FY24 have been better than expectations.
- While in Feb' 23 policy, **RBI hiked the key policy rate by 25 bps to 6.5%**. With this, the policy rate has been hiked by 250 bps in current rate hike cycle.
- **The policy was broadly on expected lines**, but some sections of the markets expected a change in stance to neutral.

Outlook:

- Persistently strong inflation has forced the central banks globally to front-load and exercise larger rate hikes and withdraw surplus liquidity at faster pace.
- From December, **central banks across globe from US Fed, ECB to RBI have opted to reduce rate hike pace (i.e. to go slow on policy tightening)** – to assess the impact of previous rate hike given the time lag required for monetary transmission on real economy.
- While **RBI hiked the rate by 25 bps in its Feb'23 policy which was in line with market expectations**, the continuation of policy of 'withdrawal of accommodation' indicates future actions may be data-driven and on inflation and growth trajectory.
- For short term investments, investors can consider money market, ultra-short and low duration funds. For medium to long-term **investments, a combination of duration and accrual strategies including 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.

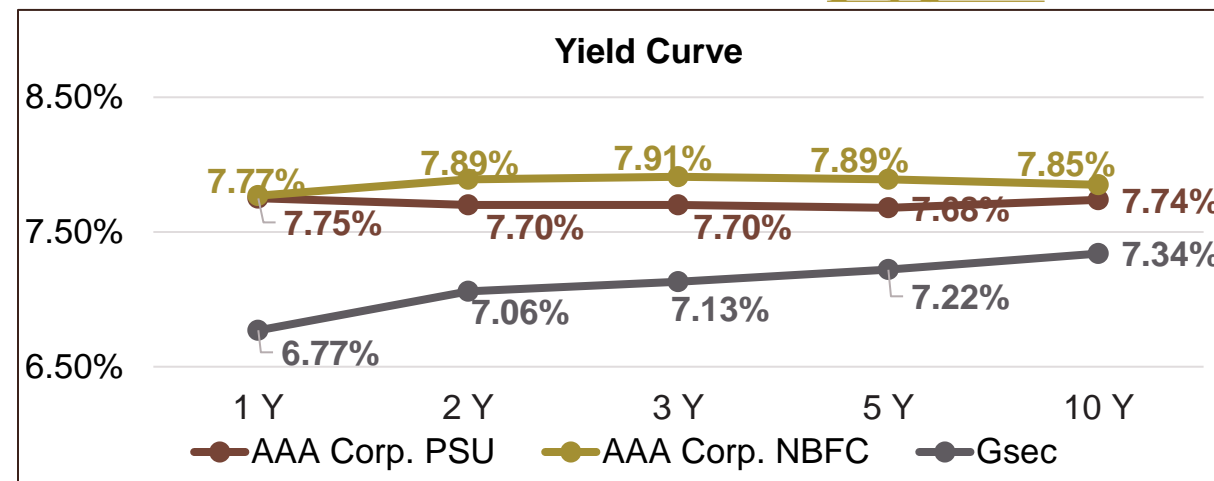
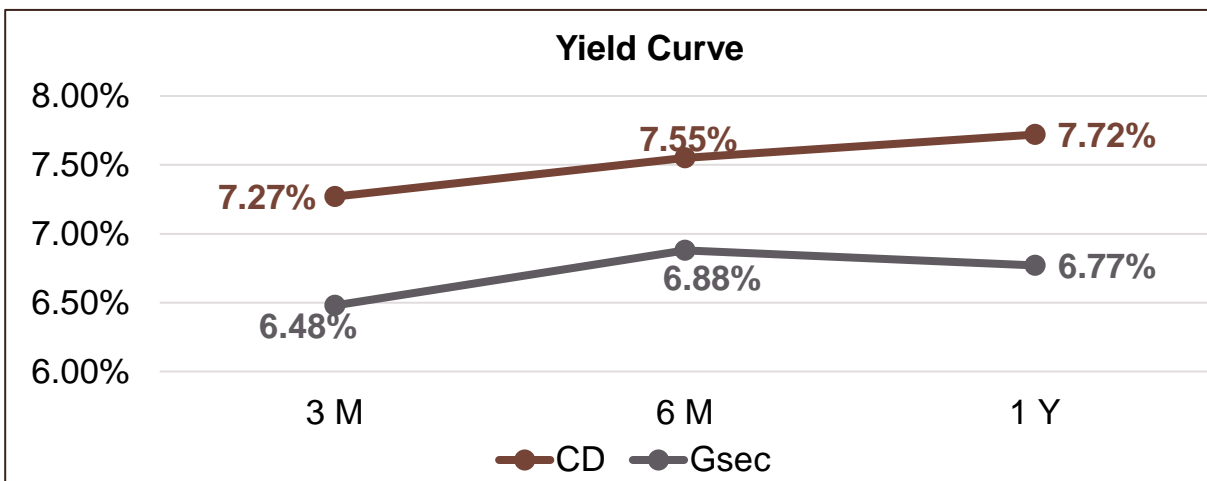
Debt Dashboard - January 2023



	Latest (31 Jan '23)	One Month Ago (30 Dec '22)	One Quarter Ago (31 Oct '22)	Half Year Ago (29 Jul '22)	One Year Ago (31 Jan '22)	M-o-M Change (bps)
Interest Rates						
Repo rate	6.25%	6.25%	5.90%	4.90%	4.00%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	7.27%	6.65%	7.00%	5.90%	4.00%	62
6 month	7.55%	7.15%	7.28%	6.23%	4.13%	40
1 Year	7.72%	7.60%	7.65%	6.68%	4.43%	12
T-Bill/G-sec						
91 Days	6.47%	6.29%	6.42%	5.60%	3.70%	18
364 Days	6.90%	6.87%	6.91%	6.28%	4.50%	3
India 10 Year G-Sec Yield	7.34%	7.33%	7.45%	7.32%	6.68%	1
AAA Corp. Bonds (PSU)						
1 Year	7.75%	7.55%	7.41%	6.31%	4.92%	20
3 Year	7.70%	7.58%	7.64%	7.10%	5.79%	12
5 Year	7.68%	7.59%	7.65%	7.27%	6.28%	9
AAA Corp. Bonds (NBFC)						
1 Year	7.77%	7.84%	7.62%	6.69%	5.27%	-7
3 Year	7.91%	7.80%	7.80%	7.33%	6.05%	11
5 Year	7.89%	7.85%	7.92%	7.63%	6.50%	4
International Markets						
10 Year US Treasury Yield	3.55%	3.83%	4.05%	2.66%	1.78%	-28

- The money market instruments witnessed increase in yields across tenures.
- The **U.S. Treasury Yields eased** on back of declining inflation, lower commodity prices and growth moderation expectations.
- In India, **10 year G-sec remained range-bound** driven by rally in US treasury, depreciation of dollar index and better than expected inflation print.
- **Both the AAA Corp. PSU & NBFC** witnessed hardening of the yields specially in the shorter end of the curve **leading to a slightly inverted yield curve.**
- In Feb' 23 policy, RBI hiked the key policy rate by 25 bps to 6.5% - in line with market expectations. With this, the policy rate has been hiked by 250 bps since May 2022.

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



Data as on 31Jan'23; Source: IDFC AMC, Investing.com

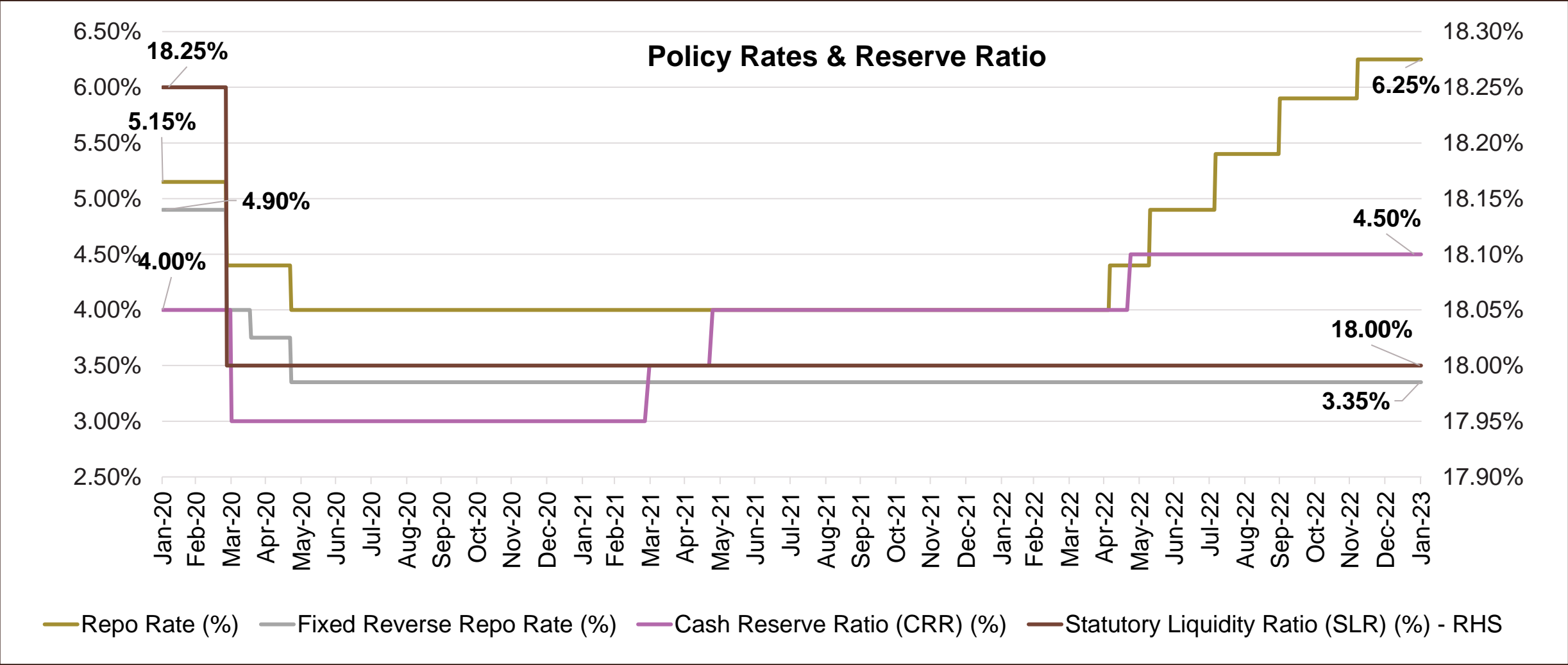
Policy Rates / Reserve Ratio	Current (w.e.f Feb 09, 2022)
CRR	4.50%
SLR	18.00%
SDF	6.25%
Repo Rate	6.50%
MSF	6.75%
Bank rate	6.50%
Fixed Reverse Repo Rate	3.35%

- **The yield curve which was an upward sloping or a normal yield curve where the longer-term bonds have higher yields than short-term ones, is now displaying signs of being slightly inverted.** This phenomena is reflected in the AAA Corporate PSU curve and AAA Corporate NBFC curve, where the 1 year yields is higher than or almost in line with the 2, 3, 5 and 10 year yield.
- The **spreads between AAA Corporate PSU and the respective tenure GSec** at the end of the month were in the range of 40 - 98 bps, while **AAA Corporate NBFC** is in the range of 51 - 100 bps.
- The RBI in an off-cycle policy meet in May'22 increased the policy rates & reserve ratio for the first time in 4 years, later in June, August, September, December and Feb'23 in a scheduled policy meet it increased the repo rate further and changed the stance to "withdrawal of accommodation".
- **With the monetary policy normalising across the globe, there could be further hardening of short-term rates in the coming months.**

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Policy rate & Reserve Ratio movement since Jan '20

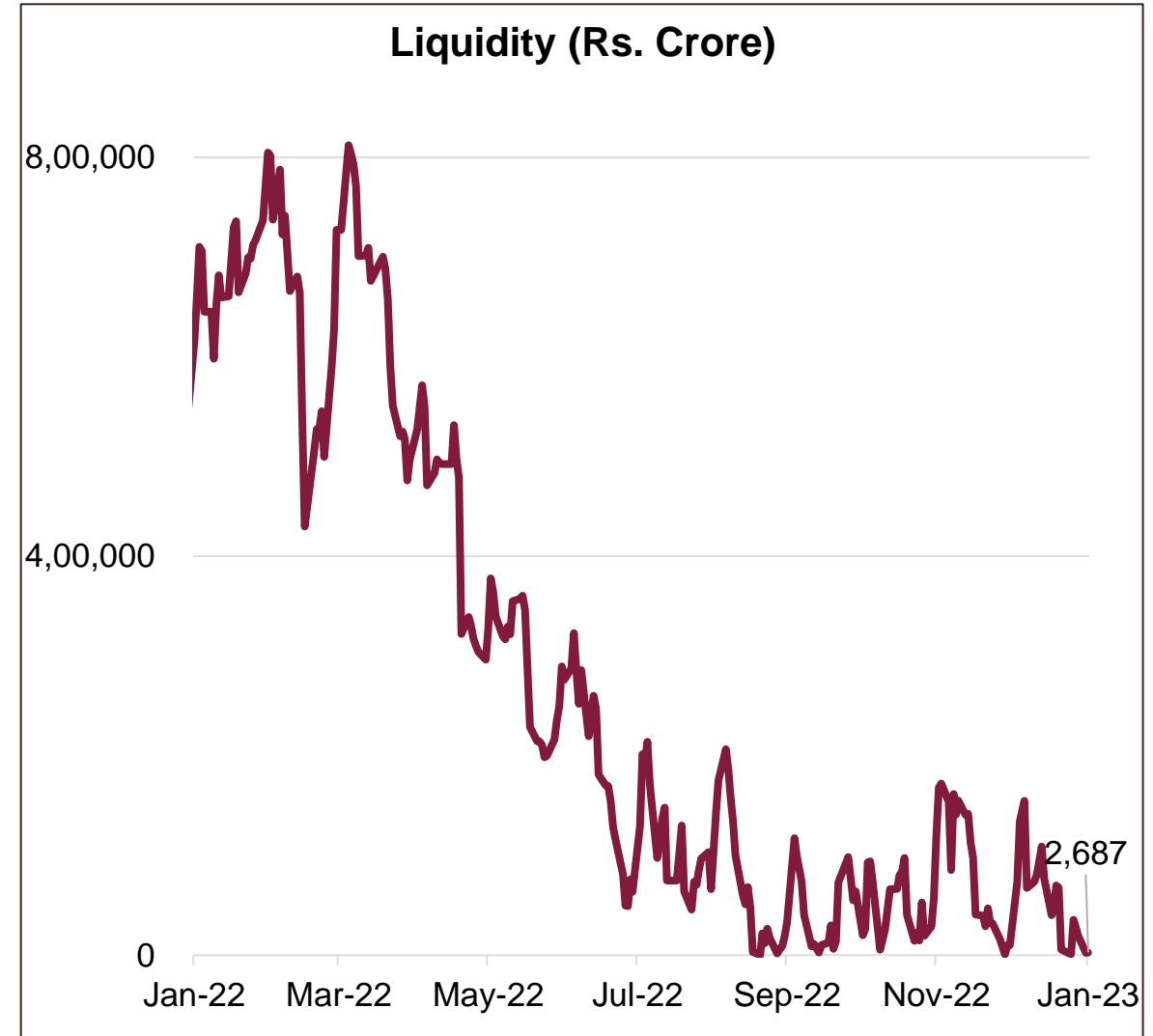


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Source: IDFC AMC

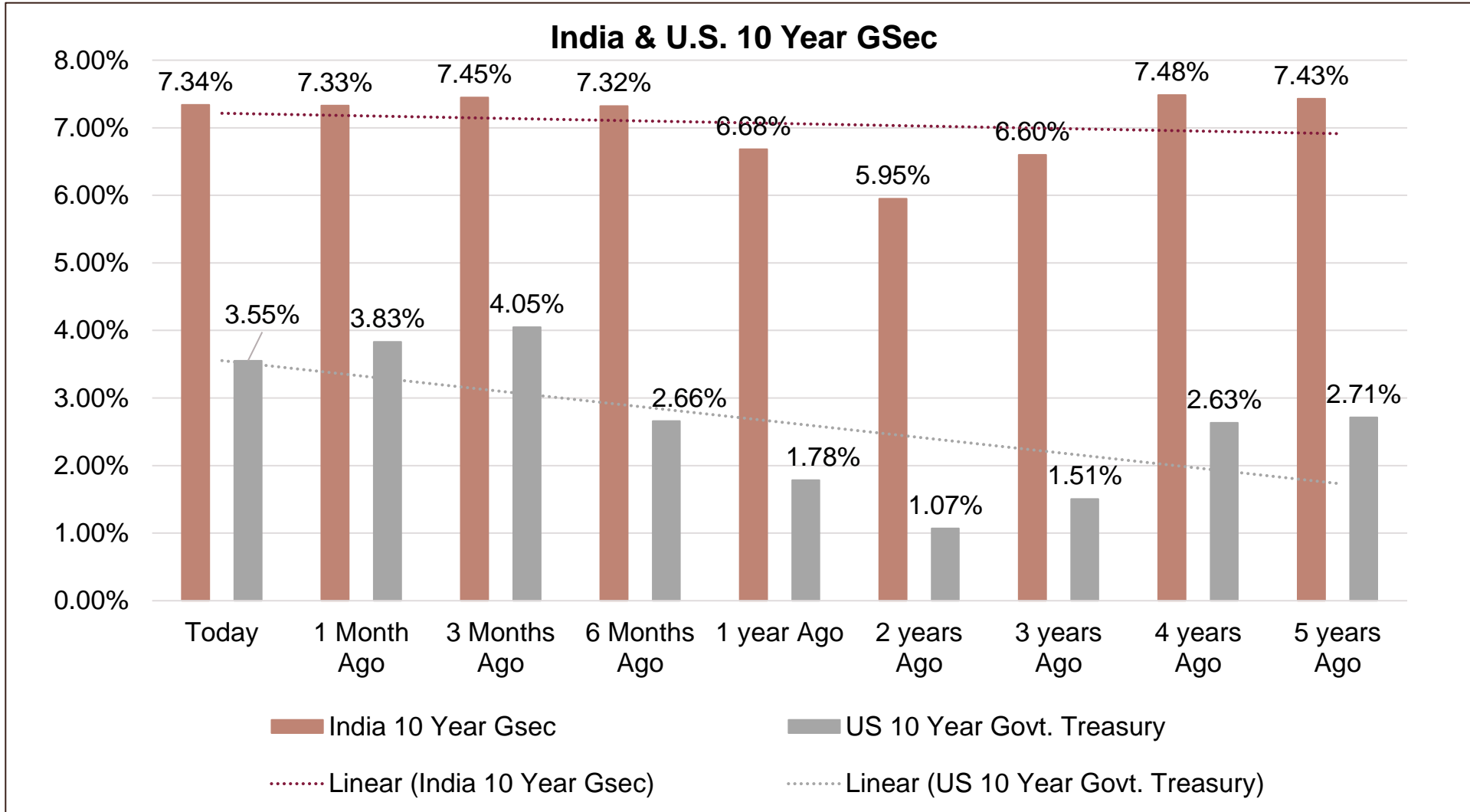
Liquidity in the system

- In the April '22 policy meet **Standing Deposit Facility (SDF) was introduced** and the **Liquidity Adjustment Facility (LAF) corridor** was narrowed to 50 bps **making the Reverse Repo Rate redundant**.
- In the recent Feb '23 policy meet, the governor stated **overall system liquidity remains in surplus, though of a lower order compared to April '22**.
- In the period ahead, while higher government expenditure and the anticipated return of forex inflows are likely to augment systemic liquidity. RBI will remain flexible and responsive towards meeting the productive requirements of the economy. It will conduct operations on either side of the LAF, depending on the evolving liquidity conditions.
- During January, the **average total absorption under the liquidity adjustment facility (LAF) was ₹1.6 lakh crore, above the average of ₹1.4 lakh crore during October-November**.



Source: IDFC AMC

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



- The 10-year G-sec of India has increased across compared to last 1-yr, 2-yr and 3-yr horizon.
- Incase of U.S. the yields have risen compared to last 5 years horizon.
- However, in the last one month **the U.S. yields have fallen significantly; while Indian 10-year G-sec remained flattish.**

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



- The yield have hardened significantly in the past couple of months in the broad category of Money Market and Accrual Funds. This phenomena was also witnessed in the broad category of Duration Funds and Passives.
- With respect to average maturity and modified duration of the funds – especially the Duration & Accrual category, it has started increasing since Dec-22

Category	YTM					Average Maturity					Modified Duration				
	Dec-22	Sep-22	Jun-22	Dec-21	Dec-20	Dec-22	Sep-22	Jun-22	Dec-21	Dec-20	Dec-22	Sep-22	Jun-22	Dec-21	Dec-20
Money Market															
Liquid	6.62	6.25	5.06	3.63	3.08	0.11	0.12	0.11	0.09	0.11	0.11	0.11	0.11	0.08	0.11
Ultra Short Duration	7.05	6.77	5.80	4.16	3.79	0.40	0.40	0.38	0.40	0.42	0.35	0.37	0.36	0.36	0.39
Low Duration	7.35	7.01	6.19	4.48	4.05	1.33	1.32	1.22	1.13	1.02	0.72	0.69	0.63	0.65	0.80
Money Market	6.96	6.71	5.77	3.91	3.41	0.34	0.39	0.40	0.23	0.34	0.33	0.38	0.39	0.22	0.33
Accrual															
Short Duration	7.45	7.17	6.64	5.07	4.70	2.34	2.03	1.99	2.29	2.70	1.77	1.51	1.46	1.68	2.21
Medium Duration	7.65	7.47	7.37	6.01	6.28	4.09	3.84	3.72	3.96	4.39	2.88	2.64	2.72	2.96	3.26
Banking & PSU Debt Fund	7.41	7.16	6.60	5.22	4.75	3.21	2.91	2.75	3.26	3.29	2.05	1.88	1.81	2.25	2.52
Corporate Bond Fund	7.49	7.27	6.76	5.32	4.81	2.85	2.59	2.39	3.05	3.28	1.88	1.65	1.60	2.17	2.54
Floating Rate	7.58	7.05	6.46	5.00	4.49	3.50	3.61	3.57	3.79	3.00	1.02	0.96	0.94	1.24	1.85
Credit Risk	8.06	7.83	7.44	6.06	7.39	2.56	2.30	2.29	2.58	2.11	1.67	1.61	1.67	1.87	1.66
Duration															
Medium To Long Duration	7.45	7.24	7.03	5.77	5.78	6.84	5.90	5.64	6.21	7.70	4.51	3.92	3.76	4.30	5.44
Long Duration Fund	7.51	7.62	7.59	6.89	6.24	16.72	16.89	16.86	18.74	17.64	8.40	8.72	8.80	9.61	9.41
Dynamic	7.37	6.98	6.58	5.53	5.59	4.68	3.82	4.35	4.83	6.16	2.94	2.22	2.68	3.29	4.75
Gilt	7.21	6.91	6.35	5.12	5.51	6.54	4.46	4.16	5.56	8.43	3.90	2.76	2.51	3.26	5.84
Gilt - 10 Year	7.42	7.38	7.40	6.39	5.94	9.51	9.16	9.38	9.51	9.38	6.56	6.48	6.51	6.68	6.71
Passives															
Target Maturity Funds / Index Funds	7.44	7.42	7.37	6.17	5.79	4.93	4.27	4.66	5.50	6.39	3.80	3.39	3.65	4.21	4.67

Debt Category Average Performances – January 2023



- **During the month** under consideration, all the categories were in the green even as yields largely hardened across most of points on the curve.
- With respect to the **3 months and 6 months trailing returns** too, all the categories were in the green with the Duration categories outperforming the rest in these two time horizons.
- **For the full year**, all the categories were in the green, with our suggested categories such as Ultra Short Duration, Overnight, Liquid, Short Duration, Medium Duration, Floating Rate, Banking & PSU Debt Fund & Corporate Bond Fund delivered decent returns.
- **On a 2-year CAGR** basis, all of 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, Medium Duration, Short Duration, Floating Rate and Target Maturity Funds were one of the best performing categories during this period.
- **With respect to the 3 and 5 year CAGR returns**, most the categories reported early to mid single returns.

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

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Money Market							
Overnight	0.52	1.49	2.87	4.84	3.99	3.72	4.54
Liquid	0.51	1.56	2.98	4.95	4.07	3.98	5.04
Ultra Short Duration	0.49	1.56	2.80	4.52	4.14	4.40	5.25
Low Duration	0.47	1.55	2.75	4.24	4.15	5.13	5.34
Money Market	0.52	1.63	2.89	4.62	4.09	4.57	5.73
Accrual							
Short Duration	0.45	1.84	2.84	4.27	4.26	5.53	5.75
Medium Duration	0.41	1.73	2.62	4.36	4.83	5.04	5.14
Banking & PSU Debt Fund	0.42	1.59	2.59	3.63	3.67	5.44	6.60
Corporate Bond Fund	0.42	1.62	2.65	3.32	3.57	5.50	6.33
Floating Rate	0.42	1.51	2.93	4.24	4.15	5.52	6.43
Credit Risk	0.45	1.61	2.79	12.25	10.10	5.71	4.12
Duration							
Medium To Long Duration	0.40	1.78	2.77	3.17	2.91	5.13	5.61
Long Duration Fund	0.56	2.29	4.26	3.83	1.38	4.83	6.30
Dynamic	0.41	1.69	2.74	3.65	3.46	5.32	6.14
Gilt	0.41	1.67	2.78	3.03	2.66	5.28	6.80
Gilt - 10 Year	0.37	2.26	3.01	2.16	1.60	4.96	7.39
Passives							
Target Maturity Funds / Index Funds	0.49	2.07	2.96	2.98	4.02	6.71	

Source: Morningstar Direct

Event Update

US Fed hikes rates by 25 bps - signals more hikes to come next year

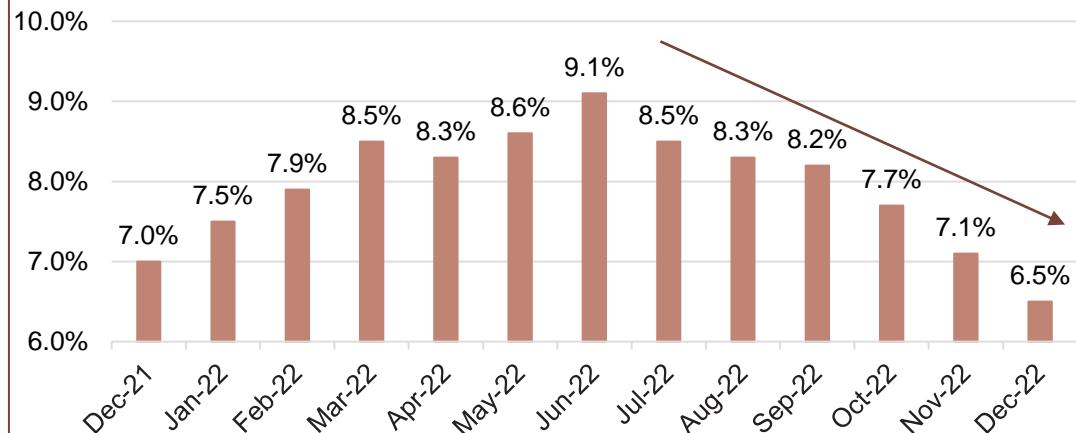


Key Highlights

- Fed raised its target interest rate by 25 bps to a range of 4.5-4.75%.
- The 25-bps points hike has now taken the interest rates to a 15 year high i.e., since 2007
- The Fed projects raising rates as high as 5.25% before ending inflation battle
- The U.S. CPI inflation stood at 6.5% in December, as against 7.1% in November

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

U.S. Inflation - eased in last few months



U.S. Inflation Peaking

- Recent inflation data has shown a moderate decrease in December compared to November 2022 on Y-o-Y basis. In December 2022, CPI inflation rose to 6.5% over the year.
- U.S. Consumer Price Index peaked at 9.1% Y-o-Y in June, but it failed to come down as quickly in recent months as Fed officials had hoped.
- With inflation still high and demand in the economy stronger than many anticipated, Fed Chairman Powell said it remains unclear just how much higher rates will need to go

To Conclude

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

RBI MPC increases repo rate by 25 bps, pegs FY24 inflation at 5.3%



Key Highlights

- Hiked Repo Rate by 25 bps to 6.50% by a majority vote
- The MPC voted on “withdrawal of accommodation” to ensure that inflation remains within the target going forward, while supporting growth
- FY24 Inflation projection retained at 5.3%
- FY23 Growth rate pegged at 6.4%
- RBI Governor stated current objectives remained - to keep inflation expectations anchored, break core inflation persistence and thereby strengthen medium-term growth prospects

Policy Rates / Reserve Ratio	7 Dec '22	8 Feb '23	Status
CRR	4.50%	4.50%	↔
SLR	18.00%	18.00%	↔
SDF	6.00%	6.25%	↑
Repo Rate	6.25%	6.50%	↑
MSF	6.50%	6.75%	↑
Bank rate	6.15%	6.50%	↑
Fixed Reverse Repo Rate	3.35%	3.35%	↔

Growth Outlook

- Real GDP grew by 6.8% (y-o-y) in Q3FY23, led by robust growth in private consumption and investment demand.
- Urban consumption firmed up further, driven by sustained recovery in discretionary spending, especially on services such as travel, tourism and hospitality. Rural demand is recovering as reflected in the pace of tractor and retail two-wheeler sales, with rising farm activity. Investment activity is also gaining traction.
- The biggest risks to the outlook continue to be the headwinds emanating from protracted geopolitical tensions, global slowdown and tightening of global financial conditions.
- Real GDP growth for FY24 is projected at 6.4% down from 6.8% projected in December 2022.

Inflation Outlook

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

Thank You!

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