

TATA CAPITAL WEALTH

Market Outlook – January 2023



Macro Indicators



	Current		Month Ago	Quarter Ago	Half Year Ago	Year Ago
Economic Indicators:						
PMI Manufacturing	57.8 (Dec-22)	↑	55.7 (Nov-22)	55.1 (Sep-22)	53.9 (Jun-22)	55.5 (Dec-21)
PMI Services	58.5 (Dec-22)	↑	56.4 (Nov-22)	54.3 (Sep-22)	59.2 (Jun-22)	55.5 (Dec-21)
Consumer Price Index (CPI)	5.9% (Nov-22)	↓	6.8% (Oct-22)	7.0% (Aug-22)	7.0% (May-22)	4.9% (Nov-21)
Wholesale Price Index (WPI)	5.8% (Nov-22)	↓	8.4% (Oct-22)	12.5% (Aug-22)	16.6% (May-22)	14.9% (Nov-21)
Industrial Production (IIP)	-4.0% (Oct-22)	↓	3.5% (Sep-22)	2.2% (Jul-22)	6.7% (Apr-22)	4.2% (Oct-21)
GDP	6.3% (Sep-22)	↓	NA	13.5% (Jun-22)	4.1% (Mar-21)	8.4% (Sep-21)
Trade Deficit (\$ bn)	23.9 (Nov-22)	↓	27.5 (Oct-22)	26.8 (Aug-22)	22.1 (May-22)	21.3 (Nov-21)
Commodity Market:						
Brent Crude (\$/barrel)	85.9 (30-Dec-22)	↓	85.4 (30-Nov-22)	87.9 (30-Sep-22)	114.8 (30-Jun-22)	77.7 (30-Dec-21)
Gold (\$/oz)	1,826.2 (30-Dec-22)	↑	1,759.5 (30-Nov-22)	1,672.0 (30-Sep-22)	1,812.0 (30-Jun-22)	1,829.7 (30-Dec-21)
Silver (\$/oz)	24.0 (30-Dec-22)	↑	21.8 (30-Nov-22)	19.0 (30-Sep-22)	20.4 (30-Jun-22)	23.4 (31-Dec-21)
Currency Market:						
USD/INR	82.7 (30-Dec-22)	↑	81.3 (30-Nov-22)	81.5 (30-Sep-22)	79.0 (30-Jun-22)	74.5 (31-Dec-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

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Equity Market - Review



Equity Market Roundup - Key Takeaways



Performance: For the month of December, both the **Sensex** and the **Nifty** slipped by 3.7% and 3.6% respectively, after gaining substantially in October and November. For the **calendar year** both the indices **gained over 4% each** being one of the best performing global markets.

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 flattish note, however industrial production played the spoil sport.

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 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 - December 2022



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	60,841	-3.70	6.01	14.83	4.45	12.89	13.83	12.29	23.70	3.41	1.17
Nifty 50	18,105	-3.60	5.98	14.81	4.34	13.81	14.16	11.43	21.79	4.25	1.27
Nifty 100	18,259	-3.61	4.75	14.70	3.64	13.85	14.17	10.68	22.66	4.39	1.30
Nifty 200	9,554	-3.37	4.50	15.32	3.66	14.96	15.17	10.43	22.88	4.14	1.29
Nifty 500	15,449	-3.22	4.22	15.48	3.03	15.83	16.10	10.22	22.85	4.08	1.26
Nifty Midcap 150	11,886	-1.73	2.01	18.45	2.97	22.98	23.42	10.19	26.12	3.36	1.16
Nifty Smallcap 250	9,481	-1.82	3.10	17.31	-3.66	24.95	24.97	5.55	19.04	3.06	1.08

Sectoral Indices											
Nifty FMCG	44,171	-3.10	-0.53	17.37	17.59	13.70	13.61	10.46			
Nifty India Consumption	7,554	-4.73	-4.09	12.94	7.15	13.05	15.08	8.15			
Nifty Auto	12,612	-4.84	-0.70	7.82	15.36	17.15	15.20	0.98			
Nifty Energy	25,870	-5.61	1.14	3.05	14.35	23.67	17.59	12.65			
Nifty Oil & Gas	8,438	-2.06	10.51	11.08	14.87	23.63	17.71	10.34			
Nifty Metal	6,723	2.51	16.74	44.49	21.82	43.79	33.88	11.27			
Nifty Bank	42,986	-0.58	11.40	28.76	21.21	17.28	10.15	10.96			
Nifty Healthcare	8,001	-4.66	-2.60	6.56	-10.81	2.74	18.21	7.74			
Nifty Financial	18,981	-2.02	8.52	22.79	9.55	11.73	9.25	12.61			
Nifty Pharma	12,598	-4.30	-2.92	3.62	-11.46	-1.24	16.15	5.54			
Nifty Infrastructure	5,252	-3.70	6.00	13.76	6.12	19.97	17.29	7.61			
Nifty Services Sector	24,842	-3.42	6.32	17.04	1.83	12.52	12.49	12.56			
Nifty IT	28,622	-6.02	6.15	2.81	-26.12	8.65	22.28	19.64			

Equity Market Flow			
Equity Flow (₹ Cr.)	1-Mth	YTD	1 Yr.
FII	-14,231	-278,429	-278,429
DII	24,159	275,726	275,726

Source: Moneycontrol

Global Equity Market Performance as on 31 December 2022



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	10,940	-9.37	-0.29	-4.93	-33.06	-7.88	7.80	11.32
U.S.	Russell 1000	2,106	-6.15	6.85	1.45	-20.47	-0.35	5.68	7.27
Pan - Europe	Euronext 100	1,232	-4.44	10.67	7.51	-9.58	5.65	2.48	3.58
UK	FTSE	7,452	-1.66	8.18	3.96	0.91	7.41	-0.40	-0.62
France	CAC 40	6,474	-4.06	12.48	9.35	-9.52	8.00	2.69	4.03
Germany	DAX	13,924	-3.40	15.10	8.96	-12.35	0.74	1.67	1.51
Switzerland	Swiss Market	10,729	-3.70	4.55	-0.11	-16.67	0.12	0.35	2.72
South Korea	Kospi	2,236	-10.21	3.84	-4.17	-24.96	-11.80	0.58	-1.95
Japan	Nikkei	26,095	-6.93	0.61	-1.14	-9.37	-2.49	3.32	2.76
Hong Kong	HangSeng	19,781	6.58	15.02	-9.56	-15.50	-14.79	-11.14	-7.93
China	SSE Composite	3,089	-2.04	2.17	-9.15	-15.17	-5.70	0.43	-1.35
Taiwan	Taiwan Capitalization Weighted Stock	14,138	-5.15	5.37	-4.67	-22.40	-2.04	5.62	5.84
Singapore	Strait Times	3,251	-1.23	3.91	4.83	4.10	6.93	0.29	-0.91
Indonesia	Jakarta Composite	6,851	-3.37	-2.73	-0.89	4.09	7.04	2.83	1.51
Malaysia	KLSE	1,495	0.46	7.31	3.57	-4.61	-4.14	-2.00	-3.60
Brazil	Ibovespa Sao Paulo	109,735	-2.61	-0.28	11.48	4.70	-3.98	-1.73	7.50
India	Nifty 50	18,105	-3.60	5.98	14.81	4.34	13.81	14.16	11.43

Data as on 31 December '22. 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* (%)
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 -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
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
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 -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
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
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
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
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
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

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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* Performance as on 31 December 2022. Source: MorningStar Direct

Asset Class Performance



2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022* (%)
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
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
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
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 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
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
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
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
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

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 December 2022. Source: ICRA Analytics (<http://www.icraanalytics.com/legal/standard-disclaimer.html>) & RBI - DBIE

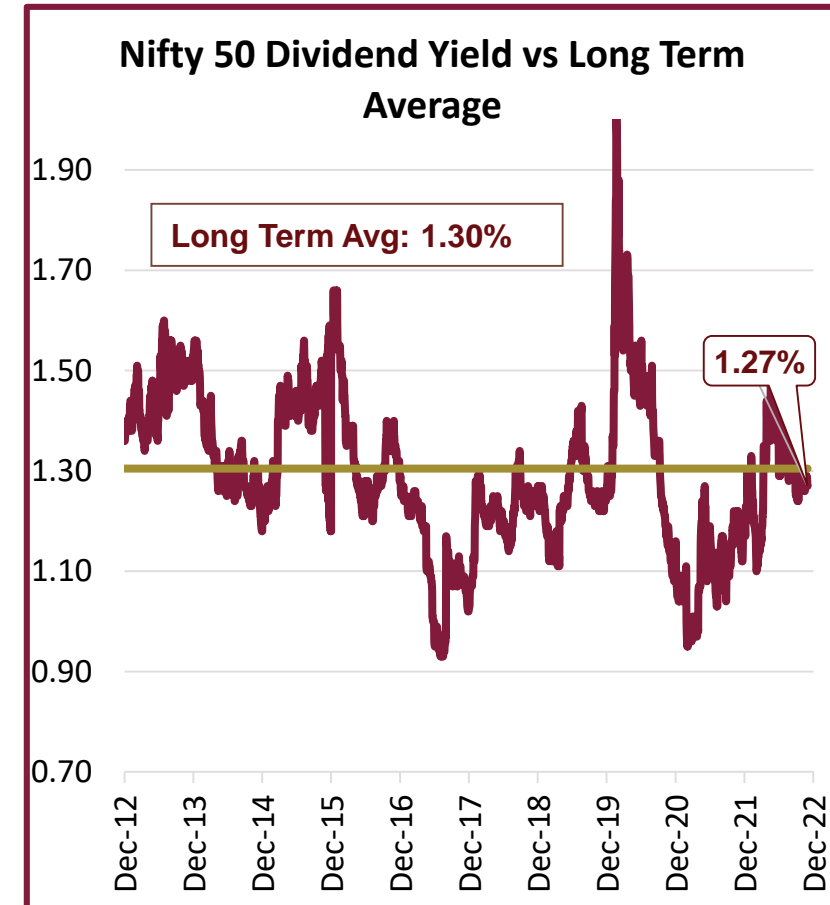
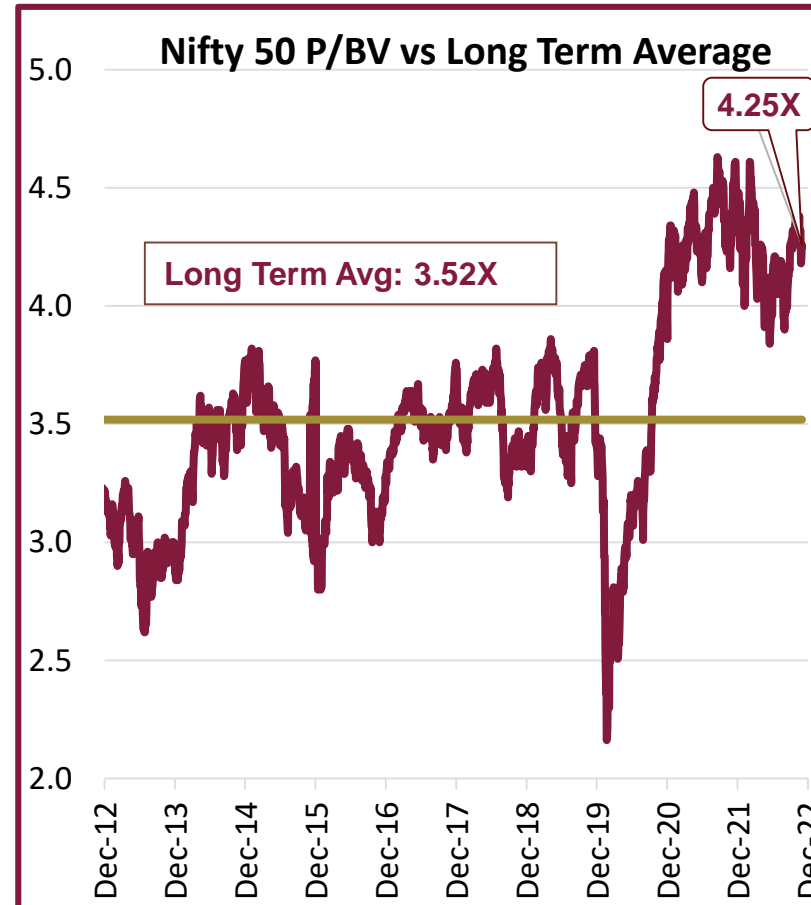
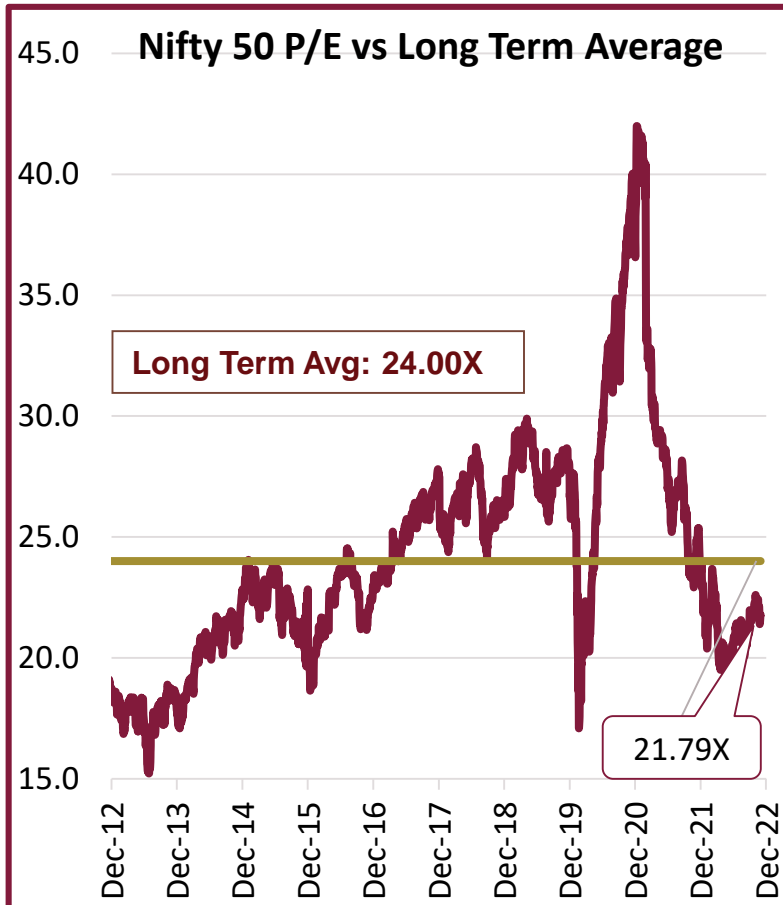
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Valuations on the Trailing P/E, P/BV & Div. Yield Metrics

Nifty 12-month trailing P/E of 21.79X is lower than its historical long-term average of 24.00X

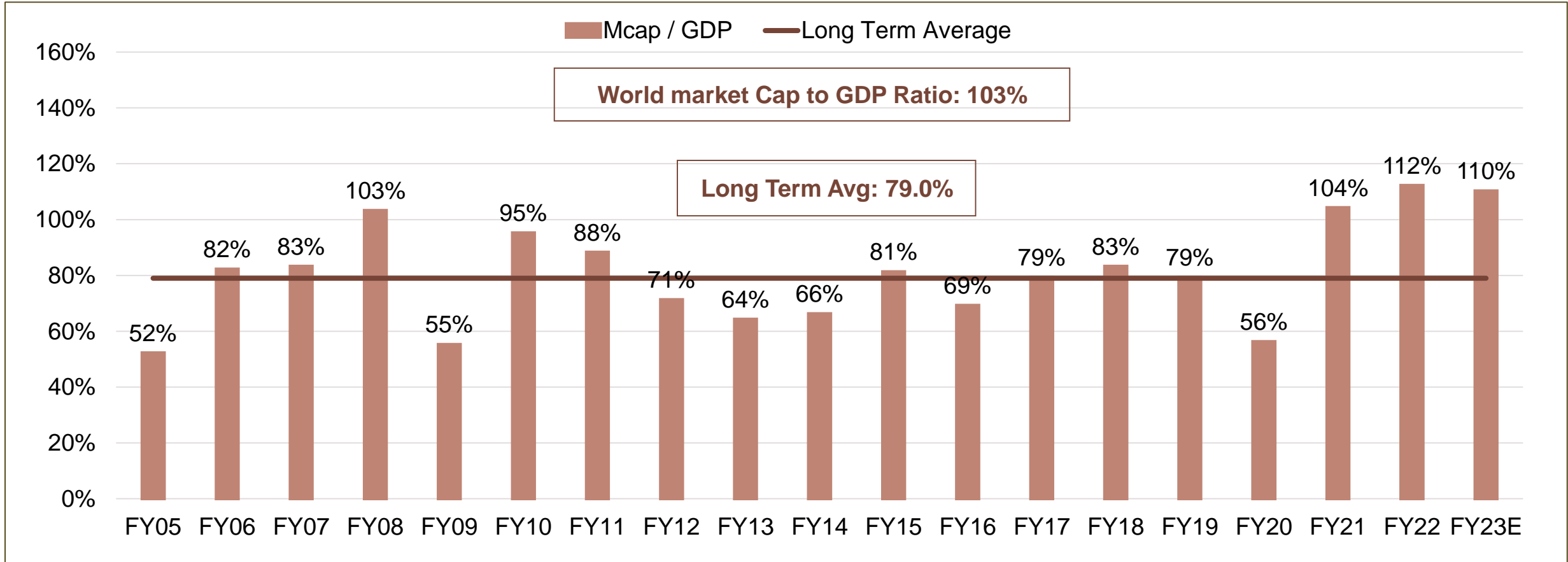
At 4.25X, the Nifty Trailing P/B is above the historical long-term average of 3.52X

At 1.27%, 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 (FY23E 110%) India is trading above the long term average of 79% and also above the world average of 103%.



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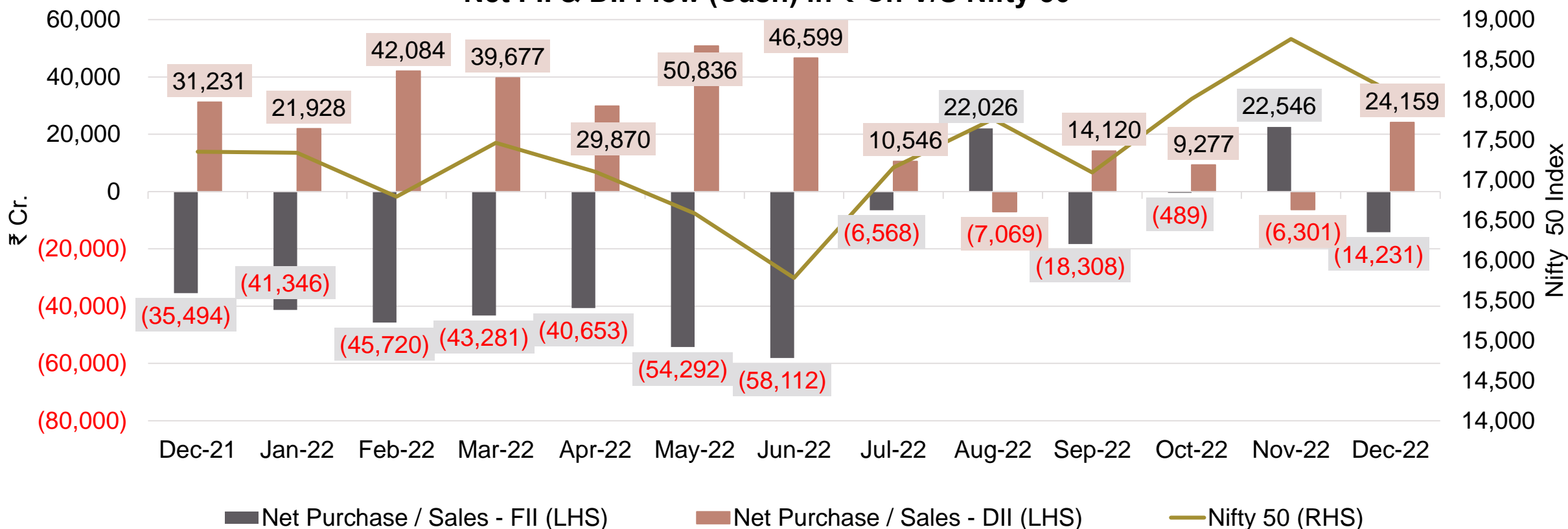
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Source: Kotak AMC, Monthly Market Outlook, December '22

FII & DII Flow into Equity

- The market turned the slate once again in December, FIIs were net sellers, while the DIIs were net buyers for the month.
- In line with the FIIs, the markets too slipped in December after displaying a comeback in October and November 2022.

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



Mutual Fund Category Average Performance - December 2022



- **For December 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, with the technology and healthcare sectors being the worst hit.
- **For the trailing 3-months 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 Value 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 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**, most the categories delivered early double digit return with the exception of Technology which clocked in gains of ~21.00%.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	-3.14	4.20	14.41	2.35	13.29	13.62	10.08
Large & Mid Cap	-2.63	2.79	15.29	1.69	18.21	17.35	10.17
Multi Cap	-2.26	2.88	16.61	3.94	21.56	19.41	11.92
Flexi Cap	-2.92	2.52	14.25	0.16	15.16	15.75	10.42
Mid Cap	-1.97	0.51	15.73	2.52	21.46	22.23	10.66
Small Cap	-1.68	0.84	15.95	1.30	28.48	30.02	11.69
Focused	-3.19	3.01	14.20	1.13	15.33	15.42	9.59
ELSS	-2.79	3.70	15.00	1.99	15.50	15.71	9.41
Contra	-2.31	5.05	17.48	7.97	21.40	21.70	12.28
Dividend Yield	-2.65	4.93	14.01	2.80	19.49	19.02	9.93
Value	-2.16	5.88	17.52	5.99	19.71	18.46	8.84
Sectoral / Thematic							
Consumption	-3.11	-1.80	15.68	7.71	17.96	17.69	11.04
Infrastructure	-1.92	3.99	19.48	9.51	28.91	21.74	8.74
Financial Services	-0.43	9.43	25.86	14.68	15.00	9.43	9.08
FMCG	-2.07	1.65	14.40	18.32	18.91	15.77	11.65
Healthcare	-3.57	-0.16	7.77	-9.84	4.13	21.75	12.18
Technology	-5.34	5.00	4.62	-21.18	13.99	26.95	21.21

Debt Market – Review



Debt Market Roundup - Key Takeaways



- The India 10-Year G-sec yields rose for the month of **December** to **closed marginally higher at 7.33%** as against 7.28% at the end of November. The fall in the prices was mainly on the back of Federal Open Market Committee (**FOMC**) & Monetary Policy Committee (**MPC**) **increased rate nonetheless at a slower pace**.
- In India, the month saw a lower MoM growth in **inflation** print, a negative **industrial production** number, pressure on **currency** increasing once again and a lower **trade deficit** number.
- Further, losses were restricted after the **U.S. Consumer price index-based inflation slowed** in November 2022, however **rise in yields on U.S. Treasuries** dampened market sentiments.
- Back in India, market sentiments were further dampened on concerns that **policymakers remained worried over inflation** which led to fears of more rate hikes by the MPC moving ahead.

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.
- Now with **inflation both in India and U.S. showing signs of peeking out**, what has to be seen is what approach the respective Central Banks will take on their upcoming policy meet scheduled in February 2023 (India & U.S).
- Going forward, **Budget expectations and actual budget number (fiscal deficit, gross borrowings) will be key drivers** for Indian debt markets.
- 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 (upto 2 years)** through mutual fund categories like Ultra Short Duration, Low Duration or Floating Rate Funds till the time rates stabilize.
- For **more than 2 years horizon, Short Term Funds, Baking & PSU Debt 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.

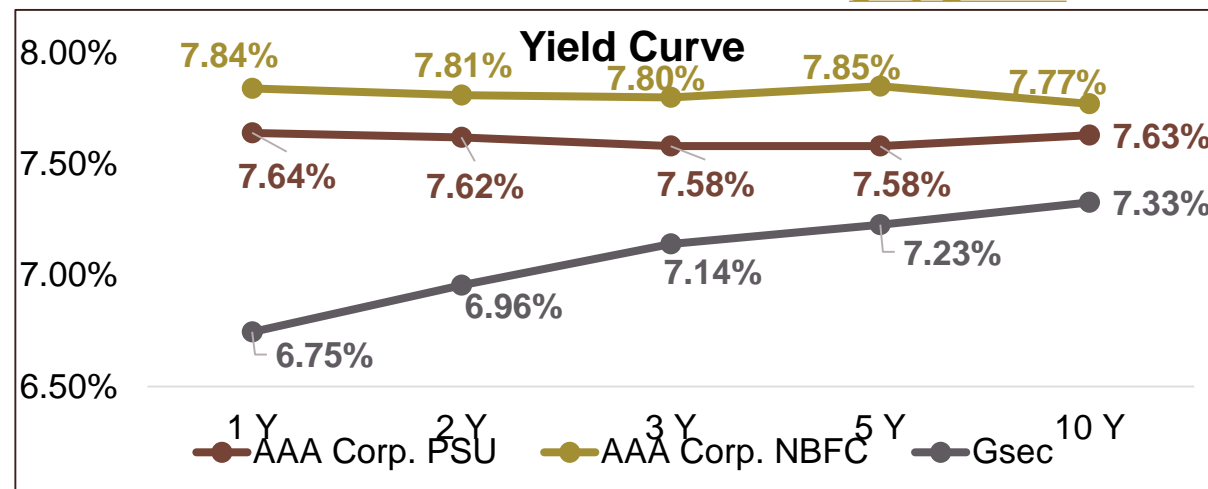
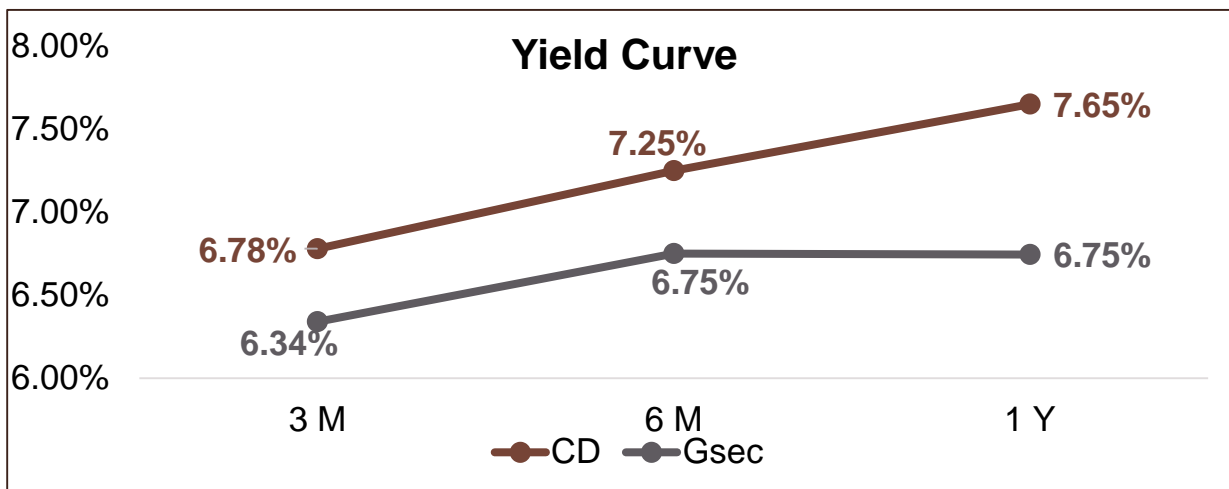
Debt Dashboard - December 2022



	Latest (31 Dec '22)	One Month Ago (30 Nov '22)	One Quarter Ago (30 Sep '22)	Half Year Ago (30 Jun '22)	One Year Ago (31 Dec '21)	M-o-M Change (bps)
Interest Rates						
Repo rate	6.25%	5.90%	5.90%	4.90%	4.00%	35
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	6.78%	6.85%	6.30%	5.15%	3.63%	-7
6 month	7.25%	7.22%	6.63%	5.98%	4.13%	3
1 Year	7.65%	7.60%	7.15%	6.53%	4.43%	5
T-Bill/G-sec						
91 Days	6.29%	6.39%	6.05%	5.14%	3.63%	-10
364 Days	6.87%	6.84%	6.77%	6.28%	4.22%	3
India 10 Year G-Sec Yield	7.33%	7.28%	7.40%	7.45%	6.45%	5
AAA Corp. Bonds (PSU)						
1 Year	7.64%	7.46%	7.31%	6.59%	4.68%	18
3 Year	7.58%	7.32%	7.31%	7.35%	5.65%	26
5 Year	7.58%	7.53%	7.47%	7.46%	6.18%	5
AAA Corp. Bonds (NBFC)						
1 Year	7.84%	7.68%	7.44%	6.66%	4.91%	16
3 Year	7.80%	7.55%	7.53%	7.62%	5.97%	25
5 Year	7.85%	7.76%	7.64%	7.70%	6.32%	9
International Markets						
10 Year US Treasury Yield	3.88%	3.61%	3.83%	3.02%	1.51%	27

- The money market instruments witnessed a mixed trend with yields softening in the extreme short end of the curve and hardening in the longer end.
- The **U.S. Treasury Yields hardened** as the Fed Chair in a raised interest rates in the December FOMC meet.
- In India, the yields of 10 year G-sec too hardened in line with its global peers.
- **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.**
- RBI's repo rate stands at 6.25% (35 bps hike done in Dec 2022 meet) taking the tally of rate hikes to 225 basis points since its first unscheduled mid-meeting in May 22.

Yield Curve and Policy Rates & Reserve Ratios – as on 31 December 2022

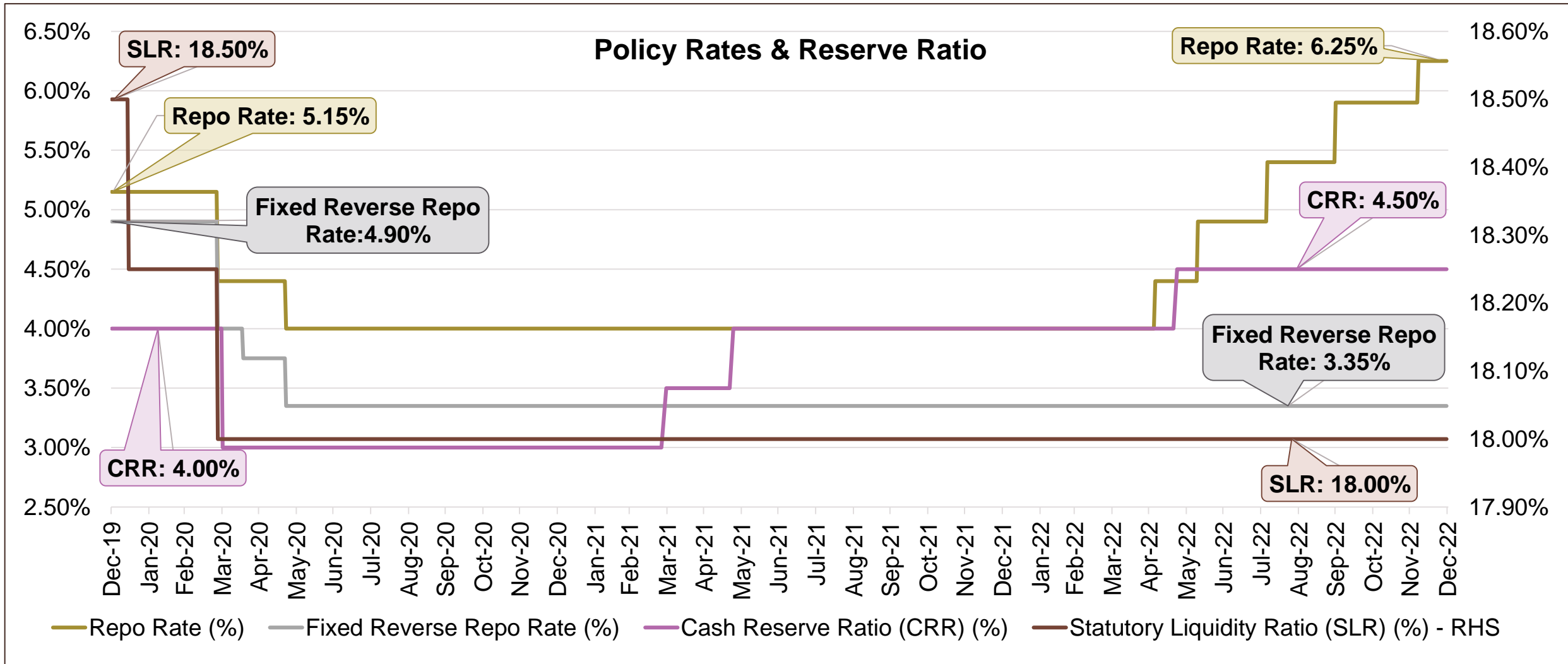


Data as on 31 Dec '22; Source: IDFC AMC, Investing.com

Policy Rates / Reserve Ratio	Current
CRR	4.50%
SLR	18.00%
SDF	6.00%
Repo Rate	6.25%
MSF	6.50%
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 30 - 90 bps, while **AAA Corporate NBFC** is in the range of 44 - 110 bps.
- So far in FY23, the RBI has hiked the repo rate by 225 bps to 6.25% - which is the highest level since August 2018 and has 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.**

Policy rate & Reserve Ratio movement since Jan '20

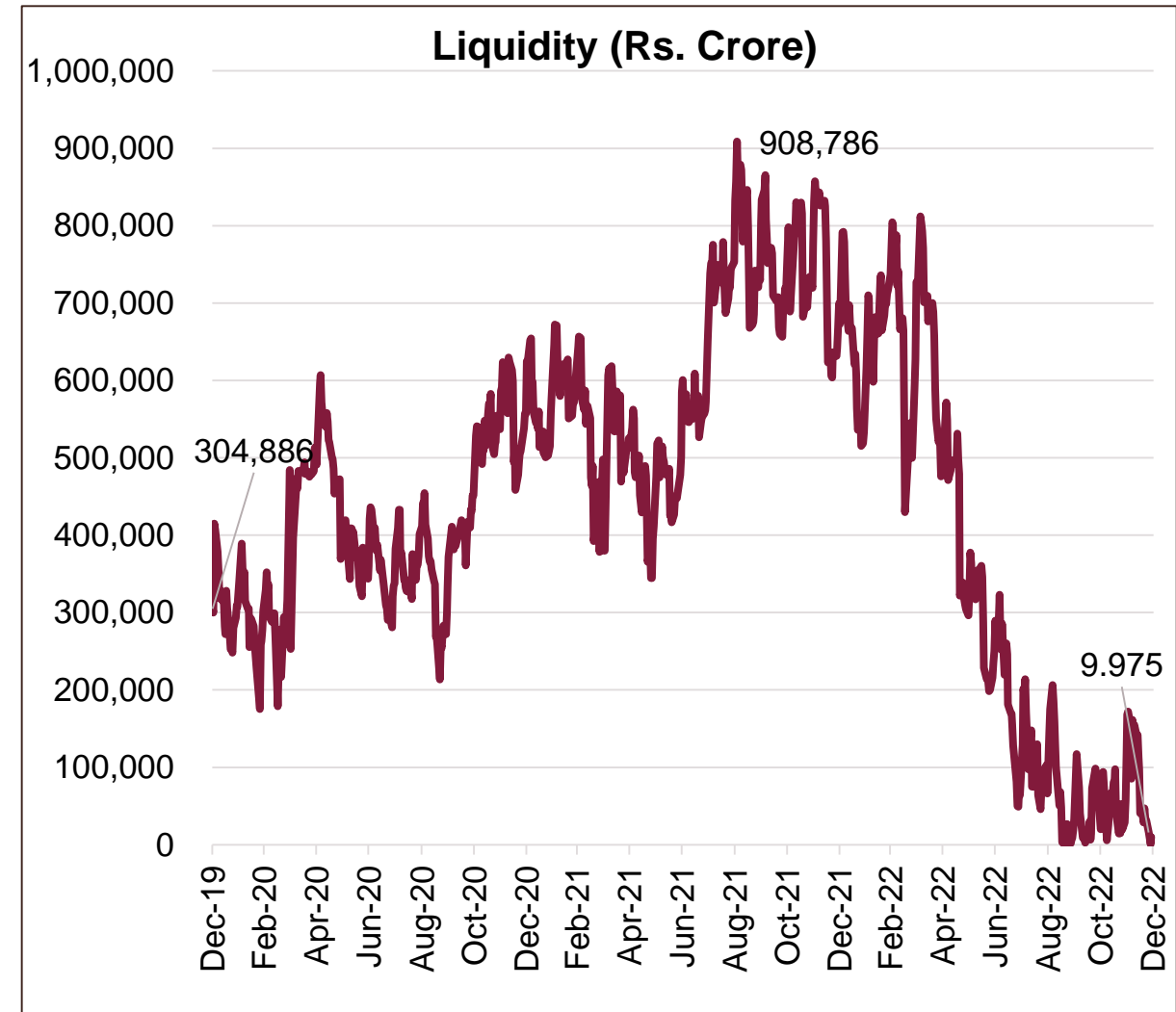


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Source: IDFC AMC

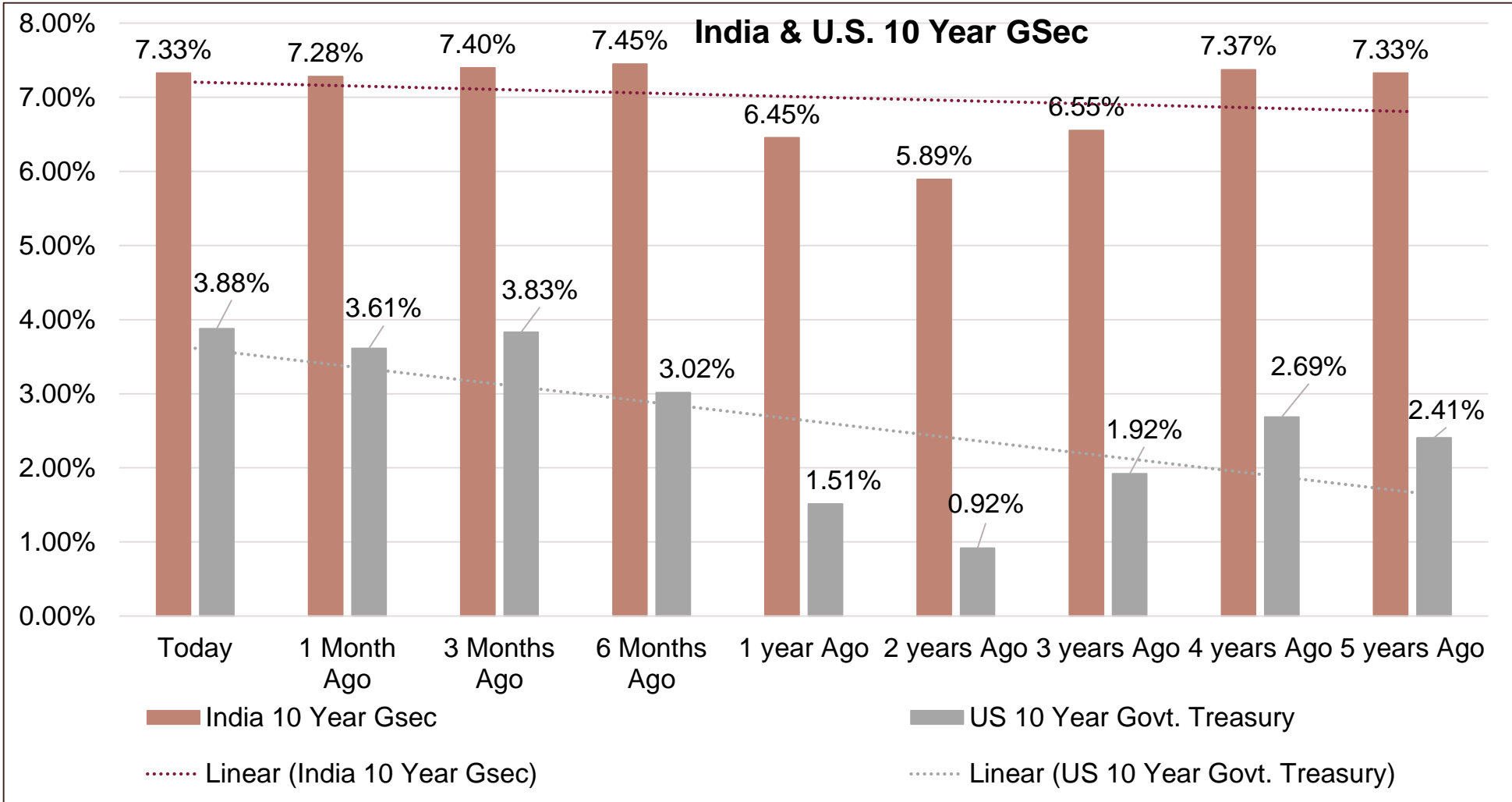
Liquidity in the system

- 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.
- 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”.
- In December policy meet, the governor stated **overall system liquidity remains in surplus**. During October-November, the average total absorption under the liquidity adjustment facility (LAF) was ₹1.4 lakh crore, down from the average of ₹2.2 lakh crore during August-September. Further he added in the period ahead, **liquidity conditions are likely to improve** due to several factors which would include moderation in currency in circulation in the post-festival period, pick up in government expenditure in the last few months of the financial year and higher forex inflows due to the return of portfolio investors.



Source: IDFC AMC

Yields Movement across - India and U.S. - as on 31 December 2022



- The 10-year G-sec of both India and U.S. had **peaked out in 4 years ago in December 2018.**
- Since then, it is noticed that the yields have been tapering over a period of time.
- However, since the **past 2 years the yields are hardening once again and had crossed the December 2018 high in June to December 2022.**

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



- The yields have hardened significantly in the past couple of months in the broad category of Money Market and Accrual Funds. This phenomena was not much 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, they are at a multi year low as rates have started to increase in the economy.

Category	YTM				
	Nov-22	Aug-22	May-22	Nov-21	Nov-20
Money Market					
Liquid	6.51	5.64	4.68	3.52	3.07
Ultra Short Duration	7.00	6.14	5.51	3.95	3.66
Low Duration	7.31	6.43	5.89	4.32	3.99
Money Market	6.96	6.18	5.58	3.78	3.30
Accrual					
Short Duration	7.40	6.74	6.30	4.95	4.69
Medium Duration	7.61	7.20	7.19	5.83	6.40
Banking & PSU Debt Fund	7.34	6.72	6.29	5.11	4.83
Corporate Bond Fund	7.48	6.84	6.53	5.19	4.80
Floating Rate	7.38	6.48	6.06	4.94	4.74
Credit Risk	8.09	7.48	7.18	6.20	7.30
Duration					
Medium To Long Duration	7.42	6.99	6.88	5.36	5.95
Long Duration Fund	7.66	7.48	7.57	6.83	6.40
Dynamic	7.28	6.71	6.22	5.46	5.76
Gilt	7.08	6.72	6.01	5.30	5.86
Gilt - 10 Year	7.45	7.16	7.37	6.29	5.96
Passives					
Passives / Target Maturity Funds	7.49	7.12	7.31	5.99	5.73

Average Maturity				
Nov-22	Aug-22	May-22	Nov-21	Nov-20
0.10	0.10	0.09	0.07	0.08
0.38	0.38	0.39	0.35	0.40
1.34	1.25	1.22	1.12	0.99
0.33	0.40	0.44	0.22	0.33
2.15	2.23	1.87	2.25	2.84
3.92	3.98	3.74	3.81	4.58
2.93	2.85	2.67	3.31	3.65
2.62	2.57	2.45	3.03	3.37
3.81	3.62	3.37	3.81	2.62
2.61	2.43	2.44	2.72	2.48
5.83	6.21	5.55	5.34	8.26
16.88	17.14	17.09	19.04	18.12
4.15	4.56	3.70	4.82	6.72
4.32	5.97	3.68	6.20	10.80
9.54	9.42	9.43	9.57	9.47
4.40	4.43	4.71	5.11	6.50

Modified Duration				
Nov-22	Aug-22	May-22	Nov-21	Nov-20
0.09	0.09	0.08	0.07	0.07
0.34	0.34	0.36	0.31	0.38
0.65	0.65	0.62	0.61	0.80
0.33	0.39	0.43	0.22	0.32
1.59	1.59	1.35	1.66	2.32
2.70	2.77	2.72	2.82	3.46
1.79	1.88	1.74	2.30	2.79
1.66	1.65	1.68	2.16	2.63
0.99	0.94	0.96	1.19	1.38
1.71	1.67	1.74	2.03	1.95
3.91	4.14	3.71	3.73	5.89
8.71	8.93	8.73	9.59	9.50
2.48	2.72	2.28	3.31	4.78
2.69	3.68	2.22	3.67	6.99
6.64	6.71	6.62	6.70	6.81
3.50	3.51	3.69	4.02	4.78

Debt Category Average Performances – December 2022



- **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, Money Market, Low duration, Short 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, Short Duration, Banking & PSU, Corporate Bond, 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	0.50	1.48	2.76	4.61	3.85	3.67	4.52
Liquid	0.51	1.48	2.69	4.47	3.74	3.75	4.86
Ultra Short Duration	0.52	1.48	2.66	4.28	3.95	4.37	5.18
Low Duration	0.49	1.46	2.73	4.06	3.88	5.17	5.26
Money Market	0.55	1.54	2.73	4.39	3.91	4.54	5.72

Accrual	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
	Short Duration	0.39	1.80	3.10	4.13	3.98	5.59
Medium Duration	0.35	1.67	4.21	4.00	4.62	5.14	5.13
Banking & PSU Debt Fund	0.41	1.54	2.87	3.30	3.40	5.60	6.61
Corporate Bond Fund	0.43	1.59	2.98	3.10	3.36	5.70	6.47
Floating Rate	0.43	1.49	3.07	4.08	3.91	5.59	6.40
Credit Risk	0.43	1.59	3.27	3.71	5.94	4.80	4.65

Duration	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
	Medium To Long Duration	0.25	1.65	3.40	2.55	2.65	5.01
Long Duration Fund	0.20	2.07	4.97	1.83	1.22	4.76	6.21
Dynamic	0.36	1.60	3.26	3.07	3.22	5.35	6.05
Gilt	0.26	1.53	3.17	2.31	2.30	5.20	6.48
Gilt - 10 Year	0.25	2.09	4.02	0.85	1.38	4.98	7.29

Passives	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
	Target Maturity Funds / Index Funds	0.38	1.94	3.67	2.57	4.07	6.85

Source: Morningstar Direct

Event Update

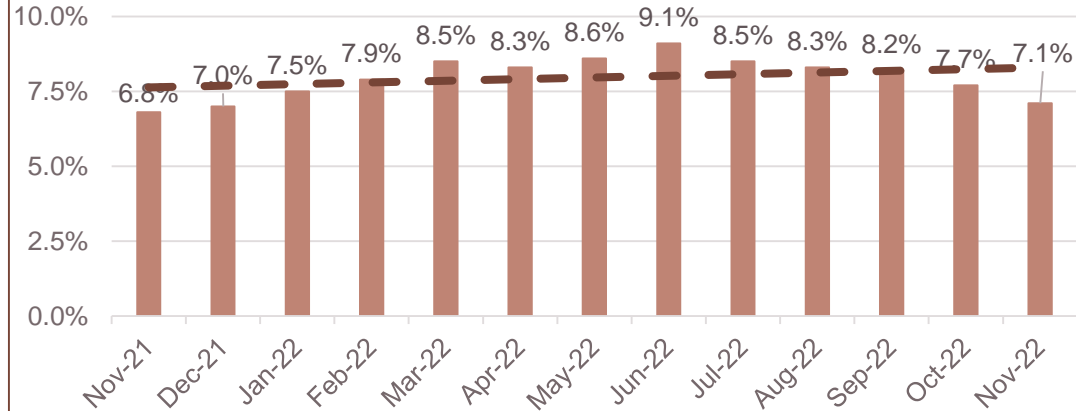
US fed hikes rates by 50 bps- signals more hikes to come next year

Key Highlights

- Fed raised its target interest rate by 50 bps to a range of 4.25%-4.50%.
- The 50-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 5.1% before ending inflation battle
- The U.S. CPI inflation stood at 7.1% in November, as against 7.7% in October

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

U.S. Inflation Trend



U.S. Inflation Peaking

- Recent inflation data has shown a moderate decrease in November compared to October 2022 on Y-o-Y basis. In November 2022, CPI inflation rose to 7.1% 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.

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.

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: Trading economics

Thank You!

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