



TATA CAPITAL WEALTH

Market Outlook – October 2022



Macro Indicators



	Current		Month Ago	Quarter Ago	Half Year Ago	Year Ago
Economic Indicators:						
PMI Manufacturing	55.1 (Sep-22)	↑	56.2 (Aug-22)	53.9 (Jun-22)	54.0 (Mar-22)	55.3 (Sep-21)
PMI Services	54.3 (Sep-22)	↓	57.2 (Aug-22)	59.2 (Jun-22)	53.6 (Mar-22)	55.2 (Sep-21)
Consumer Price Index (CPI)	7.00% (Aug-22)	↓	6.71% (Jul-22)	7.04% (May-22)	6.07% (Feb-22)	5.30% (Aug-21)
Wholesale Price Index (WPI)	12.41% (Aug-22)	↓	13.93% (Jul-22)	15.88% (May-22)	13.43% (Feb-22)	11.64% (Aug-21)
Industrial Production (IIP)	2.40% (Jul-22)	↓	12.30% (Jun-22)	6.74% (Apr-22)	1.98% (Jan-22)	13.81% (Jul-21)
GDP	13.5% (Jun-22)	↑	NA	4.1% (Mar-22)	5.4% (Dec-21)	20.1% (Jun-21)
Trade Deficit (\$ bn)	26.72 (Sep-22)	↑	28.68 (Aug-22)	25.63 (Jun-22)	18.69 (Mar-22)	11.71 (Sep-21)
Commodity Market:						
Brent Crude (\$/barrel)	87.96 (30-Sep-22)	↓	96.49 (31-Aug-22)	114.81 (30-Jun-22)	107.91 (31-Mar-22)	78.52 (30-Sep-21)
Gold (\$/oz)	1,672.00 (30-Sep-22)	↓	1,721.40 (31-Aug-22)	1,812.00 (30-Jun-22)	1,954.00 (31-Mar-22)	1,757.00 (30-Sep-21)
Silver (\$/oz)	19.04 (30-Sep-22)	↓	17.85 (31-Aug-22)	20.35 (30-Jun-22)	25.16 (31-Mar-22)	22.05 (30-Sep-21)
Currency Market:						
USD/INR	81.51 (30-Sep-22)	↑	79.49 (31-Aug-22)	78.95 (30-Jun-22)	75.90 (31-Mar-22)	74.16 (30-Sep- 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: Markets closed the month in the red with the Sensex down by 3.54% after being in the positive territory for the beginning of the month mainly on the back of fall on global crude oil prices easing inflation fears. However, later persistent bearish pressure from the global equity markets played a spoil sport.

Domestic factors that played out for the Indian markets:

- The **S&P Global India Services PMI business activity Index** rebounded in Aug '22 which contributed the upside during the initial days of the month.
- A **fall in global crude oil prices** also added to the gains which gave some respite to market participants regarding the widening trade deficit of the country.

Global factors that shaped the graph of the Indian markets:

- Markets fell after inflation in U.S. rose on a monthly basis in Aug 2022 which led to concerns that the U.S. Fed will tighten its monetary policy at an aggressive pace. Concerns over aggressive monetary policy tightening by central banks across the globe, especially by the U.S. Fed kept market participants on tenterhooks.

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.**
- **GDP growth projections for 2022 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.
- There can be some **headwinds in the near term** emanating from the worsening global economic situation and expected earnings downgrade.
- Therefore, **investors are suggested not to time the reversal in any of the recent unfavourable dynamics and focus on the medium to long term potential of the equity markets.** The important drivers for equity market will to **global economic trends, oil prices, earning growth of corporates, global liquidity conditions and central banks actions.** We believe, market may remain volatile for the next few months, investors need to be cautious **and invest in staggered manner and follow the prescribed asset allocation.**

Indian Equity Market Dashboard - September 2022



Index Name	Index Value	Absolute (%)				CAGR (%)		Valuations Trailing			
		1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	P/E	P/B	Div. Yield	
Indian Market Performance & Valuation											
S&P BSE Sensex	57,427	-3.54	8.23	-2.14	-2.87	14.08	12.90	22.25	3.29	1.24	
Nifty 50	17,094	-3.74	8.31	-2.31	-2.97	14.20	11.78	20.64	4.02	1.32	
Nifty 100	17,439	-3.72	9.27	-1.39	-2.28	14.50	11.43	21.34	4.19	1.37	
Nifty 200	9,147	-3.56	10.07	-0.72	-1.84	15.63	11.47	21.52	3.96	1.37	
Nifty 500	14,829	-3.23	10.53	-0.45	-1.48	16.64	11.50	21.65	3.90	1.33	
Nifty Midcap 150	11,654	-1.79	15.57	5.07	2.58	25.36	13.34	24.69	3.26	1.22	
Nifty Smallcap 250	9,199	-0.94	13.52	-2.10	-1.77	25.26	8.57	18.82	2.95	1.07	
Sectoral Indices											
Nifty FMCG	44,406	1.33	12.23	23.84	9.84	12.55	12.63	Equity Market Flow			
Nifty India Consumption	7,873	-1.01	15.10	15.82	9.42	16.66	12.37				
Nifty Auto	12,699	-3.92	9.01	20.46	19.82	19.21	3.27				
Nifty Energy	25,581	-8.98	6.53	-1.06	11.91	18.15	14.89				
Nifty Oil & Gas	7,644	-8.54	5.62	-2.67	-1.68	15.23	10.52				
Nifty Metal	5,768	-2.80	25.14	-10.28	2.80	33.18	10.18				
Nifty Bank	38,632	-2.29	14.45	6.32	3.22	9.89	9.93				
Nifty Healthcare	8,212	2.47	8.82	-4.31	-8.53	22.16	10.19				
Nifty Financial Services	17,507	-3.99	11.54	1.98	-4.36	10.37	11.97				
Nifty Pharma	12,972	2.15	6.45	-5.63	-10.33	19.76	7.17				
Nifty Infrastructure	4,958	-3.31	9.08	-1.43	-1.34	15.60	8.83				
Nifty Services Sector	23,380	-3.97	9.13	-3.39	-5.03	13.07	12.67				
Nifty IT	26,981	-5.02	-3.41	-26.01	-22.97	20.17	20.81				
											Equity Flow (₹. Cr.)
								FII	-18,308	-2,86,256	-3,87,223
								DII	14,120	2,48,591	3,14,853

Source: Moneycontrol

Global Equity Market Performance – September 2022



Country	Index Name	Index Value	Absolute (%)				CAGR (%)	
			1 Month	3 Months	6 Months	1 Year	3 Years	5 Years
Global Market Indices								
U.S.	Nasdaq 100	10,971	-11.11	-5.36	-27.21	-25.31	12.27	12.89
U.S.	Russell 1000	1,972	-10.07	-6.13	-22.38	-18.44	6.25	7.13
Pan - Europe	Euronext 100	1,114	-8.14	-2.87	-13.46	-12.69	0.45	1.45
UK	FTSE	6,894	-6.35	-3.88	-9.04	-2.72	-2.37	-1.33
France	CAC 40	5,762	-7.21	-2.88	-14.53	-11.62	0.49	1.57
Germany	DAX	11,976	-7.86	-6.68	-18.11	-21.59	-1.23	-1.37
Switzerland	Swiss Market	10,268	-5.67	-4.72	-16.14	-11.81	0.62	2.31
South Korea	Kospi	2,155	-12.05	-6.58	-21.53	-29.76	1.47	-2.08
Japan	Nikkei	25,937	-8.01	-0.87	-7.46	-11.94	6.03	4.96
Hong Kong	HangSeng	17,223	-13.67	-22.07	-22.53	-29.92	-12.92	-8.96
China	SSE Composite	3,024	-6.29	-11.70	-7.41	-15.24	1.35	-2.02
Taiwan	Taiwan Capitalization Weighted Stock	13,425	-10.23	-5.83	-24.33	-20.73	7.42	5.37
Singapore	Strait Times	3,130	-3.37	0.34	-9.07	1.41	0.11	-0.56
Indonesia	Jakarta Composite	7,041	-1.66	6.32	-0.18	11.99	4.50	3.59
Malaysia	KLSE	1,395	-7.77	-3.12	-11.91	-9.31	-4.15	-4.49
Brazil	Ibovespa Sao Paulo	110,037	-0.36	11.32	-8.50	-0.85	1.65	8.16
India	Nifty 50	17,094	-3.74	8.31	-2.31	-2.97	14.20	11.78

Data as on 30 September '22. Source: ICRA Analytics (<http://www.icraanalytics.com/legal/standard-disclaimer.html>)

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Global Equity Market Performance



2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022* (%)
U.S.-S&P 500 0.00	Germany 29.06	Japan 56.72	China 52.87	Gemany 9.56	U.K. 14.43	Hong Kong 35.99	India 3.15	U.S.-Nasdaq 35.23	U.S.-Nasdaq 43.64	France 28.85	India -1.50
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. -6.65
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 -9.91
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	China -16.91
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	France -19.44
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	Germany -23.74
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	U.S.- S&P 500 -24.77
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	Hong Kong -26.39
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 -27.61
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 -32.40

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 30 September 2022. Source: MorningStar Direct

Asset Class Performance



2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022* (%)
Gold 31.82	Mid Cap 43.99	Intl 30.44	Small Cap 69.57	Small Cap 10.2	G-Sec 14.24	Small Cap 57.47	G-Sec 8.00	Intl 28.89	Gold 27.88	Small Cap 61.94	Gold 4.54
Bonds 6.92	Small Cap 37.94	Large Cap 6.76	Mid Cap 60.26	Bonds 8.63	Bonds 12.91	Mid Cap 54.53	Gold 7.87	Gold 23.79	Small Cap 25.02	Mid Cap 46.81	Mid Cap 0.96
G-Sec 5.29	Large Cap 27.53	Bonds 3.79	Large Cap 31.39	Mid Cap 8.41	Gold 11.35	Large Cap 28.74	Bonds 5.91	Large Cap 12.00	Mid Cap 24.13	Intl 24.76	Bonds 0.46
Intl -0.51	Intl 13.84	G-Sec 2.65	G-Sec 15.28	G-Sec 8.17	Intl 9.7	Intl 19.4	Large Cap 3.13	G-Sec 11.34	Intl 18.81	Large Cap 24.12	G-Sec 0.00
Large Cap -24.68	Gold 12.27	Mid Cap -3.01	Bonds 14.31	Intl -1.09	Mid Cap 5.41	Gold 5.12	Intl -6.55	Bonds 10.72	Large Cap 14.86	Bonds 3.44	Large Cap -1.50
Mid Cap -32.17	G-Sec 11.11	Gold -4.50	Intl 11.07	Large Cap -4.06	Large Cap 3.01	Bonds 4.71	Mid Cap -13.26	Mid Cap -0.28	G-Sec 13.20	G-Sec 3.13	Small Cap -6.52
Small Cap -36.11	Bonds 9.34	Small Cap -8.14	Gold -7.91	Gold -6.65	Small Cap 0.36	G-Sec 3.52	Small Cap -26.68	Small Cap -8.27	Bonds 12.25	Gold -4.21	Intl -25.46

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

Performance as on 30 September 2022. Source: ICRA Analytics (<http://www.icraanalytics.com/legal/standard-disclaimer.html>)

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

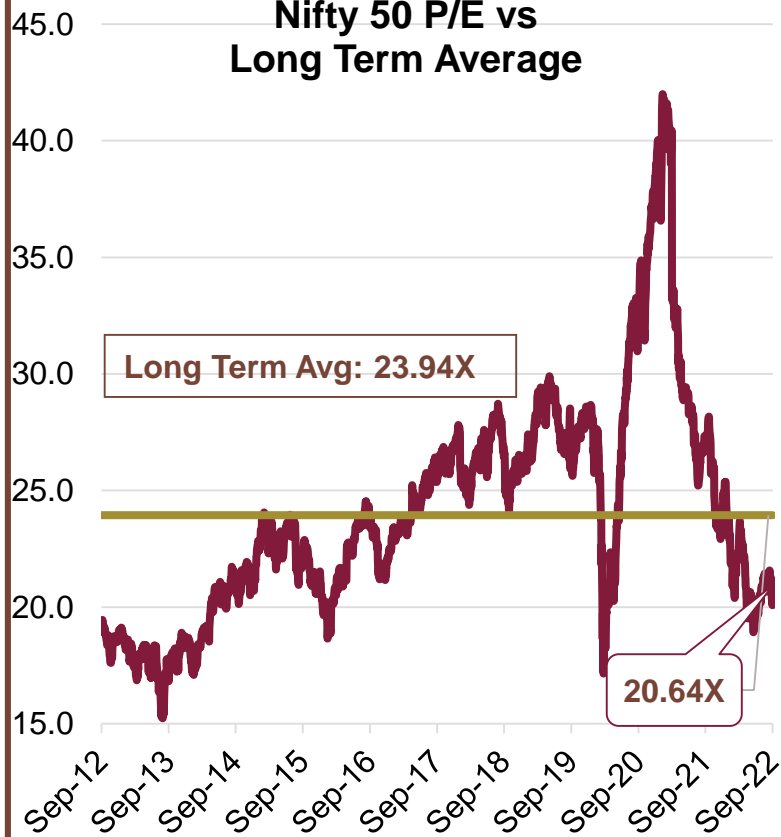
Valuations on the Trailing P/E, P/BV & Div. Yield Metrics

Nifty 12-month trailing P/E of 20.64X is lower than its historical long-term average of 23.94X

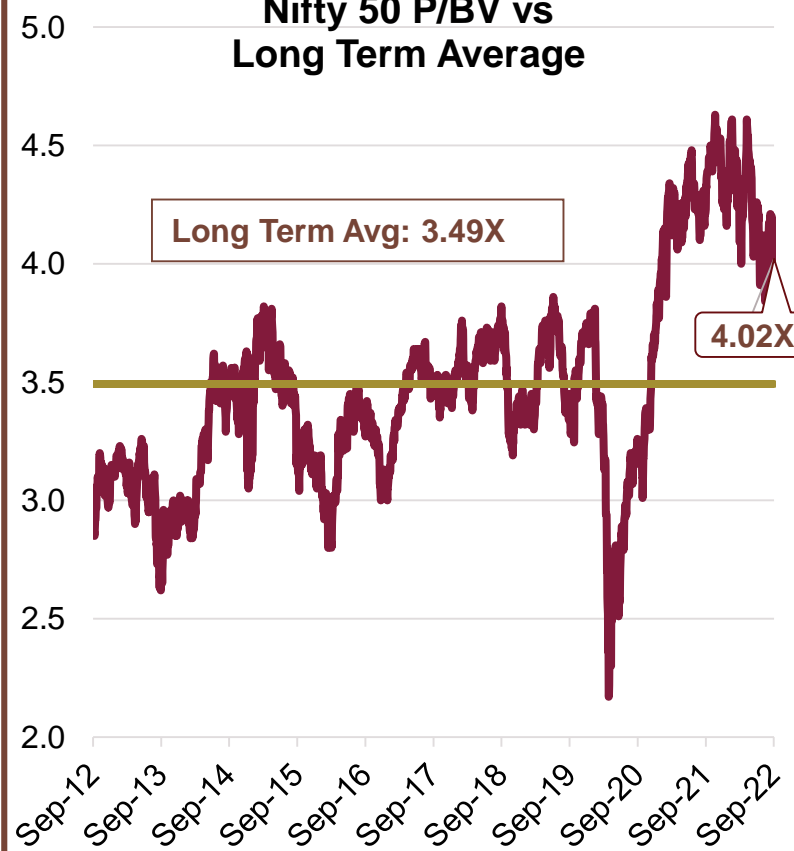
At 4.02X, the Nifty Trailing P/B is above the historical long-term average of 3.49X.

At 1.32%, the Nifty Trailing Dividend Yield is in line with the historical long-term average of 1.31%.

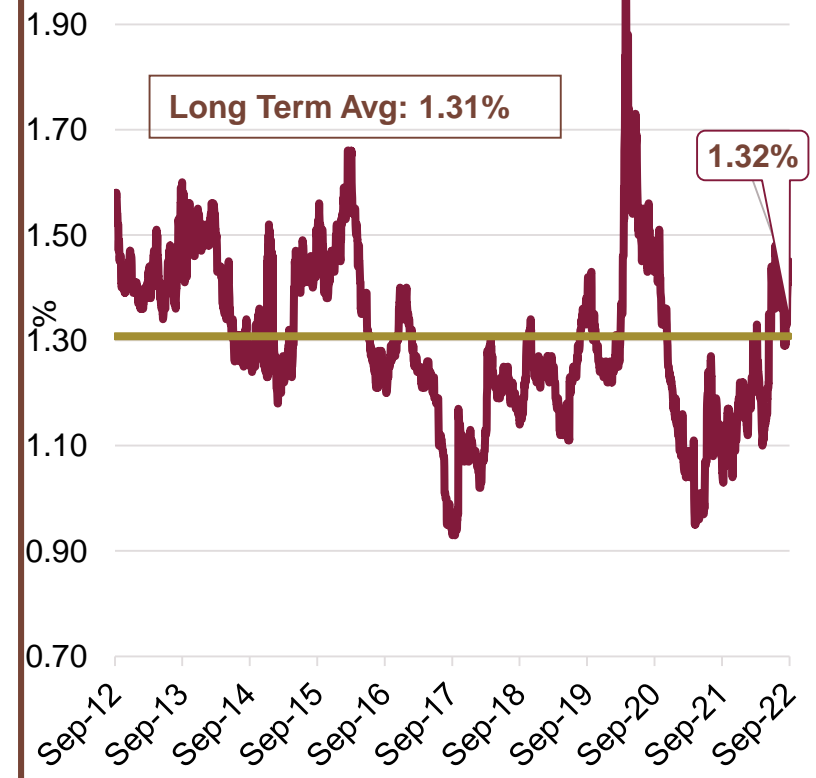
Nifty 50 P/E vs Long Term Average



Nifty 50 P/BV vs Long Term Average

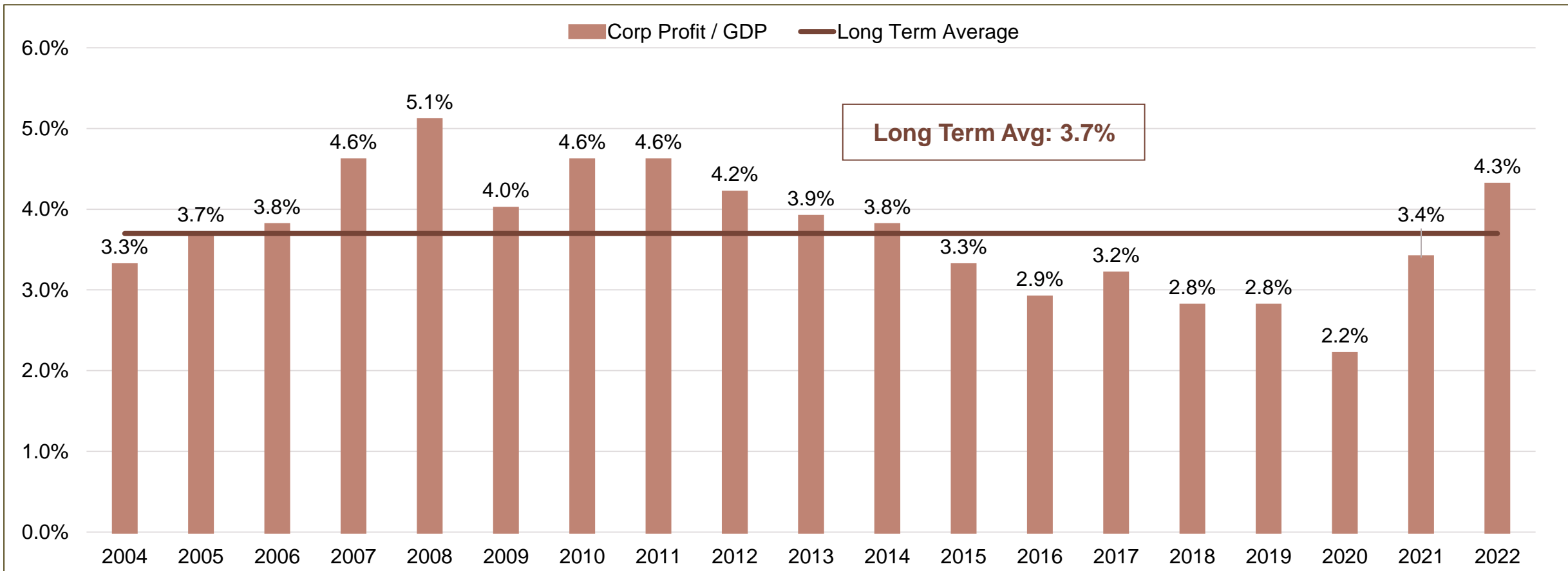


Nifty 50 Dividend Yield vs Long Term Average



Valuations on a Corporate Profit / GDP perspective

On Corporate Profit to GDP parameter – Corporate Profits have risen significantly above the long term average of 3.7% to 4.3% in 2022



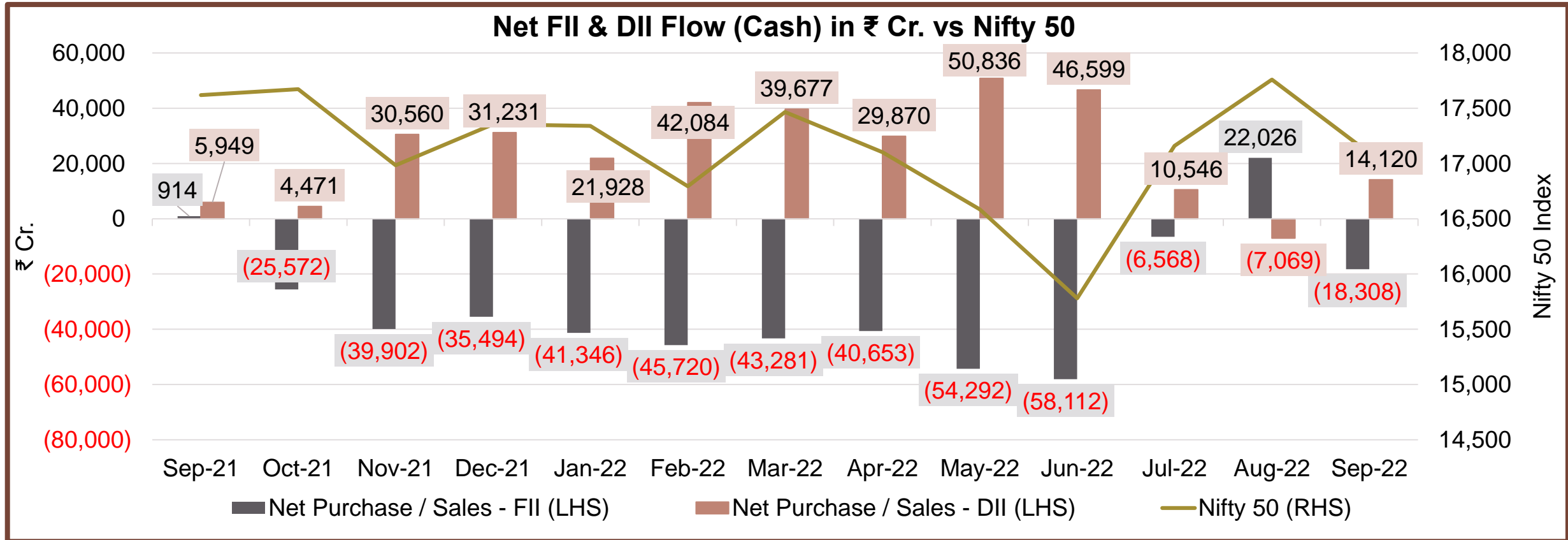
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Source: Kotak AMC, Monthly Market Outlook, August '22

FII & DII Flow into Equity

- After being net buyers in August, FIIs investments were net sellers once again in September. While, at the same time the DII which were the net sellers in the markets for the month of August, registered a comeback in September.
- In line with the FIIs the markets too which has displayed a comeback in July and August 2022 slipped once again in September 2022.



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Source: Moneycontrol & NSE

Mutual Fund Category Average Performances – September 2022



- **During the month** under consideration, all the categories were in the red with the exception of Small cap. Among the sectoral funds too most of the sectors were in red, with the exception of Healthcare, Consumption and FMCG.
- For **the trailing 3-months**, all the Categories & Sector funds were in the green with the exception of Technology; while **for trailing 6-months** few categories and thematic funds were in the red such as Dividend Yield, Flexi Cap, Technology and Healthcare.
- **For the full year**, most of the categories were in the positive terrain with Mid Cap, Contra and Small Cap delivering the highest return. Among the sector based and thematic funds, FMCG was the best performing sector followed by Consumption; while, Healthcare, Technology and Financial Services sector 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 ~23.00%.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	-2.82	9.71	-0.17	-2.38	22.72	13.90	10.71
Large & Mid Cap	-2.57	18.58	3.90	3.39	22.66	12.93	8.52
Multi Cap	-1.00	13.27	2.07	1.52	32.36	20.37	13.68
Flexi Cap	-2.15	11.46	-0.22	-1.46	25.29	16.32	11.57
Mid Cap	-0.72	15.03	4.36	3.21	32.29	23.78	13.28
Small Cap	0.51	14.90	3.56	5.07	39.53	30.35	14.43
Focused	-2.36	10.75	0.25	-1.03	25.15	16.04	11.32
ELSS	-2.28	10.95	0.23	-1.28	24.94	16.32	10.98
Contra	-1.68	11.83	3.95	4.09	32.00	21.16	13.89
Dividend Yield	-2.92	8.66	-1.23	-0.30	27.11	18.25	10.74
Value	-2.22	10.99	0.78	0.33	29.13	17.82	9.75
Sectoral / Thematic							
Consumption	0.92	17.81	11.44	10.18	30.86	19.62	14.18
Infrastructure	-1.64	14.92	6.61	7.32	41.00	20.81	10.69
Financial Services	-2.77	15.02	4.80	-0.74	28.88	9.65	8.22
FMCG	0.28	12.54	14.90	13.37	27.08	14.56	13.35
Healthcare	1.85	7.95	-3.16	-9.50	9.30	25.03	14.36
Technology	-3.90	-0.37	-19.84	-18.00	22.40	25.16	23.47

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Source: Morningstar Direct

Debt Market – Review



Debt Market Roundup - Key Takeaways



- The **India 10-Year G-sec yields had an upward trending roller coaster ride** for the month of September to close **lower at 7.40%** as against 7.19% at the end of August.
- Initially during the month, bond yields declined on increasing expectations that Indian government debt might be included in emerging markets global indexes. Gains increased tracking sharp fall in global crude oil prices, which raised expectations of easing inflationary concerns.
- Bond yields rose on concerns over aggressive monetary policy tightening by the U.S. Federal Reserve after U.S. inflation unexpectedly rose on a monthly basis in August 2022. Post which the **U.S. Fed** on an scheduled **FOMC meeting raised the rates by 75 bps** for the third time consecutively.
- Back in India, while **CPI inflation for August rose to 7.0% from 6.7% in July, 2022**; the **July IIP growth stood at 2.40%** on unfavorable base effect.

Outlook:

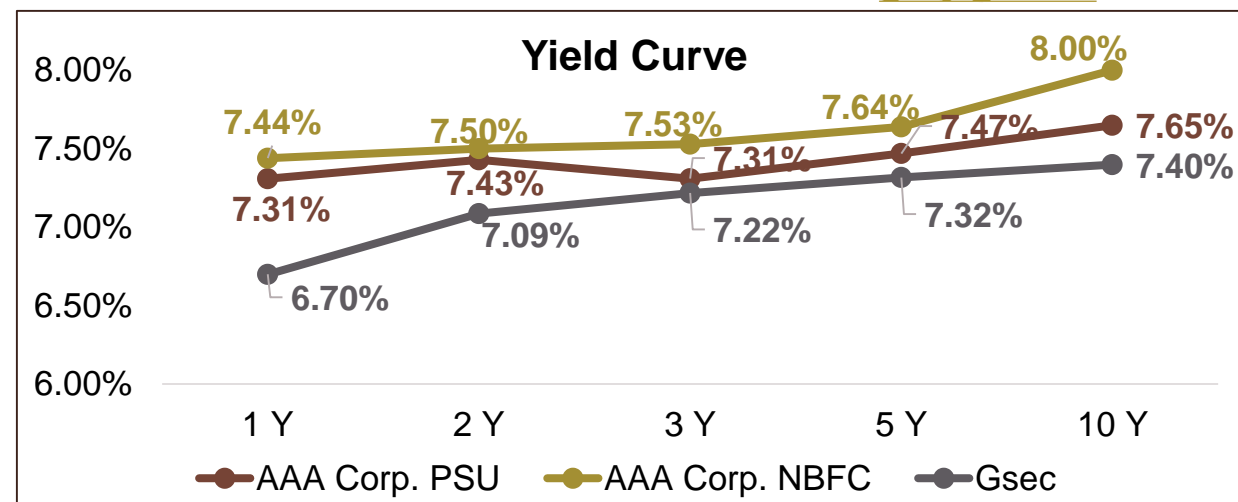
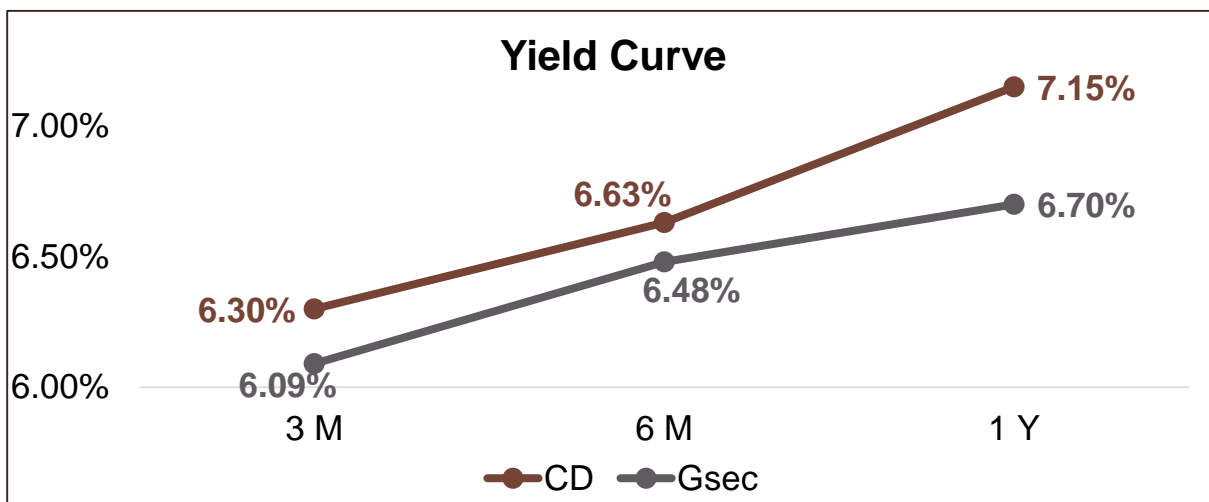
- With **inflation both in U.S. and India showing signs of peeking out**, what has to be seen what will the decision of the respective Central Bank be on 1-2 November and 5-7 December 2022, respectively.
- When the Fed raises its policy rates, the **difference between the interest rates of India and the US narrows**. This **makes emerging countries such as India less attractive** for the currency carry trade. Thus, the RBI would need to ensure that the interest rate differential between India and the U.S. to attract dollar at a time when India is expected to witness a record current account deficit. Further, a weakening rupee has put pressure on inflation via higher cost of imported goods and services.
- With the **RBI stance of taking out excess liquidity from the system** directly through CRR hike and interest rate hike initiated in the economy, we continue to maintain our stance of **investing in shorter end of the curve** through mutual fund categories like Low Duration / Floating Rate Funds till the time rates stabilize.
- For **longer term investments, Short Term Funds and Target Maturity Funds** continue to be our preferred categories. Along with Mutual Funds, good quality **Corporate Fixed Deposits and Bonds** can be looked at allocation in the debt portfolio for diversification and enhancing overall return.

Debt Dashboard – September 2022

	Latest (30 Sep '22)	One Month Ago (31 Aug '22)	One Quarter Ago (30 Jun '22)	Half Year Ago (31 Mar '22)	One Year Ago (30 Sep'21)	M-o-M Change (bps)
Interest Rates						
Repo rate	5.90%	5.40%	4.90%	4.00%	4.00%	50
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	6.30%	5.93%	5.15%	3.78%	3.53%	37
6 month	6.63%	6.27%	5.98%	4.43%	3.73%	36
1 Year	7.15%	6.87%	6.53%	4.78%	3.98%	28
T-Bill/G-sec						
91 Days	6.05%	5.64%	5.14%	3.81%	3.43%	41
364 Days	6.77%	6.28%	6.28%	4.56%	3.77%	49
India 10 Year G-Sec Yield	7.40%	7.19%	7.45%	6.84%	6.22%	21
AAA Corp. Bonds (PSU)						
1 Year	7.31%	6.55%	6.59%	4.98%	4.15%	76
3 Year	7.31%	7.05%	7.35%	5.90%	5.24%	26
5 Year	7.47%	7.29%	7.46%	6.37%	5.92%	18
AAA Corp. Bonds (NBFC)						
1 Year	7.44%	6.92%	6.66%	4.96%	4.31%	52
3 Year	7.53%	7.47%	7.62%	6.12%	5.41%	6
5 Year	7.64%	7.72%	7.70%	6.57%	6.08%	-8
International Markets						
10 Year US Treasury Yield	3.83%	3.11%	3.02%	2.35%	1.49%	72

- The money market instruments witnessed hardening of the yields as the prices of both the T-Bills and Certificate of Deposits fell significantly.
- The **U.S. Treasury Yields** hardened **even** as the inflation cooled down from a multi decadal high (June 9.1%) in August.
- In **India**, the yields of **10 year G-sec Yields** too hardened in line with its global peers.
- **Both the AAA Corp. PSU & NBFC** largely witnessed hardening of the yields as liquidity tightened.
- **RBI's repo rate** stands at 5.9% taking the tally of rate hikes to 190 basis points since its first unscheduled mid-meeting in May 2022.

Yield Curve and Policy Rates & Reserve Ratios – as on 30 September 2022

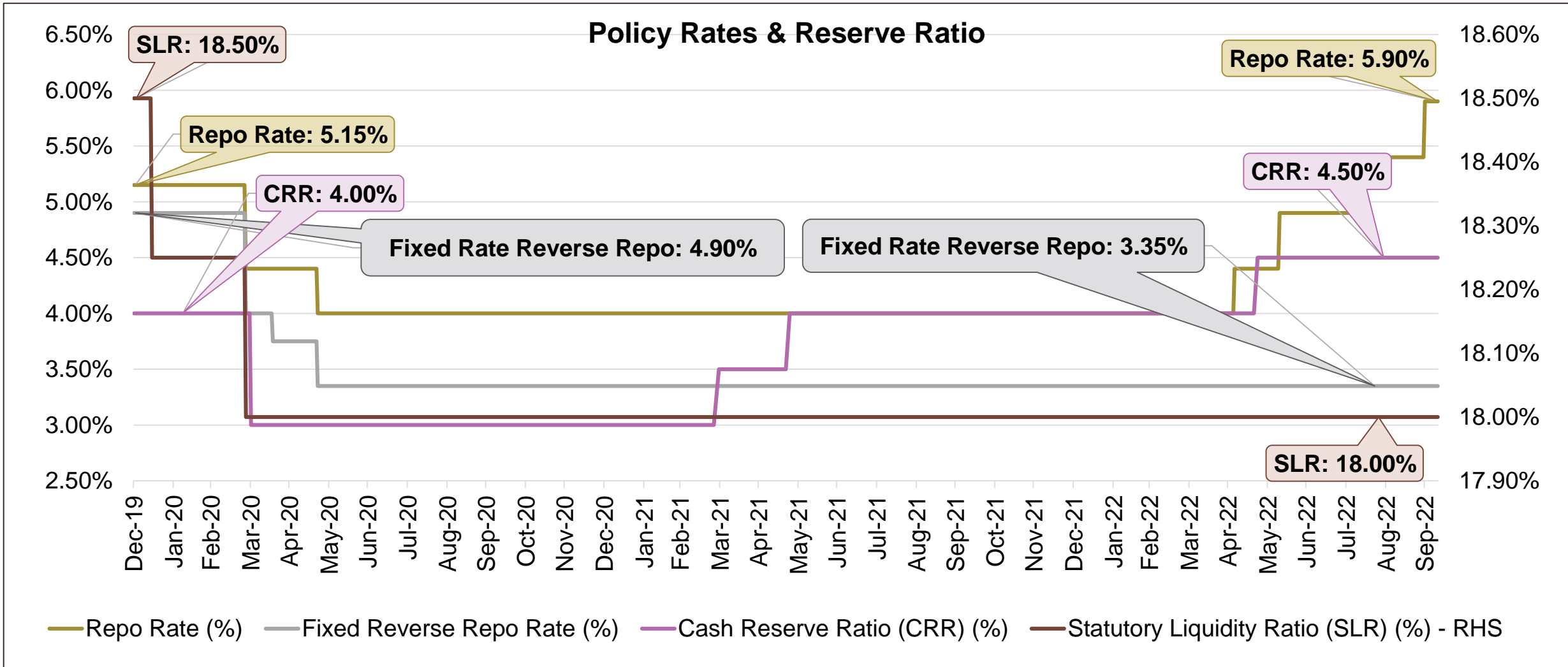


Data as on 30 Sep '22; Source: IDFC AMC, Investing.com

Policy Rates / Reserve Ratio	Current
CRR	4.50%
SLR	18.00%
SDF	5.65%
Repo Rate	5.90%
MSF	6.15%
Bank rate	6.15%
Fixed Reverse Repo Rate	3.35%

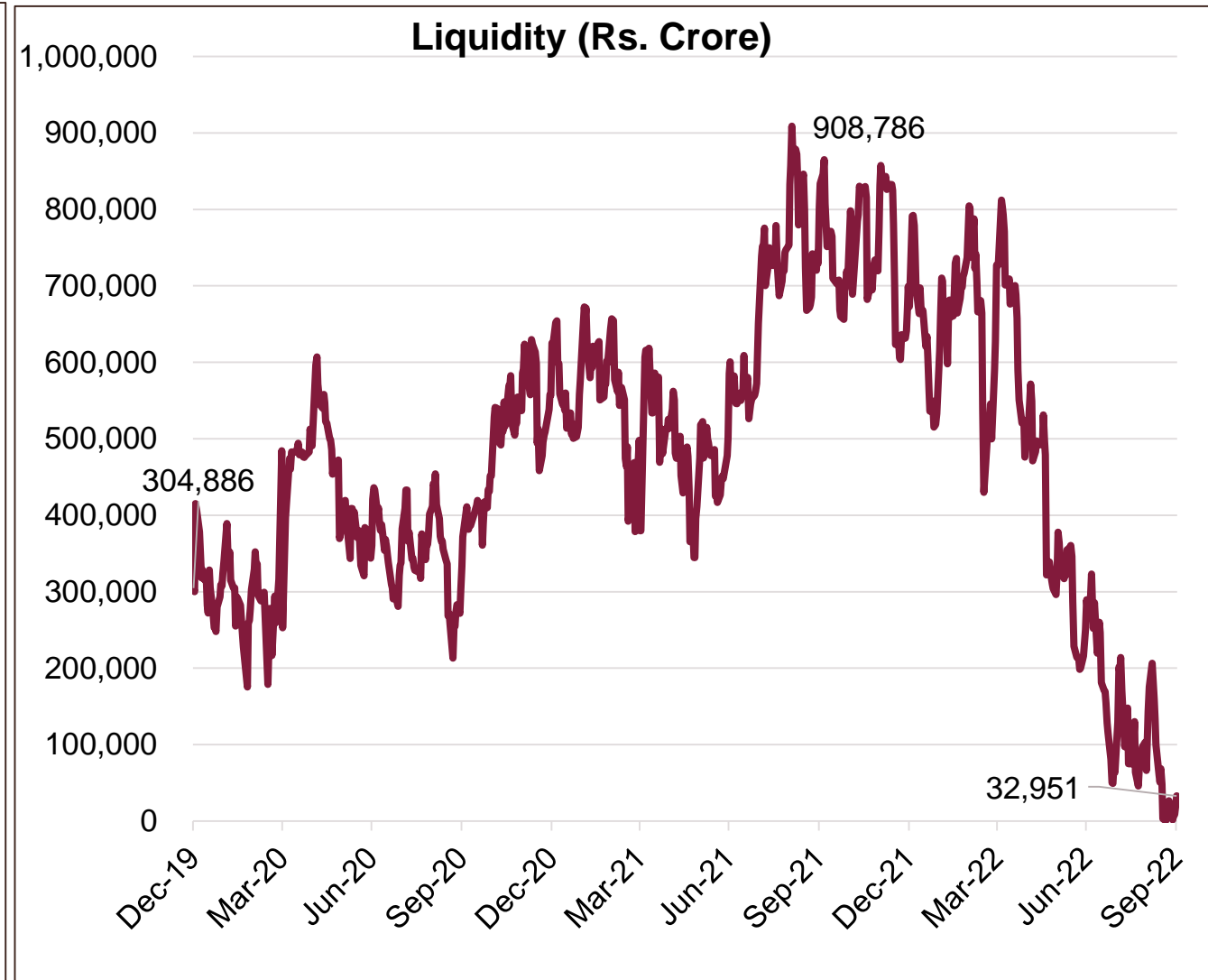
- The yield curve is an upward sloping or a normal yield curve where the longer-term bonds have higher yields than short-term ones. This curve had become steep post the pandemic hit the country hard in March 2020 with the spread between a 1 year & 10-year G-sec which has increased from a little above 100 bps to over 200 bps. These have now coming back to normalcy.
- The **spreads between AAA Corporate PSU and the respective tenure GSec** at the end of the month were in the range of 9 - 61 bps, while that **of AAA Corporate NBFC** is in the range of 31 - 74 bps.
- The RBI in an **off-cycle policy meet in May increased the policy rates & reserve ratio for the first time in 4 years, later in June, August and September 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.**

Policy rate & Reserve Ratio movement since Jan '20



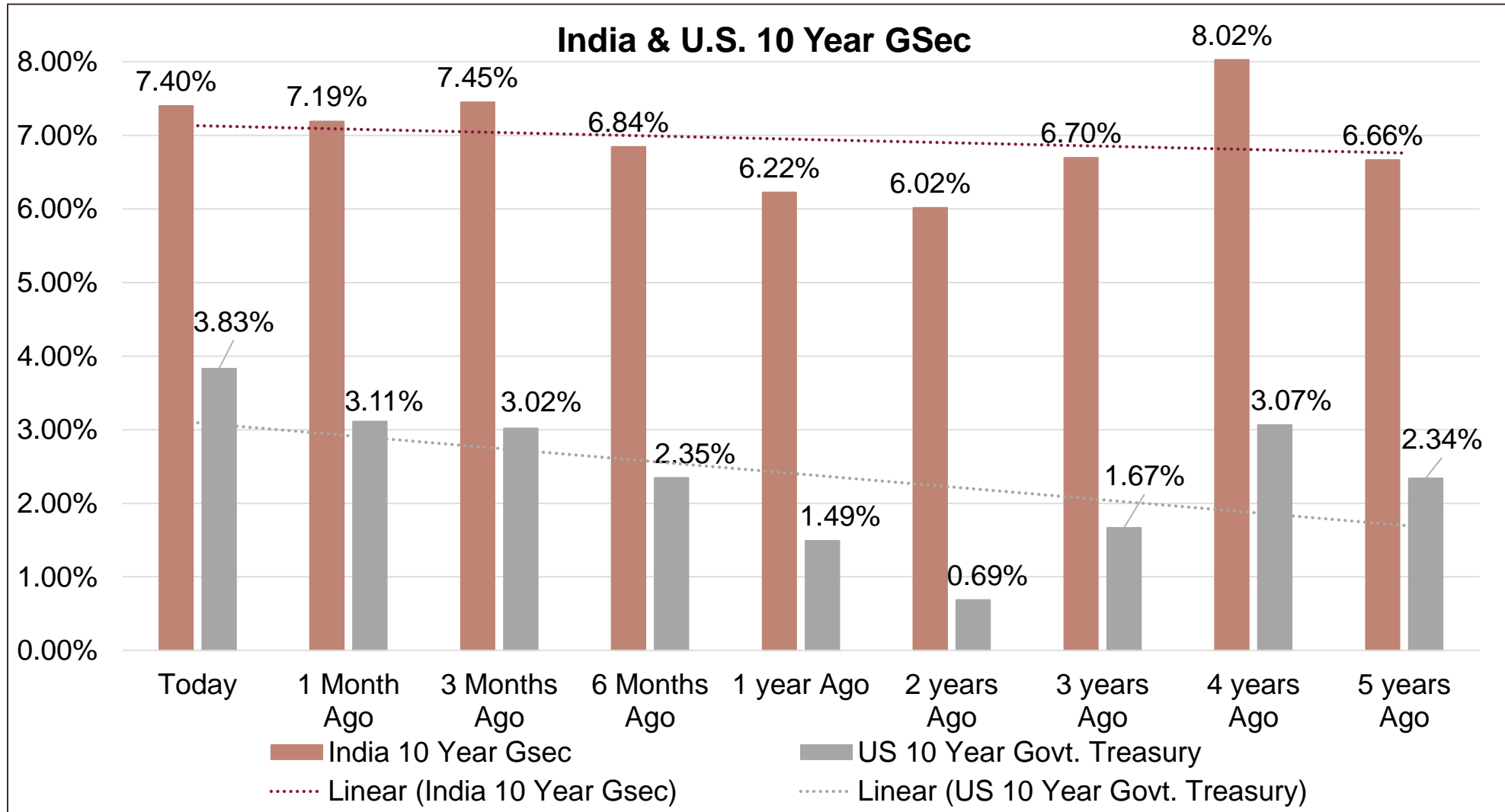
Liquidity in the system

- 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.
- 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 September policy meet, **Surplus liquidity in the banking system**, as reflected in average daily absorptions under the liquidity adjustment facility (LAF) [both SDF and variable rate reverse repo (VRRR) auctions], **moderated to ₹2.3 lakh crore during August - September 2022 (up to September 28) from ₹3.8 lakh crore during June-July. Drawdown of excess cash reserve ratio (CRR) and excess statutory liquidity ratio (SLR) holdings of banks can also augment system liquidity.**



Source: IDFC AMC

Yields Movement across - India and U.S. - as on 30 September 2022



- The 10-year G-sec of both India and U.S. has **peaked out in 4 years ago in September 2018** to touch a high of 8.02% and 3.07%, respectively.
- 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.**

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 not much witnessed in the broad category of Duration Funds.
- 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.

Money Market	YTM				
	Aug-22	May-22	Feb-22	Aug-21	Aug-20
Liquid	5.64	4.69	3.72	3.32	3.39
Ultra Short Duration	6.14	5.51	4.31	3.67	4.14
Low Duration	6.42	5.88	4.67	4.01	4.53
Money Market	6.18	5.58	4.03	3.58	3.72

Average Maturity				
Aug-22	May-22	Feb-22	Aug-21	Aug-20
0.10	0.09	0.09	0.14	0.09
0.38	0.39	0.40	0.39	0.40
1.20	1.18	1.17	1.15	0.94
0.40	0.44	0.28	0.36	0.41

Modified Duration				
Aug-22	May-22	Feb-22	Aug-21	Aug-20
0.09	0.08	0.09	0.14	0.09
0.34	0.36	0.37	0.38	0.37
0.64	0.62	0.68	0.68	0.82
0.39	0.43	0.28	0.35	0.40

Accrual					
Short Duration	6.73	6.31	5.10	4.66	5.26
Medium Duration	7.15	7.20	6.03	5.67	7.16
Banking & PSU Debt Fund	6.72	6.29	5.27	4.82	5.33
Corporate Bond Fund	6.84	6.53	5.41	4.65	5.47
Floating Rate	6.48	6.06	5.10	4.57	5.45
Credit Risk	7.50	7.16	6.15	6.01	8.58

2.10	1.80	1.96	2.35	2.88
3.88	3.74	3.86	4.08	4.60
2.85	2.67	2.66	3.40	3.72
2.54	2.43	2.79	2.50	3.40
3.62	3.37	3.57	3.38	2.09
2.44	2.30	2.44	2.54	2.50

1.52	1.31	1.49	1.76	2.33
2.83	2.83	3.00	2.98	3.36
1.88	1.74	2.05	2.32	2.85
1.64	1.67	2.04	1.81	2.68
0.94	0.96	1.10	1.09	1.59
1.66	1.65	1.83	1.86	1.84

Duration					
Medium To Long Duration	7.06	7.08	5.85	5.64	6.29
Long Duration Fund	7.46	7.65	6.96	6.89	6.69
Dynamic	6.71	6.24	5.40	5.53	6.32
Gilt	6.84	6.36	5.29	5.54	6.10

5.46	5.17	5.32	6.20	7.84
12.15	12.33	13.72	15.95	15.67
4.51	3.73	3.95	5.73	7.07
6.12	4.48	4.73	8.27	10.24

3.87	3.70	3.80	4.17	5.57
7.30	7.30	7.92	8.71	8.78
2.74	2.34	2.68	3.85	5.03
4.01	2.96	3.08	4.55	6.87

Debt Category Average Performances – September 2022



- **During the month** under consideration Money Market funds were in the green, Duration Funds were in the red while the Accrual Funds registered a mixed results.
- With respect to the **3 months and 6 months trailing returns the duration** categories underperformed the Money Market & Accrual categories on the back of rising yields.
- **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 to mid single digit growth. In addition to the Medium Duration & Credit Risk Funds, our recommended categories - the Ultra Short Duration, Low duration, Money Market, Short Duration, Banking & PSU, Corporate Bond and Floating Rate were one of the best performing categories during this period.
- **With respect to the 3 and 5 year CAGR returns** most the categories reported early to mid single returns.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Money Market							
Overnight	0.43	1.26	2.24	3.91	3.46	3.57	4.41
Liquid	0.39	1.19	2.12	3.76	3.36	3.68	4.87
Ultra Short Duration	0.33	1.16	1.84	3.57	3.70	4.43	5.19
Low Duration	0.27	1.25	1.59	3.27	3.80	5.09	5.11
Money Market	0.34	1.17	1.84	3.64	3.59	4.55	5.67

Accrual	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Short Duration	0.02	1.26	0.80	2.81	4.10	5.49	5.34
Medium Duration	-0.35	1.44	-0.15	1.30	4.37	4.56	4.67
Banking & PSU Debt Fund	-0.06	1.30	0.90	2.37	3.83	5.84	6.44
Corporate Bond Fund	-0.04	1.35	0.56	2.11	3.78	5.92	6.23
Floating Rate	0.30	1.56	1.67	3.09	4.30	5.71	6.33
Credit Risk	0.03	1.64	1.04	3.50	5.51	5.54	5.13

Duration	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Medium To Long Duration	-0.42	1.71	0.10	1.18	3.34	4.89	4.90
Long Duration Fund	-0.51	2.70	0.00	0.28	2.69	4.90	5.62
Dynamic	-0.15	1.62	0.96	1.76	3.63	5.24	5.48
Gilt	-0.27	1.71	0.45	0.80	2.78	5.14	5.93

Source: Morningstar Direct

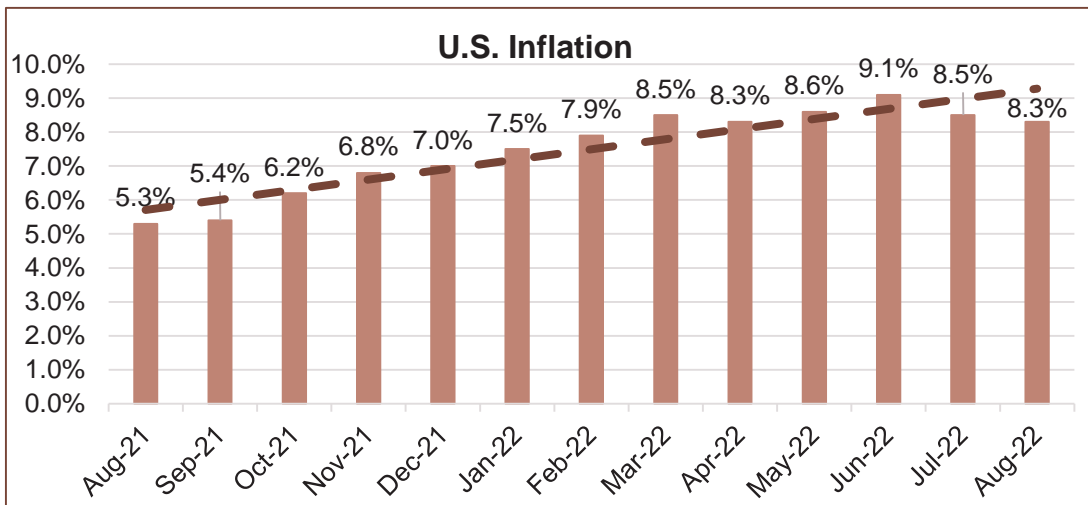
Event Update

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

Key Highlights

- Fed raised its target interest rate by 75 bps to a range of 3.00%-3.25%.
- This is the third straight 75 bps hike in this rate hike cycle.
- FOMC members see further rate hikes this year and next, with **no cuts until 2024**.
- The Dot Plot Projections for interest rates - 4.40% at the end of 2022 & 4.60% at the end of 2023.

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



U.S. Inflation Peaking

- Recent inflation data has shown little to no improvement despite the Fed's aggressive tightening.
- The **new projections put it on a slow path back to 2% in 2025**.
- US 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. In August, it was still 8.3%.

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.

With further rate hike are on the cards for most of major developed economies across the world fear of “**stagflation**” are at their highest since the onset of the Great Recession in 2008.

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.

RBI hikes repo rate for fourth time in a row in Sep policy meet, to fight inflation



RBI's Stance

Withdrawal of Accommodation

Key Highlights

- In Sep 2022 policy meet, RBI hiked Repo Rate by 50 bps to 5.90% by a majority vote
- Cash reserve ratio (CRR) kept unchanged at 4.50%
- The MPC voted on “**withdrawal of accommodation**” to ensure that inflation remains within the target going forward
- **Inflation** projection for FY23 retained at 6.7%
- **FY23 Growth** projection cut from 7.2% in August to 7.0%

Growth

- Real GDP grew by 13.5% (y-o-y) in Q1FY23, surpassing the pre-pandemic level by 3.8%. This was led by robust growth in private consumption and investment demand.
- Real GDP growth for FY23 is projected at 7.0% down from 7.2% projected in August 2022.

Inflation

- **Global geopolitical developments are weighing heavily on the domestic inflation trajectory.** Inflation inched up to 7.0% in August from 6.7% in July.
- Acute **imported inflation pressures** felt at the beginning of the financial year have eased but remain elevated across food and energy items.
- Assuming a **normal monsoon in 2022** and **average crude oil price (Indian basket) of US\$ 100** per barrel inflation projection for FY23 maintained at 6.7%

Currency

- **67.0% of the decline in the foreign exchange reserves** since April was due to **valuation changes** arising from strengthening US dollar and higher American bond yields.
- The forex reserves, which stood at USD 606.475 bn as on April 2, have declined to USD 537.5 bn as on September 23. It was also the **eighth straight week when the reserves declined.**
- The Rupee has fallen 7.4% vs dollar from April 2022 till September 28.

Conclusion

While the bond market reacted negatively on a rather hawkish stance by MPC; the equity markets closed in the positive territory.

We continue to maintain our stance of investing in shorter end of the curve through mutual fund categories like Low Duration, Floating Rate Funds till the time rates stabilize. For longer term investments, Accrual strategies including Target Maturity Funds continue to be our preferred categories.

Policy Rates / Reserve Ratio	5 Aug '22	30 Sep '22	Status
CRR	4.50%	4.50%	↔
SLR	18.00%	18.00%	↔
SDF	5.15%	5.65%	↑
Repo Rate	5.40%	5.90%	↑
MSF	5.65%	6.15%	↑
Bank rate	5.65%	6.15%	↑
Fixed Reverse Repo Rate	3.35%	3.35%	↔

Thank You!

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