



Pranitya Wealth LLP

Market Outlook

February 2023 | Volume 33

Disclaimer: The information provided herein is based on publicly available information and other sources believed to be reliable. The document is given for general and information purpose and is neither an investment advice nor an offer to sell nor a solicitation. Any calculations made are approximations and are for illustrative purposes based on assumed figures, meant as guidelines only, which you must confirm before relying on them. The statements herein are based on our current views and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in such statements. This message (including any attachments) is solely for the addressee(s) and may contain confidential information. If you have received this document in error, please destroy and notify sender immediately. Sender does not intend to waive confidentiality or privilege. If you have received this document in error and / or are not the intended recipient, you are notified that reading, using, copying, printing, forwarding, or distributing of this email is strictly prohibited

Summary / Key Highlights for the Month

Budget 2023 was very balanced and growth oriented.

FIIIs to remain sellers until Fed pauses rate hikes

Indian market is down by 2.4% in Jan in spite of good results. Valuation factor is being weighed on the market as most of the earnings have been already discounted by the market in 2023

In the very short term, markets lack any positive trigger unless Fed decide to hold rates

Allocation to long term debt looks attractive presently as interest rate cycle in India is certainly peaking out. Along with this, we recommend gradual increase in allocation to equity as long-term India story still is very much intact

Banking and financial companies', especially PSU Banks' Balance Sheets have never been so strong, and they look attractive in terms of valuation. Credit growth came in just below 17% and deposit growth is around 10%.

Fed announce small rate hike of 25 basis points on 1st February 23. Fed commentary was kind of dovish.

Gold will do well, provided dollar weakens and geopolitical situation continues to remain the same.

Government has to do heavy lifting when it comes to capital expenditure. They have actually added provisions for capital expenditure in this budget

In the short term, Nifty might hold 16500 to 18500 range (most probably 17500 will be held) unless Adani issue blows out of control beyond a point. It is really a testing time for long term investors on the backdrop of last one-year returns

Budget 2023-24

We were waiting to send out views for February 2023 post Budget session 2023-24. The much-awaited Budget was appreciated by experts, virtually scoring 10 out of 10. We, too believe, it did deliver to the expectations and estimations.

Key Provisions or Take aways-

1. Finance Minister Nirmala Sitharaman presented the Union Budget 2023-24 on a positive roadmap with fiscal deficit for 2023-24 at 5.9 percent of GDP well below the 6.4% budgeted for 2022-23. The fiscal deficit for 2021-22 was 6.7%, which was lower than the revised budget estimates of 6.9% and will be further brought down to 4.5% 2025- 26.
2. The capital expenditure outlay was increased steeply by 37.4 % in FY 2023-24 to whopping Rs.10 lakh crore over Rs. 7.28 lakh crore in FY 2022-23
3. Revenue expenditure is estimated to grow by 1.2 % at Rs. 35.02 lakh crore in 2023-24 over Rs. 34.59 lakh crore
4. Revenue estimation is projected at Rs 23.31 lakh crore, which is around 11.7 per cent more than Rs 20.87 lakh crore of RE 2022-23, which looks possible
5. Gross and net borrowings are at manageable level and debt markets have taken it quite positively. 10 year -yield eased up as a result.
6. Inflation expected to be around 5%
7. The finance minister has proposed to cap the deduction from capital gains on investment in residential house under sections 54 and 54F to ₹10 crore. The step shall pave the way for better targeting of tax concessions and exemptions.
8. Taxation of portion of income from REITS which was tax free earlier
9. Income from insurance policies above Rs. 5 lacs taxable to discourage misutilization of insurance policies by HNIs.
10. As of now, investments in MLDs for more than a year qualify for long-term capital gains tax at 10 per cent. With the change in taxation, investors will have to pay tax at their slab rate, which can be as high as 30 per cent.
11. Reduction in overall taxation limit. The new tax rates are -
 - 0-3 lakh - nil
 - 3-6 lakh - 5%
 - 6-9 lakh- 10%
 - 9-12 lakh - 15%
 - 12-15 lakh - 20%
 - above 15 lakh- 30%

13. Allowing senior citizens to deposit up to 30 lacs in deposit scheme
14. Total budget size Rs. 45.03 lacs crore
15. Divestment Budget pegged at Rs. 51000 crores for this year.

FII/FPI

FIIs remained net sellers throughout January 2023, and they sold about Rs. 30,000 crores in Indian cash market.

China opening is a big story for them, and they kept selling in India and bought cheap Chinese stocks which look attractive at current levels.

We expect to remain sellers until Fed pauses rate hikes. It has put a lot of pressure on indices and India was the worst performing market in Jan 2023

Q3 Results

Current quarter result was better than expectation barring some chemical stocks, FMCGs and commodities.

Some reports on Adani group dampened the investment momentum. This is a big sentimental scar on the entire market. Indian market is down by 2.4% in Jan in spite of good results. Valuation factor is weighing on the market as most of the earnings have been already discounted by the market in 2023.

Equity Market Outlook

In the very short term, markets lack any positive trigger unless Fed decide to hold rates. Geopolitical situation is also very conclusive, and US is looking at some kind of recession or slow down.

Thus, in the short term, Nifty might hold 16500 to 18500 range (most probably 17500 will be held) unless Adani issue blows out of control beyond a point. It is really a testing time for long term investors on the backdrop of last one-year returns. We strongly believe that India's long-term story is real, and patience will eventually payoff.

Opportunities

We believe currently, portfolio returns can be achieved with proper asset allocation. Some allocation to long term debt (as discussed in the last month Outlook) looks attractive presently as interest rate cycle in India is certainly peaking out (confirmed by the Budget numbers). MLDs is now will be taxed as short-term gain (at 30%) and are no more available at 10% tax level. Equity is looking attractive at current level post correction, but we recommend gradual increase in allocation to equity.

Some of the Offshore markets like US Tech looking attractive post correction and one may think of moderate allocation in this. Next 2 years debt in India can provide decent support to the overall returns on the portfolio along with equities.

Inflation

MPC was formed in 2016 and give in a task of monitoring inflation from 2021 to 2026. They have set a target of 4% and a tolerance zone of plus or minus 2%. Going ahead, inflation will not go past a certain limit due to import options available easily domestically and efforts to bring down imports.

Again, IMF report showed very different results on inflation, targeting developed and developing economies in different economic situations. There is no perfect answer, which raises doubt about inflation targeting being the only way to bring down inflation.

CPI at 5.72% is a 12-month low. November was at 5.88%. WPI at 4.95% is 22-month low. Sectorally speaking, inflation has eased on manufacturing goods, primary articles, and power fuel. We have seen a decent drop in food prices which is almost 40% of CPI.

Forex Reserves

India's foreign exchange reserves stood at \$532.7 billion as of end-September 2022, covering 8.8 months of imports. The reserves rose to \$562.7 billion by the end December 2022 covering 9.3 months of imports. As of end-November 2022, India was the sixth largest foreign exchange reserves holder in the world according to data compiled by the IMF. Forex reserves a year ago stood at 632 billion US dollars. But major drop was on account of valuation loss. Between April 2022 and December 2022, the Indian rupee depreciated 3.4 percent and four percent measured in terms of six-currency and 40-currency trade-weighted indices, respectively.

Current Account Deficit

Current account deficit widened to 36.4 billion USD or 4.4% of GDP as on 30th September 2022.

Three major reasons for this are slow down in exports and rise in imports, higher oil prices and higher interest rates paid on forex deposits and borrowing done abroad. Government is confident on managing current account deficit and efforts are made to raise exports with PLI and such other initiatives.

Capital Expenditure

Though last year government couldn't spend desired amount on capital expenditure, its intent is clear as they have actually added provisions for capital expenditure in this budget. Fiscal discipline is followed and they have not done any populist strategies.

Indian Banking System

We have seen PSU banks give superior results in the latest quarter and for the last three quarters. Their balance sheets have never been so strong and they look attractive in terms of valuation. Credit growth came in just below 17% and deposit growth is around 10%. This is a big challenge going ahead and will lead to rate war and cost of funds is bound to go up. Looking at interest rates and inflation, an excellent news for the investors is that the real rate is positive.

Gold

In 2022, gold in dollar terms went nowhere but in India it hit a high of Rs. 57,125 per 10 grams giving year to date return of 3.3% for 2023. Last year return was 14% due to rupee appreciation and some gain.

Gold will do well provided dollar weakens and geopolitical situation continues to remain the same. One may see some more upside for gold and silver but major part of rally is behind us which needs to be noted.

Central bankers have been buying gold aggressively - 673 tons added in last three quarters, of which last quarter it was 400 tons. Speculative buying also added to this and net long position in Gold is 571 tons.

Gold ETF flows were negative during this period. If inflation falls, all the bets on gold are likely to be reversed. When the US raises rates the investment in US Treasury bonds becomes attractive. In the last three months, dollar index dropped by 8% and gold gained 17%

Other pointers

1. Credit card spend was Rs.1.26 trillion in December 2022 which was higher than the pre-pandemic level.
2. Number of new credit cards added were 5.8 lakh in December 2022
3. 5G customer addition was 20 million customers in 4 months.
4. Fed announce small rate hike of 25 basis points on 1st February 23
5. Fed commentary was kind of dovish.
6. GST collection was second highest in January 2023 at 1.56 lakh crores.
7. Budget 2023 was very balanced and growth oriented.
8. IT industry has not added resources in a significant way which is worrisome.
9. IT has led to growth in employment, real estate and auto due to increased standard of living.
10. Government has to do heavy lifting when it comes to capital expenditure, ideally private sector should contribute equally.

Disclaimer: The information provided herein is based on publicly available information and other sources believed to be reliable. The document is given for general and information purpose and is neither an investment advice nor an offer to sell nor a solicitation. Any calculations made are approximations and are for illustrative purposes based on assumed figures, meant as guidelines only, which you must confirm before relying on them. The statements herein are based on our current views and involve known and unknown risks and uncertainties that could cause actual results, performance, or events to differ materially from those expressed or implied in such statements. This message (including any attachments) is solely for the addressee(s) and may contain confidential information. If you have received this document in error, please destroy and notify sender immediately. Sender does not intend to waive confidentiality or privilege. If you have received this document in error and / or are not the intended recipient, you are notified that reading, using, copying, printing, forwarding, or distributing of this email is strictly prohibited.