PRANITYA

Pranitya Wealth LLP
Market Outlook
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Initial Commentary

The first 2 months of calendar year 2023 were marked with market volatility and overhang of negative cues from global peers. Nifty50 index declined by 4.82% from 1st Jan to close at 17321 on 1st March 2023. Sensex declined by 3.69% in the same time period.
The month of February was especially marked with negative sentiments towards Adani group stocks after the huge claims made against them in the Hidenburg report.
Factors to look out for to foresee the Indian market trend – Indian economic indicators like growth, inflation, fiscal deficit, FII/FPI flows, US Fed policy and linked global market movement, currency movement, RBI Monetary Policy decisions, impact of Quarter 3 results, Adani-Hidenburg proceedings.

Indian Economy

Growth Estimate

As per the data shared by Ministry of Statistics and Program Implementation on 28th Feb 2023, India's gross domestic product (GDP) for the October-December quarter moderated to 4.4 per cent from 6.3 per cent in the previous quarter. Lower GDP growth can also be attributed to aggressive rate hikes by the Reserve Bank of India in order to tame the high inflation levels in the country. The slowdown in exports and consumer demand has also contributed in bringing down the numbers. (consumer demand affected by rate hikes by the central banks all around the world). Global rating major Moody's Investors Service also scaled down its GDP growth forecast for India's economy to 6.8% for 2022-23, from an earlier projection of 7%

Inflation and RBI Policy

The country's retail inflation, measured by the consumer price index (CPI), accelerated to 6.50% in Jan. 2023 (now a 13-month low) from 5.72% in Dec. The increase in the headline number was broad-based in nature attributable by all the groups except fuel and light. The main attributor was the food and beverages basket, which noted a price rise of 6.19% in Jan 2023 up from 4.58% in Dec 2022.
Inflation data on the wholesale Price Index (WPI), which calculates the overall prices of goods before selling at retail prices, eased to 4.73% during the period from 4.95% month ago.
These numbers and global inflation numbers will be carefully watched by RBI, basis which they will position their rate hike decisions in MPCs.
RBI increased Repo rate by 25 bps to 6.50% and Standing deposit facility (SDF) stood at 6.25% with immediate effect. Accordingly, the marginal standing facility (MSF) rate and the Bank Rate stood adjusted at 6.75%.

US Fed Policy

The 25-bps hike at the FOMC meeting on February 1 marked another slowing down in the pace of the Federal Reserve's monetary policy tightening campaign. The central bank had raised rates by 50 bps in December and 75 bps at each of its previous four meetings. US Fed increased the rate to 4.75%. Inflation has been trending steadily lower over recent months, allowing the Fed to take its foot off the gas and opt for smaller rate hikes, but we feel hikes are far from over as even though the annual inflation came down to 6.5% , target inflation of 2% is rather far off and very difficult to achieve very quickly.

In our opinion, US economy will go under a structural change. This also largely because of US balance sheet expanded from 0.8 trillion dollars in 2008 to 8.5 trillion dollars on Nov 2022. The excess currency printed back then to stabilize the economy has now become to base problem for today untamed inflation. Hence the US inflation is here to stay for a long, achieving the number of 2% looks far as the horizon. Specially achieving this target by keeping in mind soft-landing looks challenging. The PMI numbers as well as the labor data is making Fed’s job cumbersome.

Crude Prices

Brent oil prices were at $84.7 per barrel and US WTI at $78.17 per barrel. Crude oil processed by Indian refiners reached record levels in January as India benefits from lower cost Russian barrels. India's Russian oil imports hit a record 1.4 million barrels per day in January. As China opens up, economist expect Chinese oil imports to hit an all time high going forward with increased demand for transportation fuel and as new refineries coming up. China is the world's largest crude oil importer and along with India, has become top buyers of Russian crude. Hence overall global demand for oil expected to increase.

Direct and Indirect Tax Collection

Both direct and indirect tax collection numbers showed steady growth. GST collections of January 2023 saw a record-breaking number of Rs. 1.56 lac crore, surpassing October 2022's collections to become the second highest ever since the inception of GST.

Direct Tax collections up to 10th January 2023 show that gross collections are at Rs. 14.71 lakh crore which is 24.58% higher than the gross collections for the corresponding period of last year.

FII/FPI flows.

Foreign institutional investors (FIIs) bought equities worth over ₹6,000 crore in India in the last five trading sessions of February which is a small amount after a sharp sell off to the tune of ₹41,464 crore witnessed in January as also net sell-off by FIIs in 2022 of nearly 16.4 billion US dollars. The increased cost of capital will definitely impact the foreign flows to our country, which will have a temporary impact on Indian Markets.

But on the other hand, FII interest seems to be pulling more towards emerging markets, especially India, China, Taiwan for following reasons in our opinion-

1. India as an economy looks promising within the emerging market pack as it’s growth story still stays intact along with China showing some green shoots as their economy opens-up.
2. A lot of bigger family offices, pension funds, university funds might think of having a direct allocation to India as part of their portfolios, which otherwise only through the MSCI emerging market Index.
3. Global investors are becoming less bullish on the US due to the expected elongated rate hike cycle, rising trade deficit, elevated debt levels/ceiling issues.

4. Although the US inflation slowed down in January, it was still higher than expected at 6.4% on year, which raised concerns that the Fed will continue to be hawkish in its monetary policy, which means growth is likely to remain impacted.
5. India offers a kind of stable structural growth story compared to other parts of the world, which is why FIIs cannot stay away from India. There could be volatility in the foreign fund flows but on a whole year basis, positive flows will be coming in India.
6. Most of the analyst predict peaking out of US dollar.

FII flows in the last week are coming back very slowly, but we still need to understand that US bond yields are still attractive and safer bets for them than emerging markets currently. Stronger FII flows to come in Indian equities only when Fed policy reverses or they indicate a pause in rate hikes.

	FII Rs Crores			DII Rs Crores		
Date	Gross Purchase	Gross Sales	Net Purchase / Sales	Gross Purchase	Gross Sales	Net Purchase / Sales
February 2023	162,167.67	173,258.31	-11,090.64	130,472.45	111,233.17	19,239.28
January 2023	155,345.35	196,810.08	-41,464.73	143,909.70	110,497.85	33,411.85
December 2022	139,091.40	153,322.49	-14,231.09	136,300.97	112,141.84	24,159.13
November 2022	221,844.65	199,298.31	22,546.34	127,432.18	133,733.50	-6,301.32
October 2022	178,270.46	178,759.52	-489.06	101,182.03	91,905.06	9,276.97

Equity Markets

Looking at global markets, Fed's hard stance, possibility of FII inflows can be delayed. But on the other hand, valuations of Indian equities 20-22 P/E. With a 3-4 months gradual long correction we can be closer to 18-18.50. Current Nifty50 is trading at 20.5 times earnings, BSE Midcap at 26.3 times earnings, BSE small cap at 18.19 times and Nifty Bank at low of 15.78 times earnings. Valuation was a major concern and current levels will support market and will be a big factor for long term investors to start investing.
As you are aware, equity market returns are not linear. However, even in volatility 3 year and 5 year mutual fund return are upwards of 13% to 15%, and in case of midcap funds much higher than this number
Thus, even though returns are not assured in the short term, equity is a definitely a game of patience and consistency at the investor's end. In the short term picture might look absurd, but an intelligent investor always looks for that imperfectly valued opportunity to invest for long term.
Nifty is steadily holding 17200 level and has hopefully factored negative news. Hidenberg report of course was a stimulant for negative market sentiment in Feb 2023, but seems to be a temporary jolt with Adani stocks correcting significantly. One important factor to point out will be that many stocks are trading at higher valuation today than they were at 18600 level. Quality stocks should always held/added in volatility and we expect good fund managers will outperform eventually.

Fixed Income

India is on track to grow at above 6% in 2023-24 or even upwards of that. Though we have the general elections coming up, how the ruling party performs is to be seen. Looking at the current trend, they are not likely to falter but one cannot allocate to equities in entirety. Debt products should be looked at as they currently offer good risk adjusted returns.
Long term debt post interest rates peaking out is a great opportunity but in our opinion we should be invested at 7.50% to 7.60% 10 year yields and not wait beyond that.
Additional, after evaluation, it definitely makes sense to invest before March 2023 end to lock in the additional indexation for your long term debt securities which will definitely lead to better post tax returns especially when inflation is high. We expect one more rate hike by RBI maybe two not more, on the back of growth slowing down as the GDP numbers indicate. Locking in yields in medium to long term funds before March rather than waiting for the absolute peak of the interest rate cycle is a better trade off.