PGIM
India Mutual Fund

Market Outlook

April 2023

Equity Market

Well-placed despite global challenges

April 2023 saw the NIFTY moving up sharply (+ 4.1%), given easing of macro concerns and better flows. Mid Cap and Small Cap indices outperformed the Nifty as they gained 5.9% and 7.5% respectively, during the month. Among sectors, Realty, Auto, Banks and Industrials outperformed, while IT underperformed (underpinned by weak results and uncertain commentary).

On the macro side, RBI did not hike rates in the MPC meeting. However, it called it a pause and not a pivot. The IMF expects India's economy to grow 5.9% (vs 6.1% earlier) in the current fiscal year though it cautioned that turmoil in the financial system may hurt global growth. CPI print slid below the 6% mark for the first time in 2023 to touch 5.66% in March 2023, while WPI for March came in at 1.34% as compared to 3.85% in February. India's gross GST revenues hit a record high in April at Rs 1.87tn, up 12% from Apr 22 which had clocked the previous highest tax tally of Rs 1.67 tn. February IIP grew 5.5%. OPEC+ announced surprise cuts in oil production in a bid to support crude oil prices. India Manufacturing PMI rose to 57.2 in April 2023 v/s 56.4 in March 2023.

So far in the results season, IT companies reported numbers below expectations, especially on revenue growth, and management commentary turned incrementally cautious. Some of the weakness in the IT sector results was offset mainly by healthy numbers from large private banks and Reliance Industries. For Banks, continued credit growth, stable to improving NIMs and healthy asset quality continued to drive earnings growth.

FIIs were net buyers in the month of April 2023 to the tune of $1.5bn and DIIs bought to the tune of $302mn.

Going forward

Indian markets are trading at a valuation which is at a premium to its current fair value. However, the fair value growth is expected to be robust in the next five years. The vagaries of weather, especially possibility of El-Nino could impact sentiments in the near term, however, we do not expect it to impact longer term growth prospects.

India continues to remain a relatively higher growth economy compared to other major economies in the world. Focus on continuous asset creation, encouraging policy environment, prudent fiscal management and improved global standing augur well for the country’s economic growth. Further, lower leverage by India Inc and an improved Balance Sheet of the financial system provides fodder for a capital expenditure upcycle. While global geopolitical events can be a challenge, we reckon India is not only well-placed to weather these challenges, but also benefit from the same in the longer run. We see consumption and manufacturing spearheading India’s growth, led by demographics, higher per capita income and penetration, with exports remaining a longer term but invaluable growth driver. Hence, we remain positive on the Indian markets from a long-term perspective.

Debt Market

A rally after the pause

The Bond market rally continued in April as RBI paused its rate hiking cycle. Though the RBI Governor insisted that it was only a pause and not a Pivot, bond yields continued to come down across the curve.

Stronger cut-offs at G-Sec auctions further improved the sentiment and the 10-yr benchmark G-Sec yield came down by 20 bps during the month. Strong investor demand has led to the flattening of the curve despite supply concerns. Towards the end of the month, we had the third regional bank failure in the US since March, which supported bond yields even though the economic data coming from US and Europe remained strong. US Bond markets have fully baked in a 25 bps rate hike by the US Fed in its 3rd May meeting. However, an unexpected rate hike by the Reserve Bank of Australia surprised markets, and they now expect one more rate hike from the RBA, while remaining divided on a 25 or 50 bps rate hike from ECB in its policy meeting in the first week of May.

Liquidity management will become critical as Interbank liquidity tightened in April, with the banking system borrowing from the MSF window. It will be interesting to see how the RBI manages this liquidity transition, and the focus will remain on liquidity over the next two quarters. We expect the banking system liquidity to reduce incrementally. Similarly, we expect the current surplus liquidity to reduce gradually with more instances of the MSF rate getting operational as and when liquidity in the banking system gets reduced.

This will have implications for corporate bond spreads going forward as they are running quite tight with respect to G-Secs from a median spread perspective. We believe that the RBI is in for a long pause and we expect status quo on monetary policy to be retained over the next two quarters with a change in monetary stance to "Neutral "coming in at the August MPC Policy.

The INR continued its appreciating trend against the US dollar. It appreciated by 0.43% during the month on the back of increased Equity portfolio flows during the month. The US dollar also weakened helping emerging market currencies like the INR. Brent rose marginally during the month after the surprise production cut by OPEC+. It ended the month at USD 81.31, from USD 79.69 at the start of the month.

FPI flows into Indian Fixed Income markets were marginally negative at USD135 Mn taking the net inflow into debt at USD 285Mn on a CYTD basis.

The incremental Credit /Deposit ratio of the banking system continues to be elevated with credit growth @15.70% and deposit growth@10.20% on a YOY basis keeping up the pressure on short term deposit rates and money market yields. We expect the credit growth to slow down and the wedge between deposit and credit growth to narrow in the coming quarters.

We expect the 10-yr Benchmark bond to trade in a range of 6.90% to 7.20% over the next one month.

Fixed Income Market

	March 2023	April 2023	Change (in bps)
Overnight rate (NSE MIBOR)	7.79%	6.90%	-89
1-yr CD	7.55%	7.35%	-20
10-yr GOI Yield	7.32%	7.12%	-20
USD/INR	82.17	81.83	-34 paise
IIP (Monthly with 2 month lag)	5.50%	5.60%	10
CPI (Monthly with 1 month lag)	6.44%	5.66%	-78
5-Yr AAA PSU spread (bps)	35	31	-4
5-Yr OIS	6.30%	6.06%	-24
US 10-Yr yield	3.47%	3.42%	-5
CRR	4.50%	4.50%	0
REPO	6.50%	6.50%	0
SDF (Standing Deposit Facility)	6.25%	6.25%	0

Source: RBI Weekly Statistical Supplement & Bloomberg

Note: IIP has been revised lower for the previous reading.

Source: BSE, RBI & Bloomberg