PGIM India Mutual Fund

Market Outlook

June 2023

Equity Market

Market hits new highs

The Nifty rallied 3.5% in June and reached all-time high on the back of positive US economic data, receding inflationary pressures, subdued crude oil prices and some uptick in the progress in monsoon. Mid cap and Small cap indices were up 6% and 7% respectively during the month. Sector-wise, all indices ended in green, with capital goods (+9%), healthcare (+9%) and realty (+9%) indices gaining the most.

On the macro side, Fitch raised India's CY24 GDP forecast to 6.3% (from 6% earlier) on the back of robust growth in Q1FY24 and strong near-term momentum. May CPI inflation moderated to 4.25% from 4.7% in April, aided by declining food inflation and favourable base effects. IIP growth in April stood at 4.2% versus 1.7% in March. CAD in Q4FY23 narrowed to $1.4bn (0.2% of GDP) from $16.8bn in Q3FY23 (2% of GDP). Amongst other key updates during the month, RBI MPC voted unanimously to keep the repo rate unchanged at 6.5%, the Cabinet Committee on Economic Affairs (CCEA) approved the increase in minimum support price (MSP) for kharif crops for the marketing season 2023-24 and the US FOMC, retained the federal funds rate target range at 5-5.25%. During June, FIIs were net buyers to the tune of $6.7bn while DIIs bought to the tune of $540mn.

During the month, RBI published its bi-annual financial stability report in which it highlighted that aided by robust earnings, adequate capital and liquidity buffers, and improving asset quality, Indian banks are well positioned to sustain the upturn in the credit cycle that has been underway. In June, the gross GST collection remained healthy and crossed INR1.6tn mark for the fourth time since the roll-out of the indirect tax regime six years ago on July 1, 2017.

Going forward

We continue with our positive stance on the Indian equity markets from a medium to longer term perspective. On a relative basis, India appears favourably placed versus global markets due to its relatively higher GDP growth rate and moderating inflation outlook. Higher proportion of working-age population, rising household income, and stable government policy will act as structural growth drivers for the economy. However, Corporate India is expected to see some softening of earnings growth in the near-term on the back of weakness in demand outlook driven by tighter monetary policy and global economic slowdown. We are positive on sectors which are linked to domestic consumption and manufacturing compared to sectors which are dependent on global growth. From a valuation perspective, the headline equity indices are trading above its long-term average after the sharp rally in the recent months, which in turn limits the near-term upside.

Debt Market

Rally pause on hawkish stance

The Bond market rally took a pause as global bond yields surged on continued rate hikes and a hawkish tone of the global central banks, as Bank of Canada and the Reserve Bank of Australia hiked rates unexpectedly. The Monetary Policy Meeting (MPC) held on 8th June also stuck a cautious tone and retained the monetary policy stance at "withdrawal of accommodation" which disappointed some market participants who were expecting a change in stance. The benchmark 10yr Bond yield ended the month at 7.12% after touching a low of 6.96% the previous month. The flatness of the yield curve continued, with the spread between the 5yr and the 10yr compressing to 3 bps from 8 bps last month. Investor demand has slackened a bit and the yields inched higher during the course of the month.

Indian growth is proving to be resilient as key data points indicate a strong momentum, with services PMI coming in above 60 for the second consecutive month after the stronger Q4 FY23 GDP growth numbers last month. Banking deposits continued to grow after the withdrawal of Rs.2 000/- currency notes as the FY24 deposits till June 16 grew by 5.24 lakh cr (12.1% YOY), which has helped improve the interbank liquidity supporting the short term money market yields.

The monsoon has arrived late, and there are concerns regarding the impact of El Nino, so one needs to wait and see how the monsoon pans out over the next one month. Anyway, we think that government is likely to intervene to prevent any spike in food prices as it has adequate food stocks. Inflation came in at 4.25% with core inflation also moderating to below 6%.

Internationally, developed economies, especially the UK and Europe, are still facing the challenge of high Inflation, and bond markets in Europe and the US are positioning for higher-for-longer rates against the earlier expectations of rate cuts by the end of this calendar year. The Bank of Japan continues with its accommodative stance even as the Yen continued to weaken. China cut its policy rates as growth languished, and it has promised a further stimulus.

INR appreciated during the month by 0.84% on the back of decent portfolio flows both in debt and equity. In fact, the debt flows in June at USD1.11bn was the highest inflow in debt since September 2021. Equity flows continued at a robust pace clocking in at USD 5.73bn. Crude increased by 3.22% during the month as Saudi Arabia announced a voluntary cut on concerns of slackening demand as the Chinese recovery remains lacklustre.

We believe that the RBI is in for a long pause and the rate cutting cycle will start only when the Central banks in developed market have addressed the challenge of Inflation effectively, which in our view will happen from 2024 onwards.

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

Fixed Income Market

	May 2023	June 2023	Change (in bps)
Overnight rate (NSE MIBOR)	6.40%	6.90%	50
1 yr CD	7.40%	7.40%	0
10 yr GOI Yield	6.99%	7.11%	12
USD/INR	82.73	82.04	-69 paise
IIP (Monthly with 2 month lag)	1.10%	4.20%	310
CPI (Monthly with 1 month lag)	4.70%	4.25%	-45
5 Yr AAA PSU spread (bps)	31	34	3
5 Yr OIS	6.06%	6.31%	25
US 10 Yr yield	3.64%	3.84%	20
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