ICICI Asset Management

India Equity & Fixed Income Markets

Market Commentary: April 2023

Global Economy

The US GDP grew at an annualized rate of 2.7% in Q4CY22, slowing down from a 3.2% growth in Q3CY22. The Federal Reserve raised the target range for the Fed funds rate by 25 basis points (bps) to 4.75 – 5% in its March-23 meeting.

The Eurozone economy expanded by 1.9% y-o-y in Q4CY22, compared to a 2.3% growth in the previous quarter. The European Central Bank (ECB) raised its key rates by 50 bps in its meeting in March. Accordingly, the main refinancing operation rate stood at 3.50%.

UK's economy expanded 0.6% y-o-y in Q4CY22, lower than an upwardly revised 2% growth in the previous quarter. The Bank of England (BOE) raised its key bank rate by 25 bps to 4.25% at its March-23 policy decision meet, lower than the 50bps hikes in previous meets. It also expects inflation to moderate faster than before.

Japan's economy staged a recovery in Q4CY22, expanding by 2.3% on an annualized basis compared to a 0.8% contraction in the previous quarter. The Bank of Japan maintained its key short-term interest rate at -0.1% in its March meet. It also maintained its yield curve cap on 10-year government bonds at 0.5% levels. (Source: CRISIL Research)

Indian Economy

Real GDP growth for the quarter ending December 2022 slowed down to 4.4% y-o-y, lower than consensus expectations. The slowdown can be mainly attributed to loss in momentum of private consumption, which grew by 2.1% y-o-y as compared to 8.8% y-o-y growth previous quarter. On the positive side, fixed capital formation and exports have continued to hold up, driven by Government's infrastructure spending and services exports respectively. (Source: CRISIL Research)

Equity Markets

Indian equities rallied by 4.2% in USD terms in April, outperforming the broader MSCI EM index (-1.1%) by about 5.3% in April, trimming its year-to-date underperformance to 5.2%, from 10.3% at the end of last month. Markets were supported by strong FPI inflows of USD 1.4bn in the month, while Domestic Institutional Investors inflows moderated to USD 270mn during the month. (Source: Morningstar Direct, NSDL, BSE; Currency: USD)

Midcaps and Smallcaps indices outperformed the Largecaps index and were up 7.4% and 5.5%, respectively. Sector-wise, all sectors ended the month in green, except IT. The IT index was down 3.4% due to weak results from IT companies. Real Estate (+14.8%), Auto (+7.4%), and Capital Goods (+6.9%) indices were the top gainers. (Source: Bloomberg, Currency: INR)

Bond Markets

Government securities prices ended higher in April, with the yield on the 10-year benchmark 7.26% IGB 2032 security settling at 7.15% as of April 28, 2023 from 7.31% on March 31, 2023. Bond prices rallied in the month owing to the surprise pause in rate hikes by the Reserve Bank of India (RBI) in its policy meet on 6th April. Also, demand for bonds remained robust in the month due to the continued deployment of heavy inflows in domestic fixed income funds in latter half of March post the taxation changes in the month. (Source: CCIL; RBI)

Moderation in yields were witnessed in the shorter end of the curve too, with 6 months and 1-year T-bill yields declining by 17bps and 20bps in the month respectively. (Source: CRISIL research)

FPIs turned net buyers of Indian debt in the month, buying USD 99mn of Indian debt as compared to USD 307mn net selling in last month. (Source: NSDL, Morgan Stanley research)

Monetary Policy

The Reserve Bank of India in its first monetary policy meeting for the FY23-24 on 6th April, kept the policy repo rate unchanged at 6.50%, against market consensus. It also emphasized that the decision was a 'pause not a pivot', and kept the option open for 'further actions' in its future meetings if the situation should so warrant. (Source: RBI)

Currency

INR appreciated over the month (up +0.4% MoM) and ended the month at 81.83 per USD in April. (Source: Bloomberg)

Inflation

Retail CPI inflation moderated to a eighteen-month low of 4.7% in April compared to 5.66% in March as food prices eased, this is the lowest reading since October 2021. The core inflation too fell from 6% in March 2023 to 5.36% in April 2023. (Source: MOSPI, CRISIL)

Bank Credit/ Deposit Growth

Bank deposits and credit grew 10.2% and 15.3%, respectively, in April on-year vs 10.3% and 15.5% in March. (Source: RBI)

Liquidity

Liquidity in the month remained comfortable with the daily absorption under the liquidity adjustment facility now at INR 600bn as compared to INR 1,041bn as of 31st March. (Source: RBI)

GST Collections

GST collections for April reached a record high of INR 1.87tn, which is a 12% increase from last year's highest tax tally of INR 1.67tn for the same month. (Source: Ministry of Finance)

Government Deficits

Fiscal deficit for the first eleven months of the financial year (Apr-Feb) rose to INR 14.53tn (82.8% of annual budget), comparable to the 82.7% deficit in same period last year.

Goods exports declined for the second successive month in March, falling a sharp 13.9% to USD 38.38 billion while imports dipped 7.9% to USD 58.11 billion. Total goods exports in FY2022-23 rose 6.03% to USD 447.46 billion, while the import bill surged by a steeper 16.5% to USD 714 billion.

India's current account deficit (CAD) has narrowed to USD 18.2bn or 2.2% of GDP in the October to December quarter (Q3FY23) from 4.4% of the GDP in the quarter ending September. The reduction can be mainly attributed to the decline in trade deficit due to robust exports in services sector and private transfer receipts. (Source: MOSPI, RBI)

Equity Outlook

Indian markets have underperformed Global and Asian markets in the last few months, resulting in moderation of premium, thereby making valuations relatively reasonable. This is a good time to increase allocation in a staggered manner to achieve decent medium term returns.

Over the long term, we remain constructive on Indian equities owing to a conducive domestic environment, supportive Government policies focused on capex led economic growth, favorable external indicators - high forex reserves, increased share of Foreign Direct Investment (FDI) flows and increasing participation of domestic investors in equity markets which is a more structural trend. As major developed & emerging economies grapple with multiple problems like rising inflation/interest rates and slow growth, India is doing relatively better and remains a favored destination to play the China +1 theme.

We would continue to accumulate companies with strong balance sheets, agile managements, low leverage and sustainable business models. We are positive on sectors which are closely linked to the economic recovery like Banks, Auto, Retail and some Internet stocks. In terms of market capitalization, from a risk-reward perspective, large caps are better placed than mid and small caps.

Going forward, market would take cues from global central policies trajectory of crude oil prices, any signs of resolution of conflict in Europe, inflation trajectory in India and sentiment of foreign and retail investor flows.

Fixed Income Outlook

- Benchmark bond yields moderated further in the month of April post RBI's unexpected rate pause in its April meet. Corporate bond yields also moderated along with G-secs while credit spreads widened at the shorter end of the yield curve.
- RBI in its last policy had paused rate hikes, we expect this stance to continue for an elongated period of time. A continued pause in the interest rates bodes well for fixed income as an asset class due to the elevated yield levels and a flattish yield curve.
- We expect inflation to moderate in the near future, mainly due to the base effects of last year. However, core inflation may remain sticky due to the lagged pass-through of input costs and potential upside risks from increased imports. Hence is no room for any monetary policy easing from the Central Bank at this point of time.
- Credit spreads look attractive at this point and hence we believe accrual will become the dominant source of returns in Indian fixed income space going ahead.
- We also recommend an active duration management in the fixed income space. During the month, the fund had tactically increased the duration by increasing exposure to the 10yr IGB benchmark security due to a) the change in taxation for debt mutual funds in India, which witnessed a rush towards debt mutual funds which needed to be deployed, and b) An unexpected rate pause on 6th April in RBI's policy meet. This led to a rally across the curve in the month.
- We continue with our positive stance on floating rate instruments due to their high carry and remain positive on the shorter end of the curve due to low duration risk and attractive carry at this point.

Market Snapshot

Yields (As on April 30, 2023)

Yields (%)	G-secs*	AAA	AA+	AA	AA-	A+
6 Months	6.96	7.37	8.17	9.15	10.10	10.99
1 Year	6.90	7.49	8.29	9.27	10.22	11.11
3 Years	6.96	7.49	8.29	9.27	10.22	11.11
5 Years	7.03	7.49	8.99	9.97	10.92	11.81
10 Years	7.15	7.67	9.17	10.15	11.10	11.99

**Weighted average yields for G-sec data 6-month G-sec: 182-day T-Bill rate; 1-year G-Sec: 6.69% IGB 2024; 3-year G-Sec: 5.63% IGB 2026; 5-year G-Sec: 7.17% IGB 2028; 10-year G-Sec: 7.26% IGB 2032*

Money Market Update (As on April 30, 2023)

	Certificate of Deposits			Commercial Paper		
Tenure	30 Apr'23 (%)	31 Mar'23 (%)	Change (in bps)	30 Apr'23 (%)	31 Mar'23 (%)	Change (in bps)
1 Months	7.05	7.20	-15	7.25	7.63	-38
3 Months	7.10	7.00	10	7.26	7.35	-9
6 Months	7.25	7.37	-12	7.55	7.71	-16
12 Months	7.45	7.60	-15	7.78	7.90	-12

Bond Market Update (As on April 30, 2023)

	G-Secs*			AAA Corporate Bonds		
Tenure	30 Apr'23 (%)	31 Mar'23 (%)	Change (in bps)	30 Apr'23 (%)	31 Mar'23 (%)	Change (in bps)

1 Year	6.90	7.14	-23	7.49	7.70	-21
3 Years	6.96	7.16	-19	7.49	7.70	-21
5 Years	7.03	7.19	-16	7.49	7.70	-21
10 Years	7.15	7.31	-16	7.67	7.87	-20

**Weighted average yields for G-sec data*

Corporate Bond Credit Spreads (As on April 30, 2023)

Tenure	6 Months	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
AAA	0.48	0.52	0.48	0.40	0.34	0.31	0.39
AA+	1.29	1.32	1.28	1.21	1.84	1.81	1.89
AA	2.27	2.30	2.26	2.19	2.82	2.79	2.87
AA-	3.21	3.25	3.21	3.13	3.77	3.74	3.82
A+	4.10	4.14	4.09	4.02	4.65	4.63	4.70
A	5.15	5.18	5.14	5.07	5.70	5.67	5.75
A-	5.31	5.35	5.30	5.23	5.87	5.84	5.92

Economic Indicators Update

Indicator	Latest	Previous
USD/INR	81.83 (Apr’23)	82.18 (Mar’23)
GDP	+4.4% (Oct – Dec’22)	+6.3% (Jul – Sep’22)
Retail Inflation (CPI)	4.7% (Apr’23)	5.66% (Mar’23)
Wholesale Inflation (WPI)	1.34% (Mar’23)	3.85% (Feb’23)
IIP	+5.6% (Feb’23)	+5.2% (Jan’23)

Data Source – RBI, Mospi.Nic.in, CRISIL Fixed Income database, Morningstar Direct

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