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Macro-economic developments

- As per Organization for Economic Co-operation and Development (OECD), global growth is projected to slow down from 3% in 2022 to 2.25% in 2023, well below the pace foreseen prior to the war. The annual GDP growth is projected to slow down sharply to 0.50% in the United States in 2023, and 0.25% in the Euro area, with risks of output declines in several European economies during the winter months. Growth in China is projected to drop to 3.2% this year, amidst COVID-19 shutdowns and property market weakness, but policy support could help growth recover in 2023. GDP growth in India in FY23 is unchanged at 6.9% however in FY24 it is projected at 5.7% which is 0.5% decline from its June 2022 GDP growth projections
- In its September 2022 meeting, the US Fed hiked the rates by 75 basis points (bps) to a range of 3% to 3.25%. This was the third consecutive 75 bps rate hike, and the fifth rate increase this year alone. The central bank has been looking to bring down inflation, which is running near its highest levels since the early 1980s. Fed officials signaled the intention of continuing to hike until the funds level hits a "terminal rate," or end point, of 4.6% in 2023; which implies a further rate hike rise next year. In their quarterly updates of estimates for rates and economic data, the unemployment rate to rise to 4.4% by next year from its current 3.7%. Along with that, the US Fed expects the GDP growth to decelerate to 0.2% for 2022, rising slightly in the following years to a longer-term rate of just 1.8%. The revised forecast is a sharp cut from the 1.7% estimated in June 2022.
- The U.S. annual inflation rate moderated to 8.3% in Aug 2022. The food index increased 0.8% and shelter costs, which make up about one-third of the weighting in the CPI, jumped 0.7% and are up 6.2% YoY. The personal consumption expenditures (PCE) price index (ex food and energy) rose 0.6% for the month. On a YoY basis, core PCE increased 4.9%, more than the 4.7% estimate and up from 4.7% the previous month. The US benchmark 10-year Treasury yield remain elevated during the month. It accelerated to 3.9% than moderated to 3.7% but again reached and closed at 3.8% at the end of Sep 2022, which is 60 bps up from its previous month's close of 3.2%.
- The Bank of England raised its key interest rate to 2.25% from 1.75% and said it would continue to "respond forcefully, as necessary" to inflation, despite the economy entering into recession.
- India's exports contracted by 3.52% to $32.62 bn in Sep 2022 as against $33.81 bn in Sep 2021. Imports rose 5.44% to $59.35 bn in Sep 2022 as against $56.29 bn in Sep 2021. Trade deficit widened to $26.72 bn in Sep 2022. The exports during Apr 2022 -Sep 2023 rose 15.54% to $229.05 bn. Imports during Apr 2022 – Sep 2023 rose 37.89% to $378.53 bn. The trade deficit widened to $149.47 bn in Apr 2022 -Sep 2023 as against $76.25 bn during Apr 2021-Sep 2022.
- India's current account balance recorded a deficit of $23.9 bn (2.8% of GDP) in Q1 of FY23 as against deficit of US$ 13.4 bn (1.5% of GDP) in Q4 FY22 and a surplus of US$ 6.6 bn (0.9% of GDP) in Q1 FY22. The widening of current account deficit in Q1 of FY23 was mainly due to widening of the merchandise trade deficit to $ 68.6 bn in Q1 of FY23 from $54.5 bn in Q4 of FY22 and an increase in net outgo of investment income payments.
- Index of eight core industries grew 3.3% in Aug 2022, slower than 4.5% rise in Jul 2022 and 12.2% in the year ago period. Core output growth fell to its lowest level in nine months. Coal, refinery products, steel, cement and electricity slowed to 7.6%, 7%, 2.2%, 1.8% and 0.9%, respectively in Aug 2022. Fertilizer output went up 11.9% compared with a contraction of 3.1% in Aug 2021. Core output during April-August of FY23 rose 9.8% slower than 19.4% a year ago.
- India's fiscal deficit stood at Rs. 5.42 lakh crore or 32.6% of the Budget Estimates (BE) from Apr to Aug of FY23. Fiscal deficit was at 31.1% of FY22 target from Apr to Aug of FY23. Net tax receipts rose to about Rs. 7 lakh crore while total expenditure was Rs. 13.9 lakh crore, respectively.
- Brent crude oil prices moderated substantially to 9% during the month of Sep 2022. Prices fell as market participants worried over the possibility of global growth slow down later this year. This has led to moderation in crude oil prices, from its highs of $123.58/bbl, it closed at $87.96/bbl. However, it started inching up as OPEC+ agreed to cut production by 2 million barrels per day or about 2% of global supply from November, in a move that threatens to squeeze supply further ahead of the winter season. That would be the biggest output cut since the start of the pandemic.
- Indian rupee depreciated 2.32% against the US dollar in the month of Sep 2022 and closed at INR 81.50/$. The Indian Rupee has depreciated breaching the 80/$ mark earlier, but has fared relatively better than a number of peer emerging market currencies. This has been on the back of active RBI intervention to keep the rupee relatively competitive. However, in last few months forex reserves in India has been moderated substantially from its high.

Equity market developments and Outlook

- The Nifty 50 Index declined 3.7% during the month. Despite INR weakness, the Nifty 50 managed to largely outperform its peers in emerging markets (EM), the US, EU and Japan. The other market cap indices , Nifty Midcap 50 & Nifty Smallcap 100 also declined 2.6% & 1.9% respectively however outperformed large cap.
- On the sectoral front – Except for Pharma and FMCG, rest all other sectoral indices closed negative. Power, Oil & Gas, Realty were down almost 9% each.
- The MSCI world index continue to decline and fell 9.5% during the month of Sep 2022. The U.S. benchmark S&P 500 index fell 9.3% while within Europe, major markets like UK, France & Germany also fell 5.4%, 5.9% & 5.6% respectively during the month.
- Within Asian markets, all markets were down. Hong Kong, South Korea & Taiwan were the top bottom performers, fell 13.7%, 12.8% & 11.1% respectively.
- After a significant jump in Aug 2022, foreign portfolio investors (FPIs) flows turned negative and registered an outflow of Rs. 13,406 crores during the month of Sep 2022 compared to a large net equity inflow of Rs. 53,994 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows turned positive to Rs. 14,120 crores in the month of Sep 2022 compared to net outflow of Rs. 7,069 crores in the previous month.
- Rate hikes continued across the globe in September 2022 with global inflation remaining at multi-decade high. The Indian markets have managed to outperform its peers globally given its relatively better macro-economic situation. However, we continue to believe that given the global headwinds & growth slowdown, the Indian markets may continue to witness some volatility, and therefore expect moderate returns in the near term.
- Investors can continue to invest systematically in equities. Any market volatility/dips can be used as an opportunity to increase their equity exposure gradually, as per their individual risk profile.

Fixed Income market developments and Outlook

- After seeing a moderation in the initial part of the month, the 10-year benchmark yield remained elevated, rose 3% during the month and closed at 7.4%, which is 20 bps up compared to the previous month close of 7.2%.
- RBI's Monetary Policy Committee (MPC) hiked the benchmark policy rate (repo rate) by 50 bps to 5.90%. Five out of six MPC members voted in favour of hiking the Repo rate by 50 bps while one member voted to increase it by 35 bps. The marginal standing facility (MSF) rate and the Standing Deposit Facility (SDF) rate stand adjusted to 6.15% & 5.65% respectively. Cash Reserve Ratio (CRR) remained unchanged at 4.50%. RBI maintained its policy stance of 'withdrawal of accommodation', citing that the real policy rate (adjusted for inflation) is still trailing pre-pandemic levels. The RBI governor also stated that with the inflation rate expected to be elevated at 6% in H2FY23 and with liquidity still in surplus, overall monetary and liquidity conditions remain accommodative, despite the 190 bps of cumulative repo rate hikes (April-Sep).
- India's consumer price index-based inflation (CPI) rose to 7.00% in Aug 2022 as against 6.71% in Jul 2022 mainly due to higher food prices. While core CPI inflation remained elevated at 5.9% vs 6%, reflecting reopening pressure on services and pass-through of past input cost pressures. Consumer Food Price Index (CFPI) also rose to 7.62% in Aug as compared to 6.69% in July. Prices increased faster for food while a slowdown was seen in fuel and light; transportation & communication and health.
- The Gross Goods and Services Tax (GST) collections soared 26% to Rs 1.47 lakh crore for September 2022(for sales in August), sequentially higher than the previous month of Rs. 1.43 lakh crore, on account of rising demand, higher rates, and greater tax compliance. September 2022 is also the eighth month and for the seventh month in a row now, the monthly GST revenues have been more than the Rs 1.4 lakh crore mark.
- From an investment perspective, we prefer the short to medium term part of the yield curve.
- RBI has broadly maintained a hawkish undertone; it continues to be cautious on inflation while maintaining some comfort on growth. We believe that the central bank will continue to remain focused on withdrawal of accommodation. In the near term the market is likely to be driven by the global macro environment with Fed and ECB action taking precedence. Commodities also remain volatile with OPEC + continuing the supply cuts.
- Foreign Portfolio Investors (FPIs) flows remained positive to Rs. 4021 crores in the month of Sep 2022, compared to a net inflows of Rs. 4,199 crores in the previous month.
- From an investment perspective, we prefer the medium term part of the yield curve.