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Macro-economic developments

- As per International Monetary Fund (IMF), the global economy is experiencing a number of turbulent challenges. Inflation higher than seen in several decades, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook. Global growth is forecast to slow from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic and reflects significant slowdowns for the largest economies.
- Growth in the United States is projected to decline from 5.7% in 2021 to 1.6% in 2022 and 1% in 2023, with no growth in 2022 on a fourth-quarter-over-fourth-quarter basis. Growth in 2022 has been revised down by 0.7 percentage point since July, reflecting the unexpected real GDP contraction in the second quarter. Declining real disposable income continues to eat into consumer demand, and higher interest rates are taking an important toll on spending, especially spending on residential investment.
- In the euro area, the growth slowdown is less pronounced than that in the United States in 2022 but is expected to deepen in 2023. Projected growth is 3.1% in 2022 and 0.5% in 2023. There is an upward revision of 0.5 percentage point since July 2022, on account of a stronger-than-projected second-quarter outturn in most euro area economies, and a downward revision of 0.7 percentage point for 2023.
- In emerging and developing Asia, growth is projected to decline from 7.2% in 2021 to 4.4% in 2022 before rising to 4.9% in 2023, with a 0.2 percentage point and 0.1 percentage point downgrade since July for 2022 and 2023, respectively. The revisions reflect the downgrade for growth in China, to 3.2% in 2022 (the lowest growth in more than four decades, excluding the initial COVID-19 crisis in 2020). COVID-19 outbreaks and lockdowns in multiple localities, as well as the worsening property market crisis, have held back economic activity in China, although growth is expected to rise to 4.4% in 2023. The outlook for India is for growth of 6.8% in 2022-a 0.6 percentage point downgrade since the July forecast, reflecting a weaker-than-expected outturn in the second quarter and more subdued external demand-and 6.1% in 2023, with no change since July.
- The U.S. Federal Reserve in its monetary policy review raised interest rates by 75 bps as expected. The U.S. Federal Reserve chief indicated more rate hikes ahead and signaled that no pivot or rate cut is coming anytime soon. According to the U.S. Federal Reserve chief, it was "premature" to talk about a rate hike pause and that the terminal rate would likely be higher than previously stated.
- The U.S. annual inflation rate moderated to 8.2% in Sep 2022. The consumer price index increased 0.4% for the month, more than the 0.3% Dow Jones estimate. On a 12-month basis, the headline inflation was up 8.2%, off its peak around 9% in June but still hovering near the highest levels since the early 1980s. Excluding volatile food and energy prices, core CPI was even higher for the month, accelerating 0.6% against the Dow Jones estimate for a 0.4% increase. Core inflation was up 6.6% from a year ago, the biggest 12-month gain since August 1982. Closely watched shelter costs, which make up about one-third of CPI, rose 0.7% and are up 6.6% from a year ago. Transportation services also showed a big bump, increasing 1.9% on the month and 14.6% on an annual basis. Medical care services costs rose 1% in September. Another large jump in food prices boosted the headline number. The food index rose 0.8% for the month, the same as August, and was up 11.2% from a year ago.
- The Bank of England raised its benchmark rate by 75 basis points to 3%. The central bank expects the economy to shrink 0.55% in the third quarter of 2022 and by 0.3% in the fourth quarter.
- The European Central Bank raised key interest rates by 75 bps in its monetary policy review. The main refinancing rate was raised to 2.00% from 1.25%. The deposit facility rate was raised to 1.50% from 0.75%. The marginal lending facility rate was increased to 2.25% from 1.50%. The European Central Bank indicated more rate hikes in the coming months as inflation is expected to stay high for an extended period.
- India's Index of industrial output (IIP) contracted 0.8% YoY in Aug 2022 as against 13% rise in Aug 2021. As per the sectoral classification, manufacturing sector fell 0.7% YoY in Aug 2022 from 11.1% rise in Aug 2021. Mining sector fell 3.9% in Aug 2022 from 23.3% growth a year ago, while electricity rose 1.4% in Aug 2022 from 16% in Aug 2021.
- India's exports and imports rose 4.82% and 8.66% to $35.45 billion and $61.61 billion, respectively in Sep 2022. The trade deficit rose to $25.71 billion in Sep 2022 from $22.47 billion in Sep 2021. During Apr to Sep 2022, exports rose 16.96% to $231.88 billion, imports rose 38.55% to $380.34 billion. During Apr -Sep 2022, trade deficit widened to $148.46 billion as against $76.25 billion in the same period last year.
- India's Manufacturing Purchasing Managers' Index rose to 55.3 in Oct 2022 from 55.1 in Sep 2022 and Services Purchasing Managers' Index rose to 55.1 in Oct 2022 from 54.3 in Sep 2022. In spite of significant inflationary pressures, India's services industry expanded in Oct 2022, supported by strong domestic demand, which resulted in the second-fastest hiring rate in more than three years. The overall S&P Global India Composite PMI Output Index rose to 55.5 in Oct 2022 from 55.1 in Sep 2022.
- Index of eight core industries grew 7.9% in Sep 2022 as against 4.1% rise in Aug 2022 and 5.4% in the year ago period. Coal, refinery products, fertilizers, steel, cement and electricity rose 12%, 6.6%, 11.8%, 6.7%, 12.1% and 11%, respectively in Sep 2022. Crude oil and natural gas contracted 2.3% and 1.7%, respectively in Sep 2022. Core output during Apr-Sep of FY23 rose 9.6% slower than 16.9% a year ago.
- India's fiscal deficit stood at 37.30% of the Budget Estimates (BE) from Apr to Sep of FY23. The revenue deficit stood at 31.40% of Budget estimate. Total receipts stood at ₹12.04 lakh crore or 52.7% of the budget target as compared to 55.6% in the corresponding period of the previous year. Total expenditure stood at ₹18.24 lakh crore or 46.2% of the budget estimate as compared to 46.7% in the corresponding period of the previous year.
- Brent crude oil prices remained volatile and gained around 8% during the month of Oct 2022, the Brent crude closed at 94.83 bbl/$ compared to $87.96 bbl/$ previous month close. The supply outlook remained tight as OPEC+ reduced output by 2 million barrels a day in November, while the European Union is set to ban Russian crude imports by Dec. 5 and Russian oil products by Feb 5.
- The Indian rupee appreciated against USD to 81.3 in early November, the strongest in over one month, still, the rupee remains close to the record-low of 83 hit on October 19th and is down more than 9% YTD, pressured by soaring inflation, trade imbalances, and relatively soft monetary tightening by the RBI.

Equity market developments and Outlook

- The Nifty 50 Index gained 5.4% during the month. The other market cap indices, Nifty Midcap 50 & Nifty Smallcap 100 also gained 4.3% & 2.6% respectively however underperformed large cap.
- On the sectoral front-almost all sectoral indices closed higher than the previous month. Bank, Capital Goods and IT indices were the top gainers and were up 7.3%, 6.6% and 6%, respectively.
- The MSCI world index gained 7.1% during the month of Oct 2022. The U.S. benchmark S&P 500 index returned positive to 8% while within Europe, major markets like UK, France & Germany also gained 3%, 8.8% & 9.4% respectively during the month.
- Within Asian markets, Hong Kong, China & Taiwan were the top bottom performers, fell 14.7%, 4.3% & 3.5% respectively.
- After seeing a net equity outflow in Sep 2022, foreign portfolio investors (FPIs) flows again turned slightly positive and registered an inflow of ₹8,431 crores during the month of Oct 2022 compared to a net equity outflow of ₹13,406 crores in the previous month.
- Domestic Institutional Investors (DIIs) flows remained positive and registered inflow of ₹9,197 crores in the month of Oct 2022 compared to net inflow of ₹14,120 crores in the previous month.
- Early indicators from the festive season in India suggest that domestic consumption has been quite robust for different segments of the economy. Diwali retail sales were in excess of ₹1.5 trillion (20% YoY growth) as per CAIT data; auto sales (esp. passenger vehicle) and credit card spends during Navratri were also good compared to year ago period. This augurs well for the Indian economy (which is more domestic focused) amidst concerns of a global economic slowdown.
- 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

- The 10-year benchmark yield remained range bound during the month and closed at 7.45%, which is 6 bps up compared to the previous month close of 7.39%.
- India's consumer price index-based inflation (CPI) rose to 7.41% in Sep 2022 as against 7.0% in Aug 2022 which is a month high. This is the ninth consecutive time that the CPI print has come above the Reserve Bank of India's (RBI) upper margin of 6%. The Consumer Food Price Index (CFPI) or the inflation in the food basket too showed a MoM rise during September to 8.6%, from 7.62% in August. While core CPI inflation remained elevated at 6% vs 5.9% in Aug 2022.
- Gross Goods and Services Tax (GST) collections rose 16.6% YoY to ₹1,51,718 crore for October (for sales in September), the second highest level since the rollout of the indirect tax regime in July 2017. Although domestic transactions recorded the second highest growth after April 2022, the share of collections from imports continued to fall to 25%, from 28% in September and 30% in August. A high inflation rate, an increase in retail prices of many consumption goods, the buoyant festive season demand, alongside actions taken to ensure compliance, have all contributed to the rise in GST collections. The pace of YoY growth in GST collections, however, moderated to 16.6% in October from over 25% each in the last three months.
- We believe that the RBI will continue to be cautious on inflation while maintaining some comfort on growth 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 turned negative to ₹3,011 crores in the month of Oct 2022, compared to a net inflows of ₹1,491 crores in the previous month.
- From an investment perspective, we prefer the medium term part of the yield curve.