

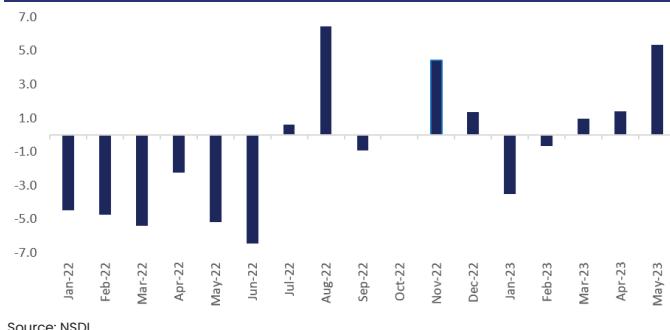
Market Outlook

June 2023

Market Update

Indian equity markets continued their positive momentum in May following a good April. Improving domestic macros, better than expected Q4FY23 earnings, US debt ceiling extension and strong FII inflows into Indian equities; led to an improvement in sentiments. In May 23, benchmark NIFTY50 was up 2.6% while broader markets represented by S&P BSE Midcap and S&P BSE 250 SmallCap did better rising 6.3% and 5.4% respectively. Flows into Indian equities picked up pace - FIIs buying USD ~5.3 bn worth of Indian equities, highest monthly buying since August 2022. FIIs have now been net buyers for three consecutive months. DIIs were marginally negative to the tune of USD ~0.4 bn.

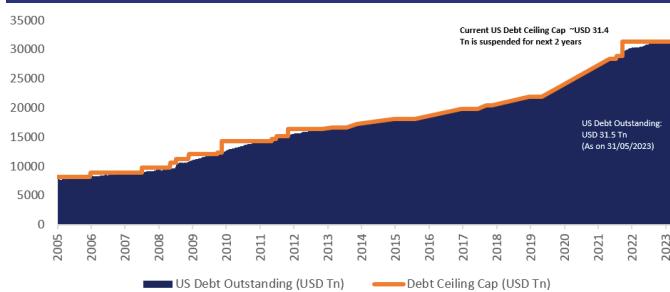
FII Flows (USD bn)



Source: NSDL

May was a volatile month for global equities as the US debt-ceiling issue grabbed most attention and added to uncertainty. The good news is that this worry is now behind us. The view on another interest rate hike in the US is mixed, though we believe a pause is a more likely scenario. Macros seem to be improving and inflation looks like trending lower. In US though, Nasdaq had a great month and is now up almost 24% in 2023. Dow Jones Index however is lagging behind and flat for 2023. In Europe, Germany entered a technical recession with GDP growth for last 2 consecutive quarters marginally contracting in the range of 0.3-0.5%.

US Outstanding Debt (USD Tn)

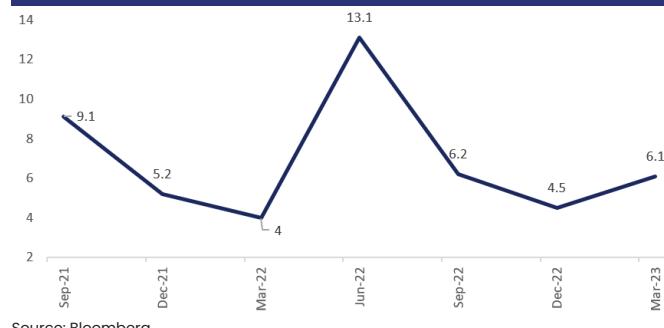


Source: Bloomberg

Macro Update:

India's GDP clocked a higher-than-expected growth rate of 6.1% in Q4FY23, led by investment growth at 8.9% and improvement in net exports. FY23 GDP came in at 7.2%, highest among all large economies in the world.

India Real GDP Growth QoQ(%)



Source: Bloomberg

On the macro front, there was good news all around. Inflation dropped to 18-month low of 4.7% in April'23 vs 5.7% in March'23 and came closer to the RBI's lower target of 4%. WPI inflation came down to negative -0.92% in April'23 vs 1.3% in March'23. India's manufacturing PMI hit a 31-month high, rose to 58.7 in May'23 from 57.2 in April'23. Growth was contributed by a strong increase in new orders. The fiscal deficit narrowed to INR 17.33 tn or 6.4% of GDP for FY23 on the back of higher tax receipts.

GST collection rose to 12% YoY to 1.57 Lakh cr in May'23. GST collections have been more than INR 1.4 lakh cr for 14 months in a row, with INR 1.5 lakh cr crossed for the 5th time since inception of GST. The RBI has made an announcement on the withdrawal of Rs 2000 currency notes from circulation, by 30th Sep 2023. Unlike demonetization this currency will remain as legal tender till Sept 2023 and hence markets were not impacted. The cumulative value of 2,000 banknotes in circulation has declined to INR 3.62 lakh crs constituting only 10.8% of notes in circulation as of March-end.

Earnings Update –

Amid a challenging global macro backdrop, India Inc.'s profitability remained healthy in 4QFY23 – in line with our expectations. NIFTY50 ended FY23 with an 11% EPS growth on a high base of 34% growth in FY22. The positive factor is that NIFTY50 profits have accelerated over the past 3 quarters with 4Q profit growth coming in at 16% vs 11% and 9% in the previous two quarters. Banking and auto were the top two contributing sectors while cyclical metals and oil & gas were the biggest drags. This also shows that the quality of earnings was much better vs what the reported numbers reflect. Consensus is now estimating a 20%+ earnings growth for FY24.

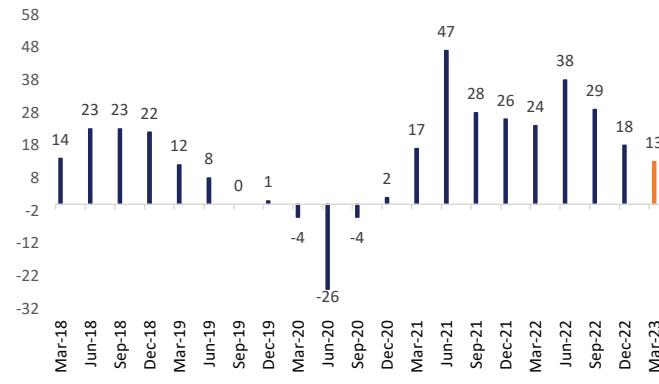
FY period: April-Mar, CPI: Consumer Price Index, WPI: Wholesale Price Index FI: Foreign Institutional Investors, GST: Goods & Services Tax, DI: Domestic Institutional Investors Fed: US Federal Reserve, IIP: Index of Industrial Production, GSec: Government of India Dated Securities, GOI: Government of India, FDI: Foreign Direct Investment, CAD: Current Account Deficit, YTD: Year To Date, CY: Calendar Year, WTI: West Texas Intermediate, UPI: Unified Payments Interface, Inflation numbers released with 1 month lag, Core Sector number released with 1 month lag, IIP number released with 2 month lag

Source: NSDL, PTI, ANI, Bloomberg, BSE, NSE, Abakkus Estimates, RBI

Market Outlook

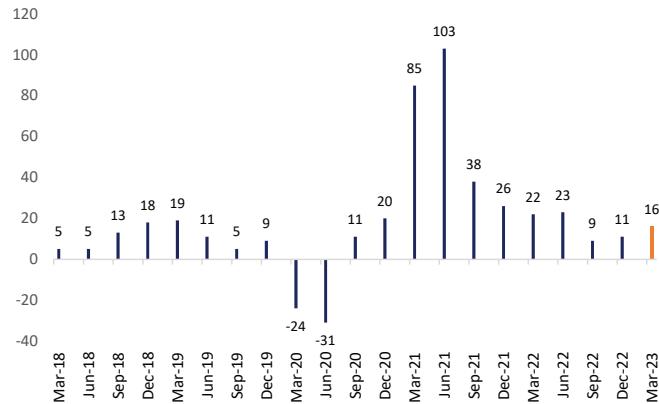
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NIFTY50 Sales up 13% YoY (est.9%) in 4QFY23



Source: MOSL

NIFTY50 PAT up 16% YoY (est.14%) in 4QFY23



Source: MOSL

Market Outlook:

We continue to maintain our stance of a good second half 2023 for global economies. Inflation is surely trending down and should surprise positively from here on. We also believe that the global interest rate increase cycle is more or less done, and it is possible that towards the last quarter of 2023, we might in fact start to hear of an interest rate cut. Global risk on is also visible as confidence among investors improves. From an India perspective, economic indicators are coming in quite positive. Corporate performance has been good and the outlook also appears decent. The move globally from asset allocators to move away from China to other markets like India is also being felt, with a net inflow of almost USD 5 bn from foreign investors into Indian equities in the month of May. There is though a forecast of El-Nino impacting Indian monsoons and that is the key monitorable in the near term.

We continue to maintain our recent view of being positive on Indian equities and any global event led correction should be used as an opportunity to add Indian equities. Discretion though is advised as the broader markets have been seeing huge momentum. Fundamentals over momentum is what we would advise.

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Portfolio Management Services:

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