

# Tata Capital Wealth

Market Outlook - February 2024



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# Macro Indicators

	Current		Month Ago	Quarter Ago	Half Year Ago	Year Ago
<b>Economic Indicators:</b>						
PMI Manufacturing	56.5 (Jan-24)	↑	54.9 (Dec-23)	55.5 (Oct-23)	57.7 (Jul-23)	55.4 (Jan-23)
PMI Services	61.8 (Jan-24)	↑	59.0 (Dec-23)	58.4 (Oct-23)	62.3 (Jul-23)	57.2 (Jan-23)
Consumer Price Index (CPI)	5.1% (Jan-24)	↑	5.7% (Dec-23)	4.9% (Oct-23)	7.4% (Jul-23)	6.5% (Jan-23)
Wholesale Price Index (WPI)	0.3% (Jan-24)	↑	0.7% (Dec-23)	-0.3% (Oct-24)	-1.2% (Jul-23)	4.8% (Jan-23)
Industrial Production (IIP)	3.8% (Dec-23)	↓	2.4% (Nov-23)	6.4% (Sep-23)	4.1% (Jun-23)	5.1% (Dec-22)
GDP	7.6% (Sep-23)	↓	NA	7.8% (Jun-23)	6.1% (Mar-23)	6.2% (Sep-23)
Trade Deficit (\$ bn)	19.8 (Dec-23)	↓	20.6 (Nov-23)	20.1 (Sep-23)	19.1 (Jun-23)	23.1 (Dec-22)
<b>Commodity Market:</b>						
Brent Crude (\$/barrel)	81.7 (31-Jan-24)	↓	77.0 (29-Dec-23)	87.4 (31-Oct-23)	85.6 (31-Jul-23)	84.5 (31-Jan-23)
Gold (\$/oz)	2,067.4 (31-Jan-24)	↑	2,071.8 (29-Dec-23)	1,994.3 (31-Oct-23)	2,009.2 (31-Jul-23)	1,929.5 (31-Jan-23)
Silver (\$/oz)	23.2 (31-Jan-24)	↑	24.0 (29-Dec-23)	23.0 (31-Oct-23)	25.0 (31-Jul-23)	23.8 (31-Jan-23)
<b>Currency Market:</b>						
USD/INR	83.1 (31-Jan-24)	↓	83.2 (29-Dec-23)	83.3 (31-Oct-23)	82.2 (31-Jul-23)	81.8 (31-Jan-23)

Source: Currency & Commodity – Investing.com, Economic Indicators – DBIE, RBI & News Articles

↑ signifies positive movement over Q-o-Q    ↓ signifies negative movement over Q-o-Q

# Equity Market - Review



# Equity Market Roundup - Key Takeaways

**Performance:** Indian equity markets ended on a flat to negative territory in Jan '24 - S&P BSE Sensex (-0.63%) and Nifty 50 (-0.02%), even as the broader market rallied. Nifty Midcap 100 and Nifty Smallcap 100 indices were up by (4.86%) and (5.48%), respectively.

## Domestic & Global factors that played out for the Indian markets:

- During the month, domestic equity markets witnessed healthy gains and reached a fresh high as negative sentiments underpinned by **better-than-expected quarterly earning updates from some of the index heavy-weights**. However, the trend reversed as sentiments were dampened after **key policymaker across the globe expressed concerns on interest rate cuts due to high inflation**.
- Moreover, **rise in global crude oil prices** due to conflict in the Red sea that threatened a disruption in global trade and crude oil supplies; also impacted market sentiments.
- **Strong buying was seen by DIIs during the month while the FIIs were net sellers.**

## Outlook:

- **Favorable and continuous improvement in macroeconomic factors' and net positive DII flows for the current fiscal** have played a key role in the market rally. **Domestic high frequency indicators** like GST collections, purchasing managers index, credit growth and a stable retail core inflation (ex of food and energy) **augurs well for the Indian economy**.
- Therefore, **investors are suggested not to time the markets and focus on the medium to long term potential of the equity markets**. The important near-term drivers for equity market are – Corporate earnings, monetary policy outlook from major central banks including the US Fed and the RBI and movement in crude oil prices. Looking at the sharp rally in the equity markets, investors need to be cautious **and invest in staggered manner and follow asset allocation as per their risk profile**. Investors may look at **Large cap oriented funds along with Multi Asset, Balanced Advantage and Balanced Hybrid categories as these categories shall assist to manage the near term risks**.

# Indian Equity Market Dashboard - January 2024

Index Name	Absolute(%)				CAGR (%)			Valuations Trailing		
	1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years	P/E	P/B	Div. Yield
<b>Indian Market Performance &amp; Valuation</b>										
S&P BSE Sensex	-0.61	12.46	8.34	22.10	12.68	17.11	16.00	24.56	3.65	1.12
Nifty 50	0.02	14.00	10.48	24.35	13.27	18.16	16.29	22.46	3.81	1.23
Nifty 100	0.60	15.98	12.52	26.56	13.37	18.36	16.23	23.06	3.93	1.22
Nifty 200	1.27	17.35	14.89	30.87	15.37	20.36	17.38	23.46	3.93	1.15
Nifty 500	1.83	18.00	16.53	33.81	16.42	21.80	18.34	24.20	3.98	1.11
Nifty Midcap 150	4.45	22.92	26.81	55.19	26.16	32.43	25.29	27.50	4.24	0.82
Nifty Smallcap 250	6.86	25.41	33.12	63.75	24.94	35.96	25.74	28.76	3.89	0.83
Nifty Microcap 250	9.29	26.86	42.35	89.75	40.47	53.00	32.61	31.68	3.21	0.61
<b>Sectoral Indices</b>										
Nifty Oil & Gas	12.19	41.08	32.38	42.13	18.96	28.01	20.55			
Nifty Energy	9.21	37.70	38.06	56.42	23.00	34.15	22.67			
Nifty PSU Bank	9.18	27.10	35.73	57.69	47.25	52.82	16.47			
Nifty Realty	8.78	42.01	51.21	108.82	33.98	41.34	30.75			
Nifty Infrastructure	7.16	29.14	29.29	56.43	25.94	30.37	23.24			
Nifty Healthcare	6.92	23.43	19.60	46.79	18.68	17.62	17.85			
Nifty Pharma	6.18	22.20	19.83	46.38	17.63	14.67	16.11			
Nifty IT	3.25	20.27	23.59	25.54	4.66	16.32	21.17			
Nifty Auto	3.07	20.80	22.73	45.41	29.38	26.35	19.93			
Nifty India Consumption	0.49	15.74	14.93	32.20	19.19	19.64	16.66			
Nifty Metal	-0.06	23.62	18.25	23.72	22.69	39.80	24.45			
Nifty Services Sector	-0.96	12.73	8.81	17.15	7.38	13.81	14.00			
Nifty FMCG	-3.16	7.78	4.98	25.57	25.06	20.69	14.92			
Nifty Financial Services	-4.33	6.79	1.02	14.37	8.19	12.85	13.05			
Nifty Bank	-4.47	7.35	0.99	14.09	10.97	15.34	11.54			

Equity Market Flow			
Equity Flow (₹ Cr.)	1-Mth	CYTD	1 Yr.
FII	-35,878	-35,878	-10,738
DII	26,744	26,744	174,814

Source: Moneycontrol

# Global Equity Market Dashboard - January 2024

Country	Index Name	Index Value	Absolute(%)				CAGR (%)		
			1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
<b>Global Market Indices</b>									
Japan	Nikkei	36,287	7.92	17.59	9.39	32.79	15.92	9.45	11.79
Malaysia	KLSE	1,513	3.77	4.91	3.67	1.85	0.02	-1.15	-2.11
Pan - Europe	Euronext 100	1,424	1.94	10.76	1.64	7.31	3.94	9.47	7.91
U.S.	Nasdaq 100	17,137	1.74	18.93	8.76	41.61	7.14	9.84	19.92
Switzerland	Swiss Market	11,333	1.65	9.07	0.21	0.42	-3.72	2.28	4.79
France	CAC 40	7,657	1.41	11.20	2.12	8.11	4.59	12.33	8.92
U.S.	Russell 1000	2,656	1.23	15.88	5.48	18.33	3.19	8.11	12.13
Germany	DAX	16,904	0.85	14.13	2.78	11.74	4.53	7.95	8.63
India	Nifty 50	21,726	-0.02	13.87	9.98	23.01	11.93	16.77	14.93
Taiwan	Taiwan Capitalization Weighted Stock	17,890	-0.22	11.80	4.34	17.19	0.60	5.71	12.48
Indonesia	Jakarta Composite	7,208	-0.84	6.75	3.99	5.39	4.26	7.12	1.98
UK	FTSE	7,631	-1.25	4.22	-0.89	-1.82	1.11	5.99	1.83
Singapore	Strait Times	3,153	-2.53	2.78	-6.55	-6.32	-1.50	2.79	-0.23
Brazil	Ibovespa Sao Paulo	127,752	-4.37	12.91	4.76	12.63	6.73	3.54	5.57
South Korea	Kospi	2,497	-5.43	9.62	-5.15	2.97	-3.16	-5.67	2.52
China	SSE Composite	2,789	-5.89	-7.63	-15.27	-14.35	-8.88	-7.13	1.53
Hong Kong	HangSeng	15,485	-8.61	-9.51	-22.88	-29.11	-19.34	-18.16	-11.13

Data as on 31<sup>st</sup> January 2024. Performance shown is for Price Return Index. Source: ICRA MFI Explorer

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# Global Equity Market Performance across Calendar years



2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)	YTD (%)
Germany 29.06	Japan 56.72	China 52.87	Germany 9.56	U.K. 14.43	Hong Kong 35.99	India 3.15	U.S.-Nasdaq 35.23	U.S.-Nasdaq 43.64	France 28.85	India 4.33	U.S.-Nasdaq 43.42	Japan 8.43
India 27.70	U.S.-Nasdaq 38.32	India 31.39	China 9.41	U.S.-S&P 500 9.54	India 28.65	U.S.-Nasdaq -3.88	U.S.-S&P 500 28.88	South Korea 30.75	U.S.- S&P 500 26.89	U.K. 0.91	Japan 28.24	U.S.- S&P 500 1.59
Japan 22.94	U.S.-S&P 500 29.60	U.S.-Nasdaq 13.40	Japan 9.07	U.S.-Nasdaq 7.50	U.S.-Nasdaq 28.24	U.S.-S&P 500 -6.24	France 26.37	U.S.-S&P 500 16.26	India 24.10	Japan -9.37	U.S.- S&P 500 24.23	France 1.51
Hong Kong 22.90	Germany 25.48	U.S.-S&P 500 11.39	France 8.53	Germany 6.87	South Korea 21.76	France -10.95	Germany 25.48	Japan 16.01	U.S.-Nasdaq 21.39	France -9.50	Germany 20.31	U.S.-Nasdaq 1.02
U.S.-Nasdaq 15.91	France 17.99	Japan 7.12	U.S.-Nasdaq 5.73	France 4.86	U.S.-S&P 500 19.42	Japan -12.08	China 22.30	India 14.90	Germany 15.79	Germany -12.35	India 20.03	Germany 0.91
France 15.23	U.K. 14.43	Germany 2.65	South Korea 2.39	South Korea 3.32	Japan 19.10	U.K. -12.48	Japan 18.20	China 13.87	U.K. 14.30	China -15.13	South Korea 18.73	India -0.03
U.S.-S&P 500 13.41	India 6.76	Hong Kong 1.28	U.S.-S&P 500 -0.73	India 3.01	Germany 12.51	Hong Kong -13.61	U.K. 12.10	Germany 3.55	Japan 4.91	Hong Kong -15.46	France 16.52	U.K. -1.33
South Korea 9.38	Hong Kong 2.87	France -0.54	India -4.06	Japan 0.42	France 9.26	South Korea -17.28	India 12.02	Hong Kong -3.40	China 4.80	U.S.- S&P 500 -19.44	U.K. 3.78	South Korea -5.96
U.K. 5.84	South Korea 0.72	U.K. -2.71	U.K. -4.93	Hong Kong 0.39	U.K. 7.63	Germany -18.26	Hong Kong 9.07	France -7.14	South Korea 3.63	South Korea -24.89	China -3.70	China -6.27
China 3.17	China -6.75	South Korea -4.76	Hong Kong -7.16	China -12.31	China 6.56	China -24.59	South Korea 7.67	U.K. -14.34	Hong Kong -14.08	U.S.-Nasdaq -33.10	Hong Kong -13.82	Hong Kong -9.16

Index used for each of the Equity Markets: China – SSE Composite, France – CAC, Germany - DAX, Hong Kong – Hang Seng, India - Nifty 50, U.K. – FTSE 100, South Korea – Kospi, Japan – Nikkei 225

Performance as on 31<sup>st</sup> January 2024. Source: MorningStar Direct

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# Asset Class Performance

2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)	YTD (%)
Mid Cap 44.02	Intl 30.44	Small Cap 69.57	Small Cap 10.20	G-Sec 14.24	Small Cap 57.43	G-Sec 8.00	Intl 28.89	Gold 27.88	Small Cap 61.94	Gold 13.94	Small Cap 48.23	Small Cap 6.84
Small Cap 37.96	Real Estate 10.06	Mid Cap 60.26	Real Estate 9.75	Bonds 13.09	Mid Cap 54.49	Gold 7.87	Gold 23.79	Small Cap 25.02	Mid Cap 46.81	Cash 5.23	Mid Cap 43.80	Mid Cap 4.44
Large Cap 27.54	Cash 9.34	Large Cap 31.39	Bonds 8.93	Gold 11.35	Large Cap 28.72	Cash 7.25	Bonds 12.20	Mid Cap 24.13	Intl 24.76	Large Cap 4.34	Intl 24.58	Intl 1.23
Real Estate 25.10	Large Cap 6.76	Real Estate 16.90	Mid Cap 8.41	Intl 9.70	Intl 19.39	Bonds 6.04	Large Cap 12.02	Intl 18.81	Large Cap 24.12	Mid Cap 2.97	Large Cap 20.08	G-Sec 1.18
Intl 13.85	Bonds 5.11	G-Sec 15.28	Cash 8.30	Real Estate 8.34	Real Estate 7.20	Real Estate 5.13	G-Sec 11.34	Large Cap 14.86	Bonds 4.22	Bonds 2.71	Gold 15.41	Bonds 0.85
Gold 12.27	G-Sec 2.65	Bonds 14.04	G-Sec 8.17	Cash 7.45	Cash 6.57	Large Cap 3.13	Cash 6.74	Bonds 13.46	Cash 3.56	G-Sec 2.34	G-Sec 7.68	Cash 0.63
G-Sec 11.11	Mid Cap -3.01	Intl 11.07	Intl -1.09	Mid Cap 5.41	Bonds 5.55	Intl -6.55	Real Estate 2.99	G-Sec 13.20	G-Sec 3.13	Real Estate 1.43	Cash 7.35	Large Cap -0.02
Bonds 10.18	Gold -4.50	Cash 9.23	Large Cap -4.06	Large Cap 3.01	Gold 5.12	Mid Cap -13.26	Mid Cap -0.28	Cash 4.43	Real Estate 3.12	Small Cap -3.66	Bonds 7.21	Gold -0.52
Cash 9.42	Small Cap -8.14	Gold -7.91	Gold -6.65	Small Cap 0.36	G-Sec 3.52	Small Cap -26.65	Small Cap -8.27	Real Estate 2.19	Gold -4.21	Intl -20.47	Real Estate 1.98	Real Estate 1.98

Index used for each of the Asset Class: Gold: Domestic Prices of Gold, Real Estate: House Price Index (Data updated upto Sep 2023), Intl: Russell 1000 Index, G-Sec: ICRA Composite Gilt Index, Bonds: ICRA Composite Bond Fund Index, Cash: ICRA liquid Index, Large Cap: Nifty 50, Mid Cap: Nifty Midcap 150, Small Cap: Nifty Small Cap 250

a. Large Cap: 1st -100th company in terms of full market capitalization  
b. Mid Cap: 101st -250th company in terms of full market capitalization  
c. Small Cap: 251st company onwards in terms of full market capitalization

YTD Performance as on 31<sup>st</sup> January 2024. Source: ICRA MFI Explorer & RBI - DBIE

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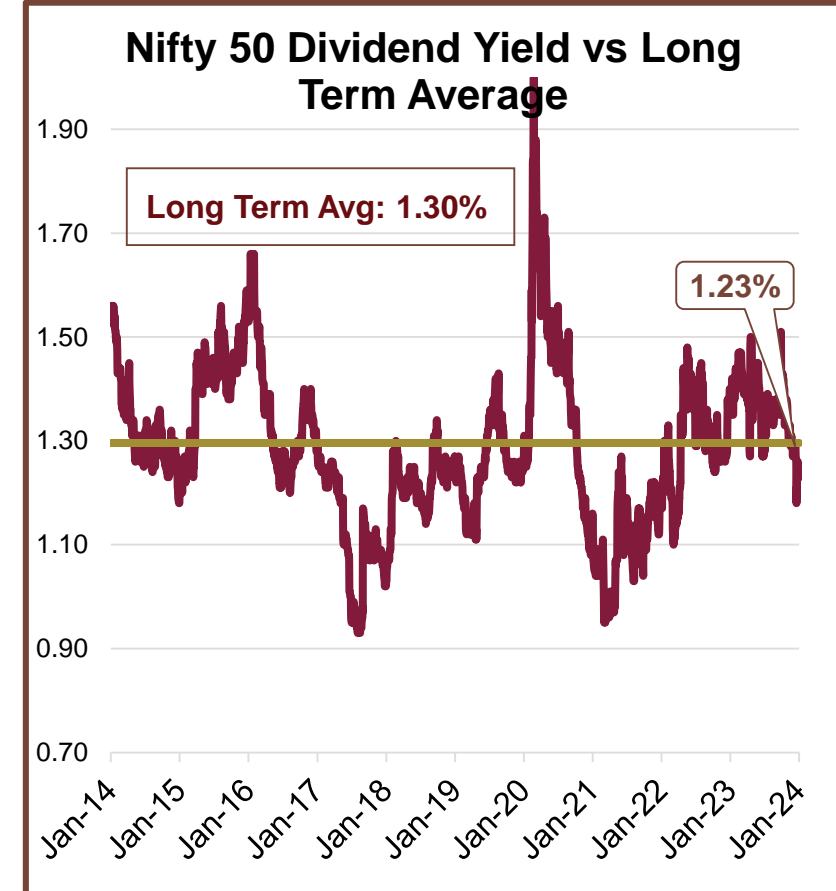
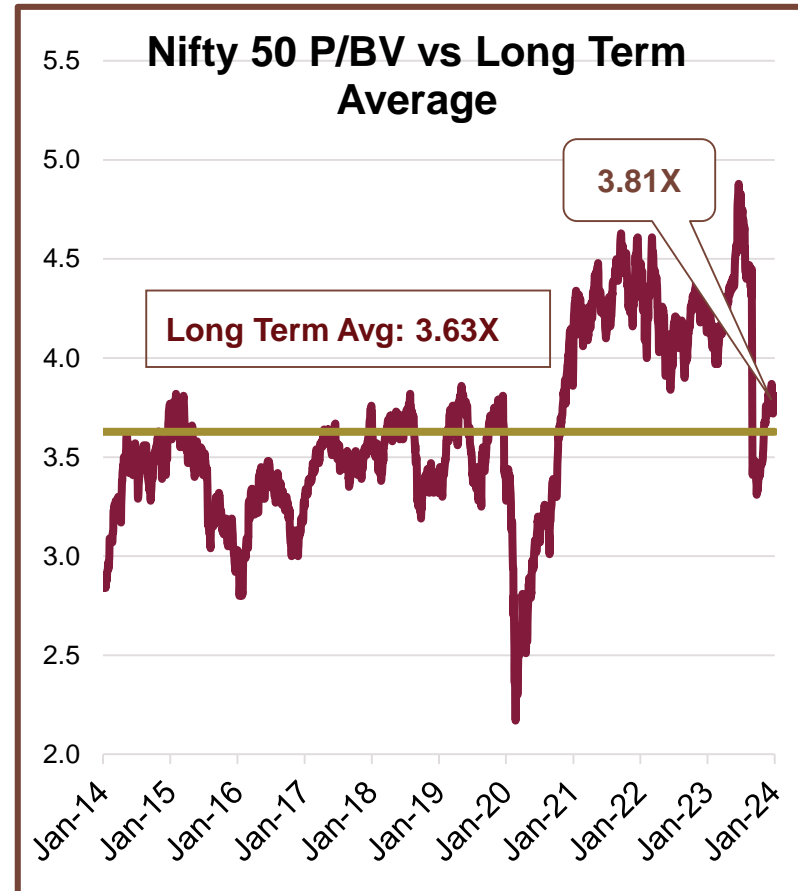
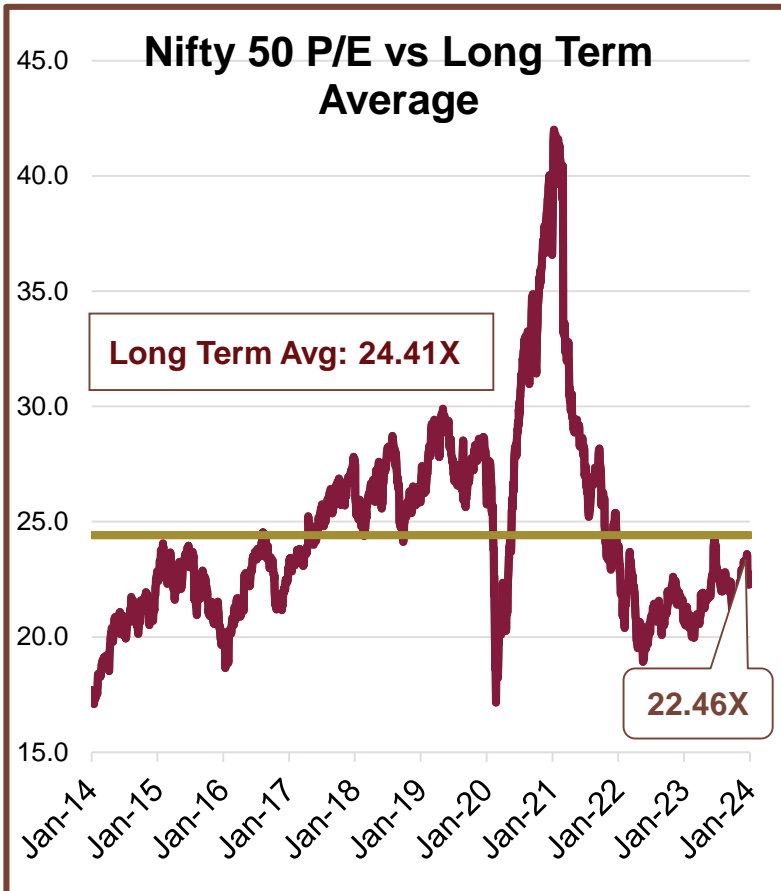
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# Valuations on the Trailing P/E, P/BV & Div. Yield Metrics

Nifty 12-month trailing P/E of 22.46X is lower than its historical long-term average of 24.41X

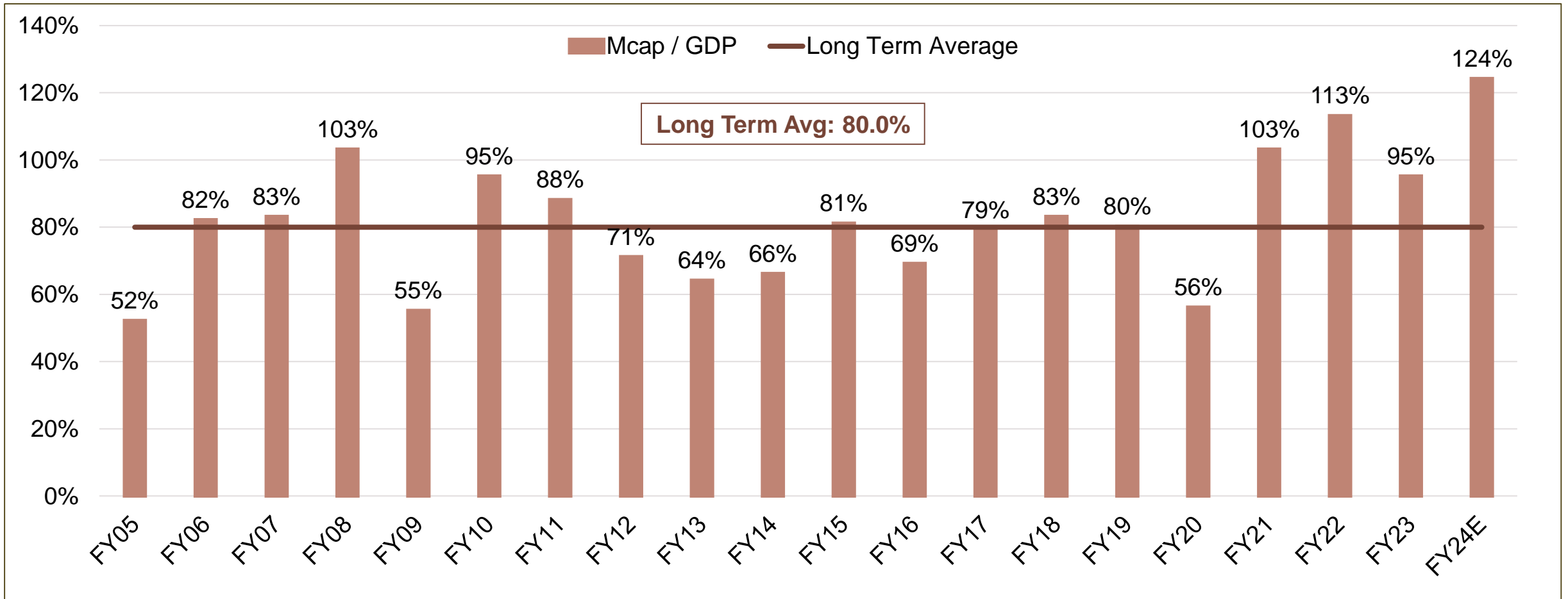
At 3.81X, the Nifty Trailing P/B is marginally higher than the historical long-term average of 3.63X

At 1.23%, the Nifty Trailing Dividend Yield is slightly lower than its historical long-term average of 1.30%



# Valuations on a Market Capitalisation / GDP perspective

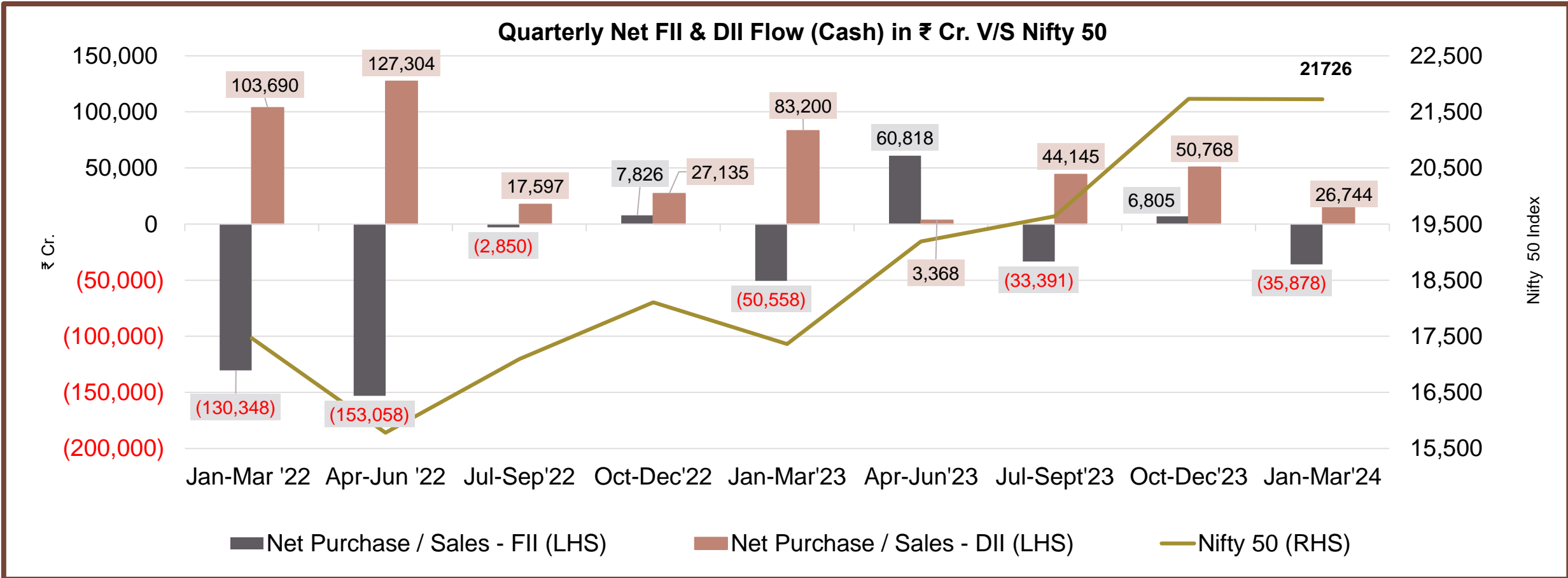
On Market Capitalization to GDP parameter (FY24E 124%), India is trading above the long-term average of 80%



Source: Kotak AMC, Monthly Market Outlook, January '24

# Quarterly FII & DII Flow into Equity

- FIIs were net sellers & DIIs were the net buyers of Indian equities for Jan '24 to the extent of ~ ₹35,800 cr and ~ ₹26,700 cr respectively.
- On the back of this, the equity market closed the month on a flat note.



\* Data Updated upto 31<sup>st</sup> January 2024

# Equity MF Category Average Performance - January 2024

- **For January month**, performance of all the equity categories were in green with Small Cap, Value & Dividend Yield outperforming the most. Among the sectoral funds, Infrastructure and Healthcare outperformed the rest with FMCG falling in the negative zone.
- On a 1-year CAGR basis, all the equity and sectoral/thematic categories delivered positive double-digit returns. **Small Cap category has emerged as the top performer** followed by Mid Cap, Value, Multi and Dividend Yield categories. In case of sectoral/thematic categories, **Infrastructure, followed by the Healthcare category has been the top performer** across given time frame as on January end.
- **On a 3-year CAGR** basis, among the sectoral category, **Healthcare generated lowest returns** as compared to other categories while the highest return was delivered by **Infrastructure sector**.
- **With respect to the 5-year CAGR returns**, all categories delivered returns above 15% with Small Cap, Mid Cap, Contra, Multi delivering the highest return. Among the sectoral funds Infrastructure, Technology and Healthcare being the top performer.
- **Large Cap has been one of the bottom performer** across all time frames.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	1.22	15.46	13.35	28.31	13.23	17.65	15.44
Large & Mid Cap	2.58	18.02	17.68	36.88	16.75	23.42	19.11
Multi Cap	3.42	18.72	19.92	41.70	20.21	27.12	21.44
Flexi Cap	2.02	16.71	16.35	34.24	15.06	20.68	17.52
Mid Cap	3.23	18.83	21.30	44.62	20.75	27.60	22.50
Small Cap	4.25	18.37	22.98	49.21	22.23	34.25	26.67
Focused	1.58	16.02	14.75	31.79	14.06	19.94	17.28
ELSS	1.98	17.02	16.34	33.76	15.49	20.95	17.56
Contra	3.19	20.87	20.99	40.72	21.91	26.60	21.59
Dividend Yield	3.65	21.14	21.80	41.57	21.12	27.17	20.21
Value	3.84	21.17	21.53	41.79	21.04	25.68	19.35
<b>Sectoral / Thematic</b>							
Consumption	0.25	12.61	13.45	32.77	18.17	21.51	17.98
Infrastructure	6.28	25.34	27.58	56.69	28.94	36.47	24.50
Financial Services	0.16	12.76	11.19	26.33	14.97	18.27	14.12
FMCG	-3.38	4.26	1.69	19.05	18.55	19.84	14.39
Healthcare	6.09	22.47	21.47	47.05	18.22	17.76	23.01
Technology	4.54	20.57	23.89	35.19	9.74	21.17	23.84
Others	3.84	20.38	20.76	41.02	20.22	25.33	20.07

Source: Morningstar Direct

# Debt Market - Review



# Debt Market Roundup - Key Takeaways

- The **India 10-Year GSec yield for January** closed at 7.14% as against 7.18% at the end of December, even as yields rose in the U.S. peer.
- Losses were incurred as the rise in **U.S. Treasury yields above 4% due to positive economic data** caused market participants to reduce their expectations of aggressive rate cuts from the Federal Reserve through 2024. Later during the month, losses were neutralized amid optimism in response to a **proposal to include eligible domestic bonds to the Bloomberg Emerging Market Local Currency index**. Gains were capped after the **RBI Governor stated that interest rate cuts won't be considered until the 4% target**.

## Outlook:

- The **January '24 CPI inflation** was lower than expected at 5.1%. Even though the current inflation rate is comfortably within the RBI's upper tolerance band of 2% - 6%, it remains above the central bank's target of 4% and as per experts it is expected that the central bank may not start cutting rates in the first half of the financial year 2025 (FY25).
- In the recent (Feb'24) MPC meeting, the **RBI highlighted its close monitoring of the 'last mile of disinflation'**. Additionally, the rate decision by the Fed and other developed nations will also be a factor in the MPC stance in the current calendar year apart from the domestic inflation trajectory.
- While the global economy continues to present a mixed picture, the **domestic conditions remain favorable with growth is accelerating and outpacing most forecasts, while inflation is on a downward trajectory**.
- Other factors which markets will track - index inclusion inflows, US Fed stance, upcoming election results and geopolitical conflicts affecting crude demand.
- **For Core portfolio (60-70% of the entire debt portfolio), investors can consider Short Duration funds, Banking & PSU, Corporate Bond and Target Maturity funds (matching with the average maturity of the funds and investment horizon)**. Along with mutual funds, good quality Corporate Fixed Deposits and Bonds can be looked at allocation in the debt portfolio for diversification and enhancing overall return.
- **For Satellite portfolio (30-40% of the entire debt portfolio), investors can consider mutual fund categories such Medium to Long duration, Gilt and Dynamic Bond Funds as they can generate capital gains when interest rates cuts by central banks happen in future.**

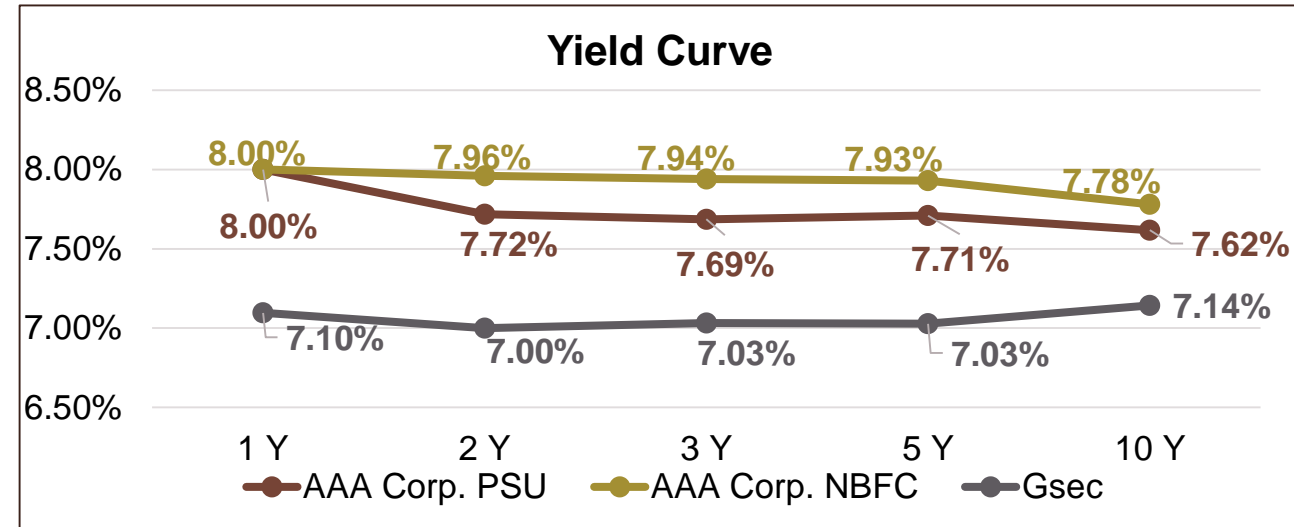
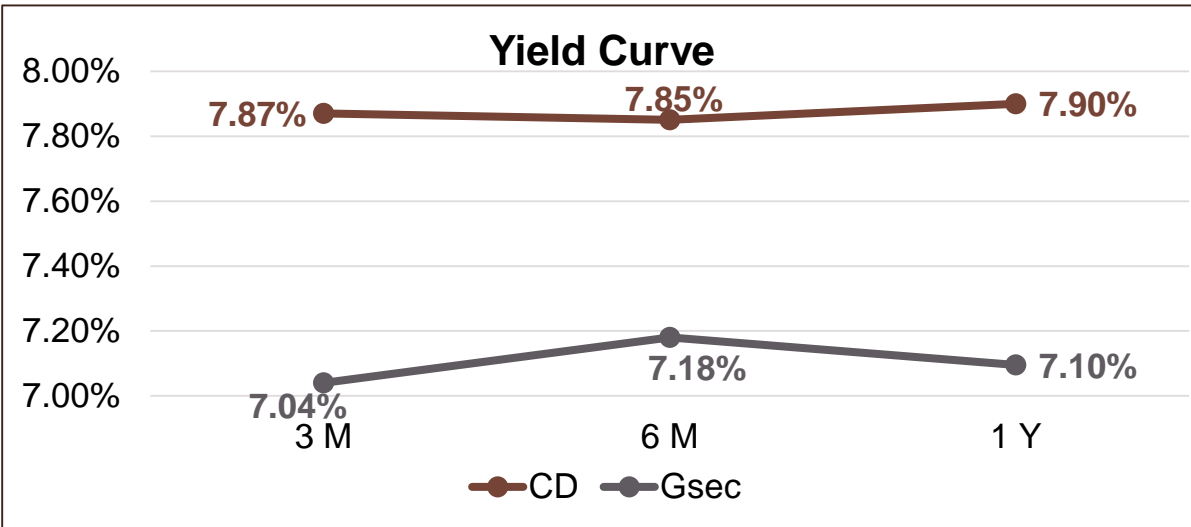
# Debt Dashboard

	Latest (31 Jan'24)	One Month Ago (31 Dec'23)	One Quarter Ago (31 Oct'23)	Half Year Ago, (31 Jul'23)	One Year Ago, (31 Jan'23)	M-o-M Change (bps)
<b>Interest Rates</b>						
Repo rate	6.50%	6.50%	6.50%	6.50%	6.25%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
<b>CD Rates</b>						
3 month	7.87%	7.38%	7.27%	6.98%	7.27%	49
6 month	7.85%	7.68%	7.49%	7.18%	7.55%	18
1 Year	7.90%	7.83%	7.73%	7.38%	7.72%	7
<b>T-Bill/G-sec</b>						
91 Days	7.03%	6.94%	6.89%	6.70%	6.47%	9
364 Days	7.13%	7.10%	7.16%	6.88%	6.90%	3
India 10 Year G-Sec Yield	7.14%	7.18%	7.35%	7.17%	7.34%	-3
<b>AAA Corp. Bonds (PSU)</b>						
1 Year	8.00%	7.81%	7.64%	7.35%	7.75%	19
3 Year	7.69%	7.74%	7.76%	7.58%	7.70%	-5
5 Year	7.71%	7.74%	7.72%	7.65%	7.68%	-3
<b>AAA Corp. Bonds (NBFC)</b>						
1 Year	8.00%	8.13%	7.77%	7.67%	7.77%	-13
3 Year	7.94%	7.85%	7.92%	7.88%	7.91%	9
5 Year	7.93%	7.90%	7.91%	7.87%	7.89%	3
<b>US Markets</b>						
10 Year US Treasury Yield	3.92%	3.87%	4.93%	3.97%	3.55%	5
<b>Currency &amp; Commodity</b>						
USD/ INR	83.10	83.19	83.26	82.25	81.77	↓
Crude Brent (\$/Barrel)	81.71	77.04	87.41	85.56	84.49	↑

- **10-year U.S. Treasury yield was up** as market participants trimmed expectations for rate cuts by the U.S. Federal Reserve (Fed) in 2024 after the minutes of the latest Fed policy meeting.
- **India 10-year GSec yields fell** amid optimism to include eligible domestic bonds to the Bloomberg Emerging Market Local Currency index.
- **Corporate bond yields of PSU's and NBFC's closed the month on a mixed note** as the Fed and the RBI capped expectation of an aggressive rate cut in the near future.
- **Brent crude** prices edged up on persistent worries that the Israel-Hamas battle may escalate into a larger regional conflict.
- For the past six policy meets, the MPC kept the **policy rates stagnant**.



# Yield Curve and Policy Rates & Reserve Ratios

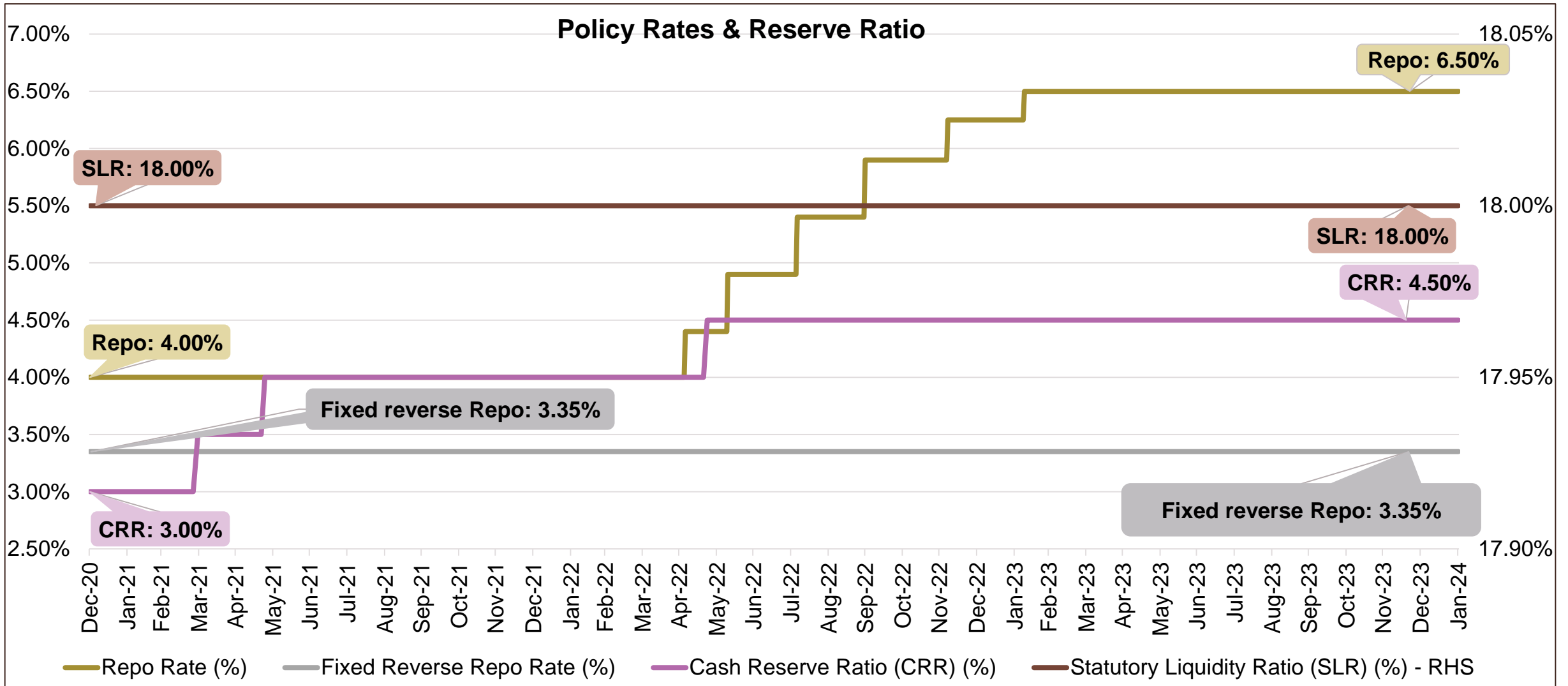


Data as on 31 January '24; Source: Bandhan AMC, Investing.com

Policy Rates / Reserve Ratio	Current
CRR	4.50%
SLR	18.00%
SDF	6.25%
Repo Rate	6.50%
MSF	6.75%
Bank rate	6.75%
Fixed Reverse Repo Rate	3.35%

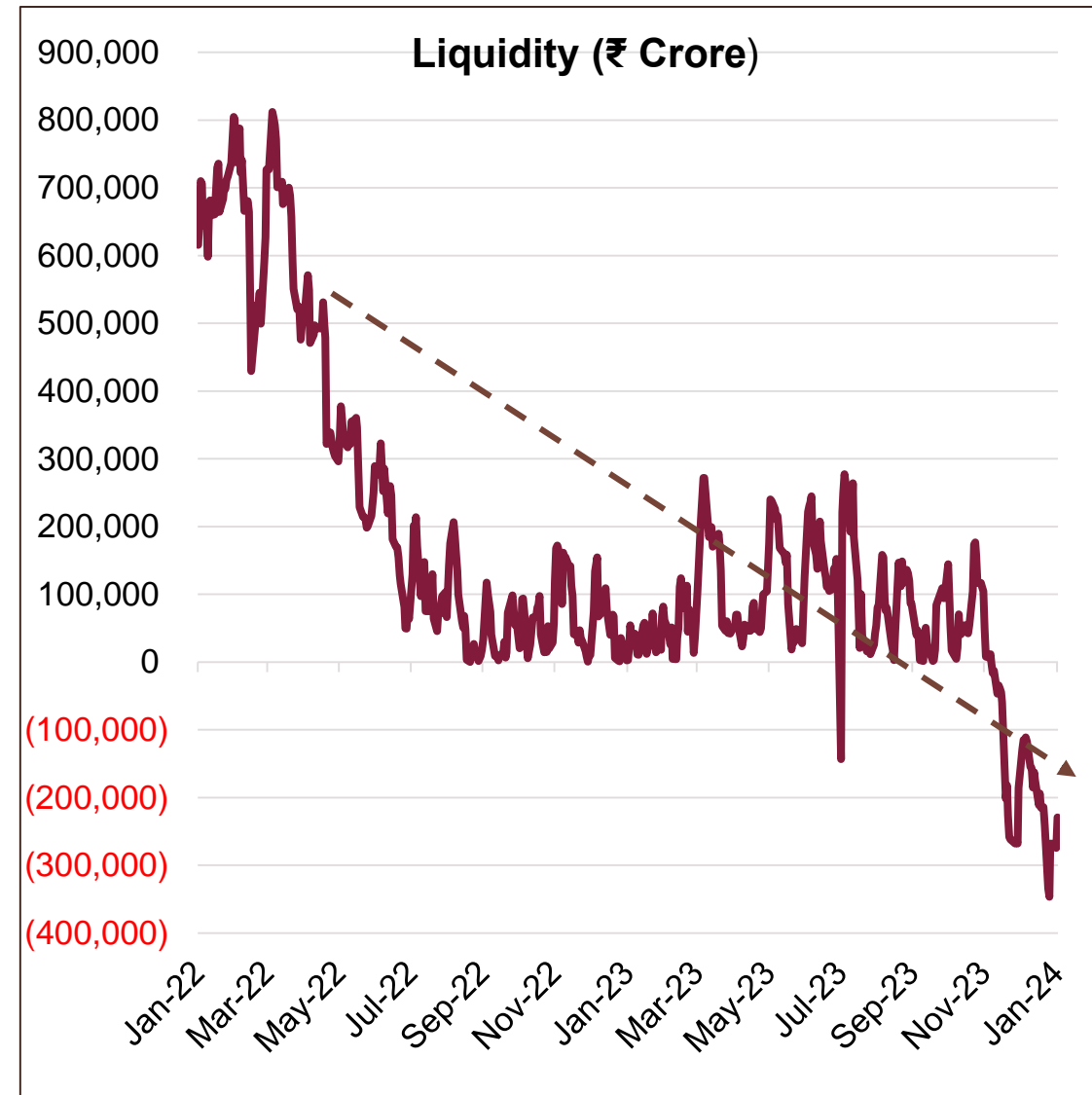
- In May '22, an unscheduled MPC meeting prompted an interest rate hike, leading to a **pronounced steepness in the short end of the yield curve.**
- Now, over a year and a half after the rate hike cycle had begun, the **yield curve has nearly flattened.**
- **The 10 Year minus 3 Months GSec spread** was at 86 bps in Jan '23 whereas at the end of Jan '24 it has reduced to 10 bps.
- **Yields have remained mixed across categories and maturity profiles** in Dec '23 V/S Nov '23.
- At present, the spread between AAA Corporate Bond (NBFCs) and G-sec is almost the same at 60-100 bps as compared to a year ago of 50-100 bps.
- In **Feb '24 policy meet**, though the RBI did not increase the policy rates, **the RBI has made a distinction between the stance of withdrawal of accommodation and liquidity operations.**

# Policy rate & Reserve Ratio movement since Dec 2020



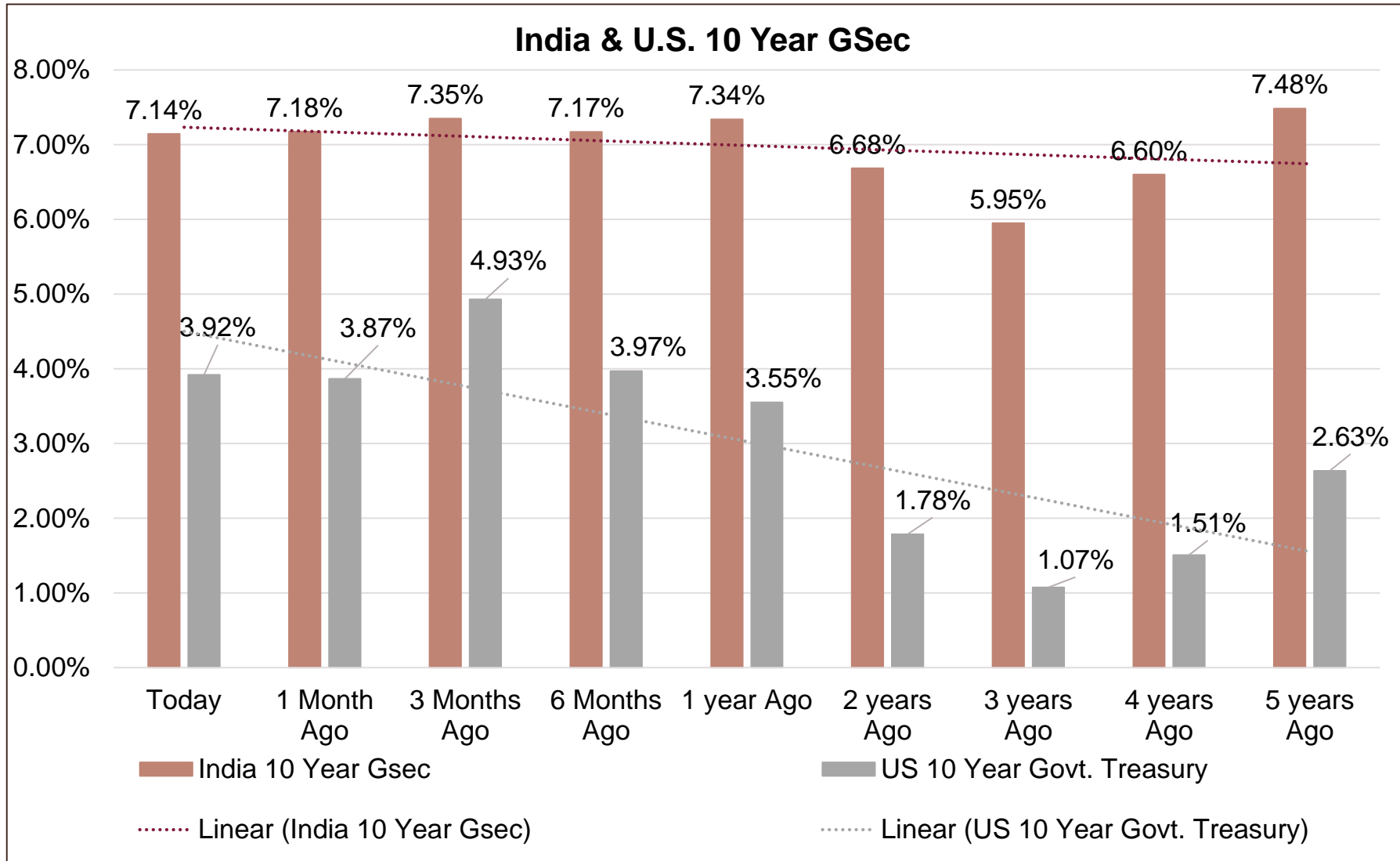
## Liquidity in the System

- In the Apr '22 policy meet, **Standing Deposit Facility (SDF) was introduced, and the Liquidity Adjustment Facility (LAF) corridor was narrowed to 50 bps making the Reverse Repo Rate redundant.**
- Like most other central banks, the RBI had injected additional liquidity into the system to counter the Covid-19 related onslaught on the economy. Consequently, the size of Reserve Bank's balance sheet had expanded significantly. Persistence of such expanded balance sheet far too long could have created macroeconomic and financial instability; thus, the **Reserve Bank has successfully reduced its balance sheet size well in time.**
- **System liquidity, as measured by the net position under the LAF, turned into deficit mode for the first time in Sep' 23** after a gap of nearly 4.5 years since May '19. During December-January, the RBI pro-actively injected liquidity through both the main and the fine-tuning repo operations to ease liquidity tightness in the system.
- **The system level liquidity deficit widened from an average of ₹0.42 lakh crore during Sep-Nov '23 to ₹1.61 lakh crore during Dec-Jan.**



Source: Bandhan AMC

# Yields Movement across India and U.S.



- **U.S. Fed** kept interest rates unchanged for the fourth consecutive meeting held in Jan '24.
- In case of U.S., **the yields have remained volatile** as it rose from 3.6% a year ago to a 16-year high in Oct '23 ~5.0% to 3.9% at present.
- While for the **Indian markets, the yields have remained flat at 7.0-7.5%** during the past one year as the RBI kept policy rates unchanged for the past one year.
- In both the U.S. and India, the yields were at its trough ~3 – 4 years ago when the pandemic struck the world.

# MF Category wise - Average Yield, Average Maturity and Modified Duration Movement

➤ The YTM's have gone up in the past one year in the broad category of Money Market, Accrual and Duration Funds. While for Passives, the yields were rather flattish.

➤ With respect to average maturity and modified duration of the funds – especially the Duration & Accrual category, it has largely been on the rise since past 1 year.

Category	YTM					Average Maturity					Modified Duration				
	Dec-23	Sep-23	Jun-23	Dec-22	Dec-21	Dec-23	Sep-23	Jun-23	Dec-22	Dec-21	Dec-23	Sep-23	Jun-23	Dec-22	Dec-21
<b>Money Market</b>															
Liquid	7.40	7.06	6.98	6.62	3.65	0.14	0.14	0.14	0.11	0.09	0.14	0.13	0.14	0.11	0.08
Ultra Short Duration	7.66	7.41	7.29	7.07	4.19	0.43	0.47	0.48	0.40	0.41	0.38	0.43	0.43	0.35	0.37
Low Duration	7.82	7.57	7.50	7.37	4.49	1.23	1.22	1.20	1.35	1.16	0.83	0.83	0.81	0.71	0.66
Money Market	7.50	7.29	7.24	6.93	3.89	0.27	0.39	0.54	0.32	0.22	0.26	0.38	0.52	0.31	0.22
<b>Accrual</b>															
Short Duration	7.68	7.58	7.46	7.46	5.07	3.49	3.12	2.91	2.35	2.27	2.52	2.35	2.19	1.78	1.66
Medium Duration	7.88	7.88	7.76	7.67	6.06	4.95	4.76	4.55	4.10	3.98	3.42	3.32	3.04	2.86	2.97
Banking & PSU Debt Fund	7.64	7.58	7.48	7.42	5.26	4.47	4.22	3.97	3.25	3.32	2.78	2.63	2.44	2.06	2.28
Corporate Bond Fund	7.72	7.64	7.55	7.49	5.33	3.84	3.67	3.51	2.83	3.06	2.69	2.61	2.51	1.88	2.17
Floating Rate	7.93	7.77	7.84	7.58	5.00	4.14	3.81	3.92	3.50	3.79	1.43	1.28	1.15	1.02	1.24
Credit Risk	8.37	8.24	8.11	8.05	5.93	3.04	3.38	3.26	2.59	2.41	1.89	1.83	1.56	1.66	1.76
<b>Duration</b>															
Medium To Long Duration	7.47	7.49	7.39	7.44	5.77	9.66	9.07	7.23	6.71	6.07	6.01	5.84	4.71	4.41	4.23
Long Duration Fund	7.48	7.48	7.40	7.51	6.89	23.01	20.98	19.71	16.72	18.74	9.81	9.52	9.19	8.40	9.61
Dynamic Bond	7.52	7.49	7.38	7.39	5.57	8.84	6.76	5.14	4.63	4.81	5.26	4.33	3.38	2.93	3.28
Gilt	7.41	7.37	7.19	7.21	5.14	12.06	8.53	6.25	6.54	5.56	6.67	5.31	4.05	3.90	3.26
Gilt - 10 Year	7.32	7.34	7.23	7.42	6.39	10.00	9.94	9.36	9.51	9.51	6.78	6.87	6.50	6.56	6.68
<b>Passives</b>															
Target Maturity Funds / Index Funds	7.45	7.48	7.34	7.46	6.28	4.49	4.70	4.94	5.10	5.92	3.50	3.65	3.82	3.93	4.52

# Debt Category Average Performances – January 2024

- **During the month** under consideration, all the categories were in the green with Duration funds registering the highest returns.
- With respect to **3 months and 6 months trailing returns**, all the categories were in the green delivering with the Duration category outperforming the most.
- **For the full year**, all the categories were positive, with our suggested categories such as Ultra Short Duration, Money Market, Low Duration, Liquid, Short Duration, Floating Rate, Banking & PSU Debt Fund & Corporate Bond Fund delivered decent returns.
- **On a 2-year CAGR basis**, all the categories delivered an early single digit growth. In addition to the Credit Risk Funds, our suggested categories - the Ultra Short Duration, Low duration, Money Market, Liquid, Short Duration, Floating Rate, Corporate Bonds, Dynamic Bond and Target Maturity Funds were one of the best performing categories during this period.
- **With respect to the 3 and 5 year CAGR returns**, most the categories reported early to mid single returns.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
<b>Money Market</b>							
Overnight	0.56	1.68	3.36	6.65	5.74	4.87	4.64
Liquid	0.56	1.65	3.25	6.60	5.65	4.77	4.80
Ultra Short Duration	0.57	1.63	3.20	6.72	5.60	4.98	5.39
Low Duration	0.57	1.67	3.20	6.92	5.57	5.01	5.40
Money Market	0.60	1.71	3.33	7.06	5.87	5.11	5.76
<b>Accrual</b>							
Short Duration	0.60	1.99	3.16	6.76	5.59	5.02	5.96
Medium Duration	0.67	2.19	3.17	6.98	5.63	5.54	5.48
Banking & PSU Debt Fund	0.63	1.92	3.11	6.84	5.24	4.73	6.66
Corporate Bond Fund	0.62	1.92	3.14	6.93	5.15	4.74	6.54
Floating Rate	0.59	1.80	3.43	7.50	5.83	5.23	6.41
Credit Risk	0.68	1.91	3.98	8.07	9.87	9.30	4.95
<b>Duration</b>							
Medium To Long Duration	0.77	2.67	3.03	6.91	5.02	4.22	5.93
Long Duration Fund	1.66	3.93	3.89	8.47	5.93	3.56	7.07
Dynamic Bond	0.87	2.64	3.24	7.01	5.30	4.65	6.33
Gilt	0.98	3.01	3.50	7.40	5.18	4.19	6.80
Gilt - 10 Year	0.80	3.14	3.40	7.98	5.06	3.70	7.15
<b>Passives</b>							
Target Maturity Funds / Index Funds	0.70	2.51	3.40	7.35	5.00	5.11	--

Source: Morningstar Direct

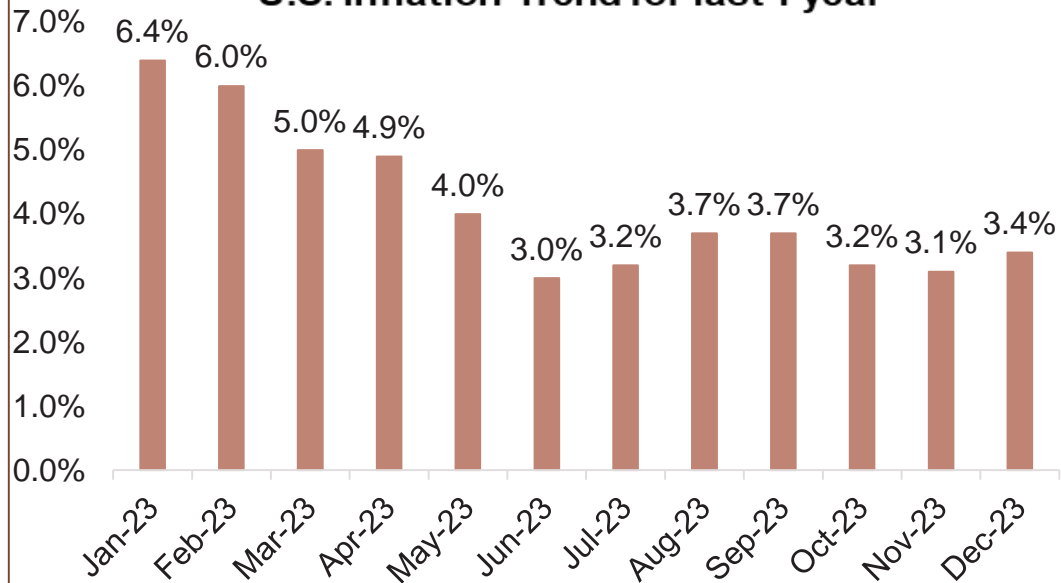
# Event Update

# U.S. Fed holds rates steady, indicates it is not ready to start cutting

## Key Highlights

- The Fed **kept interest rates unchanged at 5.25%-5.50%** range in Jan-24 policy meet.
- Fed maintained **pause for the fourth consecutive meeting** signaling a commitment to the current rate policy.
- Fed announced that it **will only cut interest rates when it has greater confidence of inflation moving sustainably to the 2% level.**

**U.S. Inflation Trend for last 1 year**



Source: Trading Economics

## U.S inflation Peaking:

- ❖ Inflation has eased notably over the past year but remains above the longer-run goal of 2%.
- ❖ U.S. inflation data had shown a significant decrease till June 2023 to 3.0%. In **December 2023**, CPI inflation rose to **3.4%**, from a **5-month low of 3.1% in November** as energy prices went down at a slower pace.
- ❖ Fed estimates U.S. inflation reaching **2.1% by the end of 2025**, before finally attaining the **2.0% goal in 2026.**

## To Conclude:

- ❖ **Fed kept the policy rate unchanged** and the decision was widely expected given the Fed's stated goal of slowing inflation to its long-term target of 2%.
- ❖ The Fed Chairman Jerome Powell stated that **labour market tightness has eased and progress on inflation has continued**, the risk of achieving employment and inflation goals are better balanced though inflation has eased but remains elevated.
- ❖ **Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the long run.**



# RBI keeps repo rate unchanged at 6.5% yet again

## Key Highlights

- MPC keeps repo rate unchanged at 6.50% by majority
- Cash reserve ratio (CRR) kept unchanged at 4.50%
- MPC voted by majority on “**withdrawal of accommodation**”
- For FY24, retail inflation target remained unchanged at 5.4%
- **FY24 Real GDP growth rate hiked to 7.3%** from 7.0%
- **FY25 Real GDP** growth rate projected at 7.0%
- The monetary policy was broadly **in line with market expectations.**

Policy Rates / Reserve Ratio	8 Dec '23	8 Feb '24	Status
CRR	4.50%	4.50%	↔
SLR	18.00%	18.00%	↔
SDF	6.25%	6.25%	↔
Repo Rate	6.50%	6.50%	↔
MSF	6.75%	6.75%	↔
Bank rate	6.50%	6.50%	↔
Fixed Reverse Repo Rate	3.35%	3.35%	↔

## Growth Outlook:

- The **global trade momentum remains weak** although it is showing signs of recovery in **FY24.**
- Elevated levels of public debt is raising serious concerns on macroeconomic stability in many countries including advanced economies **Global public debt to GDP ratio is projected to reach a 100% by the end of this decade.**
- **Domestic economic activity remains strong with Industrial activity gaining steam on back of improving performance of manufacturing. Agricultural activity is holding up well despite lower rainfall, lower reservoir and delayed sowing.**
- Considering all these factors, **real GDP growth for FY24 is projection has been revised upwards to 7.3% from 7.0% projected in December 2023.**

## Inflation Outlook:

- **Headline inflation moderated to an average of 5.5% during April- December 2023. In contrast, the deflation in CPI fuel deepened and core inflation moderated to a four-year low of 3.8% in Dec'23.**
- Going ahead, inflation trajectory would be faced by the outlook on **food inflation, about which there is uncertainty. Increasing geopolitical tensions are leading to supply chain disruptions with price volatility being noticed in crude oil.**
- Considering all these factors, **inflation projection for the full year was maintained at 5.4%.**

**Thank You!**

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