



TATA CAPITAL WEALTH

Market Outlook - October 2023



Macro Indicators

	Current		Month Ago	Quarter Ago	Half Year Ago	Year Ago
Economic Indicators:						
PMI Manufacturing	57.5 (Sep-23)	↓	58.6 (Aug-23)	57.8 (Jun-23)	56.4 (Mar-23)	55.1 (Sep-22)
PMI Services	61.0 (Sep-23)	↑	60.1 (Aug-23)	58.5 (Jun-23)	57.8 (Mar-23)	54.3 (Sep-22)
Consumer Price Index (CPI)	6.8% (Aug-23)	↑	7.4% (Jul-23)	4.3% (May-23)	6.4% (Feb-23)	7.0% (Aug-22)
Wholesale Price Index (WPI)	-0.5% (Aug-23)	↑	-1.4% (Jul-23)	-3.6% (May-23)	3.9% (Feb-23)	12.5% (Aug-22)
Industrial Production (IIP)	5.7% (Jul-23)	↑	3.7% (Jun-23)	4.5% (Apr-23)	5.8% (Jan-23)	2.2% (Jul-22)
GDP	7.8% (Jun-23)	↑	NA	6.1% (Mar-23)	4.5% (Dec-22)	13.1% (Jun-22)
Trade Deficit (\$ bn)	24.2 (Aug-23)	↑	18.4 (Jul-23)	22.0 (May-23)	16.6 (Feb-23)	24.9 (Aug-22)
Commodity Market:						
Brent Crude (\$/barrel)	95.3 (29-Sep-23)	↑	86.9 (31-Aug-23)	74.9 (30-Jun-23)	79.8 (31-Mar-23)	88.0 (30-Sep-22)
Gold (\$/oz)	1,866.1 (29-Sep-23)	↓	1,965.9 (31-Aug-23)	1,929.4(30-Jun-23)	1,969.0 (31-Mar-23)	1,672.0 (30-Sep-22)
Silver (\$/oz)	22.5 (29-Sep-23)	↓	24.8 (31-Aug-23)	22.8 (30-Jun-23)	24.2 (31-Mar-23)	19.0 (30-Sep-22)
Currency Market:						
USD/INR	83.0 (29-Sep-23)	↑	82.7 (31-Aug-23)	82.1 (30-Jun-23)	82.2 (31-Mar-23)	81.5 (30-Sep-22)

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: After the Nifty 50 finally managed to surpass the much anticipated 20,000 mark while S&P BSE Sensex reclaimed the 67,000 level, the benchmark indices witnessed losses, however it closed the month on a positive note with the Nifty 50 registering gains of 1.55% and closing at 19,368 levels.

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

- Domestic equity markets had a volatile month following missed cues from global equity markets. Markets rose in anticipation that the U.S. Fed may not raise interest rates in the upcoming policy meeting during the month and Chinese policymakers rolled out a slew of measures to improve the growth prospects of its faltering economy.
- Markets fell as **U.S. Federal Reserve's** policy meeting indicated one more rate hike may come by the end of the year while the European Central Bank & Bank of England hinted that interest rates may remain stable.
- **FII's were net sellers** while **DII's were net buyers** of Indian equities not only for the month of September, but also for Q2FY24, and calendar year to date.

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, Credit Growth, PMI Services & increased Industrial production **point to elevated activity levels.**
- Therefore, **investors are suggested not to time the markets and focus on the medium to long term potential of the equity markets.** The important drivers for equity market are – **Q2FY24 earnings season in India, global crude oil prices, global liquidity conditions and central banks actions.** Looking at the sharp rally in the equity markets, investors need to be cautious **and invest in staggered manner and follow the prescribed asset allocation. Investors can look at Large cap oriented funds along with Multi Asset, Balanced Advantage and Balanced Hybrid categories as these categories will assist to manage the near term risks.**

Indian Equity Market Dashboard – September 2023

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	
Indian Market Performance & Valuation											
S&P BSE Sensex	1.18	2.07	14.67	16.20	6.90	21.51	14.03	24.26	3.60	1.23	
Nifty 50	1.55	2.70	15.88	16.11	6.86	21.89	13.75	22.21	4.45	1.37	
Nifty 100	1.45	2.84	16.55	13.37	5.96	21.20	13.23	22.70	3.50	1.36	
Nifty 200	1.81	4.38	19.22	15.99	7.40	22.95	14.13	23.03	3.46	1.30	
Nifty 500	1.99	5.63	21.33	17.68	8.35	24.13	14.89	23.45	3.48	1.27	
Nifty Midcap 150	3.47	13.43	35.13	30.76	16.40	33.82	20.88	26.77	3.59	0.99	
Nifty Smallcap 250	3.78	16.58	41.94	33.96	15.31	35.94	20.09	24.54	3.14	1.05	
Nifty Microcap 250	2.84	23.85	60.47	52.73	27.56	54.03	24.51	26.60	2.48	0.82	
Sectoral Indices								Equity Market Flow			
Nifty PSU Bank	16.68	28.25	43.86	77.08	47.83	62.13	15.01	Equity Flow (₹ Cr.)	1-Mth	CYTD	1 Yr.
Nifty Energy	5.42	11.33	22.81	7.43	11.33	24.62	14.21				
Nifty Infrastructure	4.46	9.47	25.22	26.74	12.79	28.22	17.78	FII	-26,692	-23,130	-15,304
Nifty Realty	3.96	11.17	51.57	36.35	6.22	40.01	21.73	DII	20,313	130,714	157,848
Nifty Auto	3.34	7.66	34.45	28.50	24.78	28.27	12.35				
Nifty Metal	2.57	10.55	25.60	19.02	12.54	47.72	16.57				
Nifty Healthcare	2.31	9.34	28.46	19.32	4.85	12.51	12.15				
Nifty IT	2.26	7.86	14.53	19.92	-2.96	19.01	17.18				
Nifty Pharma	2.04	12.73	29.83	19.96	4.11	10.28	9.93				
Nifty India Consumption	1.49	2.01	19.74	8.43	9.64	20.55	13.32				
Nifty Oil & Gas	1.29	5.34	12.92	3.86	2.56	19.35	11.86				
Nifty Services Sector	1.19	1.24	11.84	8.72	2.23	21.35	12.88				
Nifty Bank	0.82	-0.12	12.65	16.42	10.06	28.50	12.70				
Nifty Financial Services	0.58	-1.04	12.34	14.25	4.99	24.06	14.08				
Nifty FMCG	0.18	-1.11	14.13	17.78	14.98	22.36	13.43				

Source: Moneycontrol

Global Equity Market Dashboard - September 2023

Country	Index Name	Index Value	Absolute(%)				CAGR (%)		
			1 Month	3 Months	6 Months	1 Year	2 Years	3 Years	5 Years
Global Market Indices									
UK	FTSE	7,608	1.86	1.03	-0.16	10.39	3.62	9.06	0.26
India	Nifty 50	19,638	1.55	2.37	14.97	14.92	5.59	20.43	12.42
Singapore	Strait Times	3,217	-0.09	0.36	-1.23	2.79	2.10	9.27	-0.24
Indonesia	Jakarta Composite	6,940	-0.40	4.08	1.93	-1.44	5.07	12.54	3.03
Brazil	Ibovespa Sao Paulo	116,565	-0.85	-1.30	12.46	5.95	2.49	7.21	7.99
China	SSE Composite	3,110	-0.91	-2.92	-4.67	2.86	-6.65	-1.13	1.97
Switzerland	Swiss Market	10,964	-1.18	-2.84	-0.63	6.80	-2.96	2.48	3.82
Japan	Nikkei	31,858	-1.52	-4.06	14.75	22.89	4.01	11.18	5.72
Malaysia	KLSE	1,424	-1.98	3.49	-0.03	2.12	-3.77	-1.82	-4.50
Taiwan	Taiwan Capitalization Weighted Stock	16,354	-2.34	-3.40	3.22	21.94	-1.74	9.34	8.24
Pan - Europe	Euronext 100	1,324	-2.89	-3.68	-2.00	18.88	1.86	11.35	4.52
France	CAC 40	7,135	-3.22	-3.62	-1.78	23.89	4.62	14.11	5.36
Germany	DAX	15,387	-3.29	-4.77	-0.88	27.09	0.41	6.44	4.67
Hong Kong	HangSeng	17,810	-3.76	-5.92	-12.37	3.42	-14.89	-8.78	-8.50
South Korea	Kospi	2,465	-4.16	-4.00	0.49	14.48	-10.42	1.93	1.02
U.S.	Nasdaq 100	14,715	-4.99	-3.09	13.59	34.22	0.09	8.83	14.03
U.S.	Russell 1000	2,351	-5.07	-3.55	5.96	19.27	-1.39	7.89	7.80

Data as on 30th September 2023. Performance shown is for Price Return Index. Source: ICRA MFI

Global Equity Market Performance across Calendar years

2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	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 26.30
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 22.09
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 11.68
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 10.51
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	South Korea 10.22
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	France 10.22
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	India 8.47
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. 2.10
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 0.69
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 -9.97

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

YTD Performance as on 30th September 2023. Source: MorningStar Direct

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Asset Class Performance

2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	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 29.00
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 27.39
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 11.66
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 8.47
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	G-Sec 5.59
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	Gold 5.57
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 5.41
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 5.35
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 3.28

Index used for each of the Asset Class: Gold: Domestic Prices of Gold, Real Estate: House Price Index (Data updated upto June 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

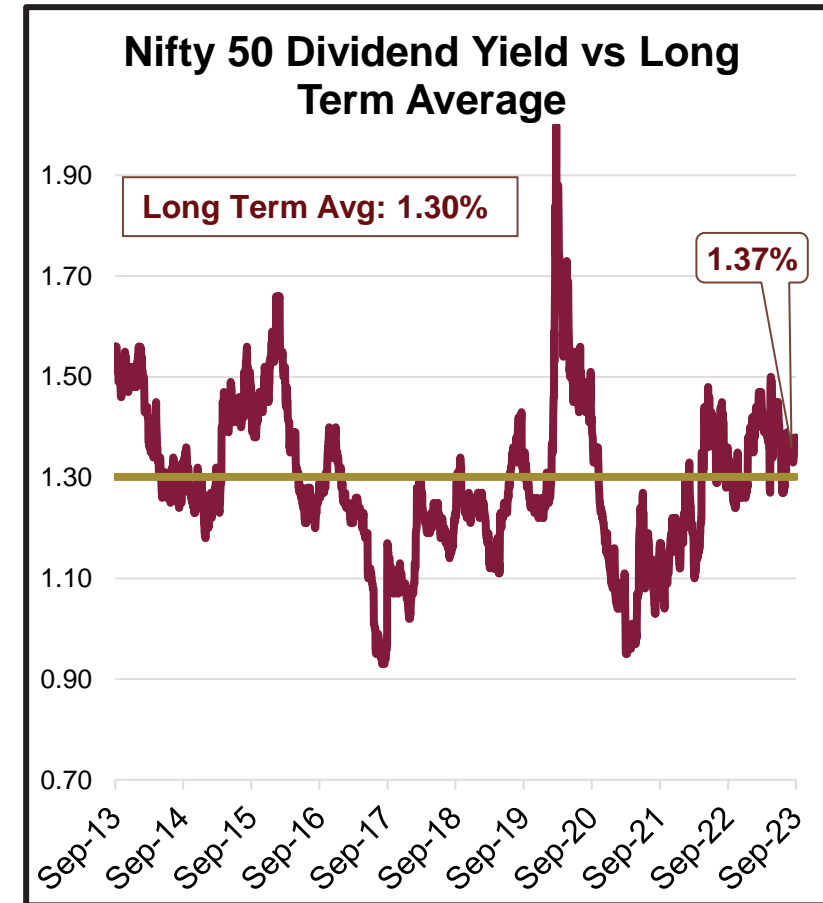
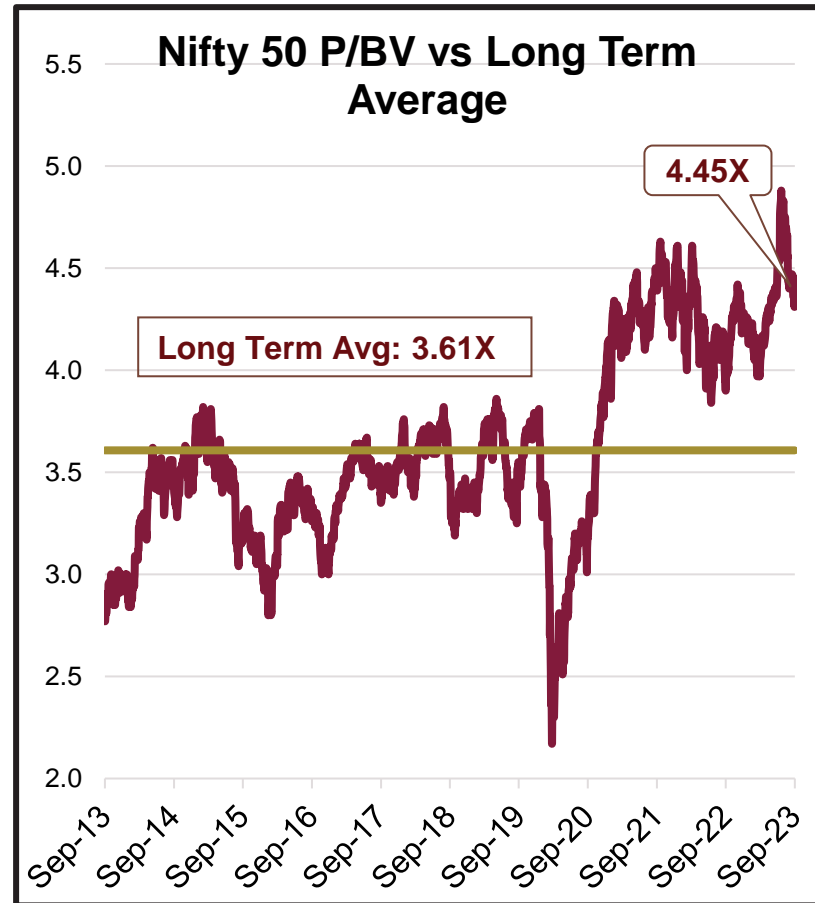
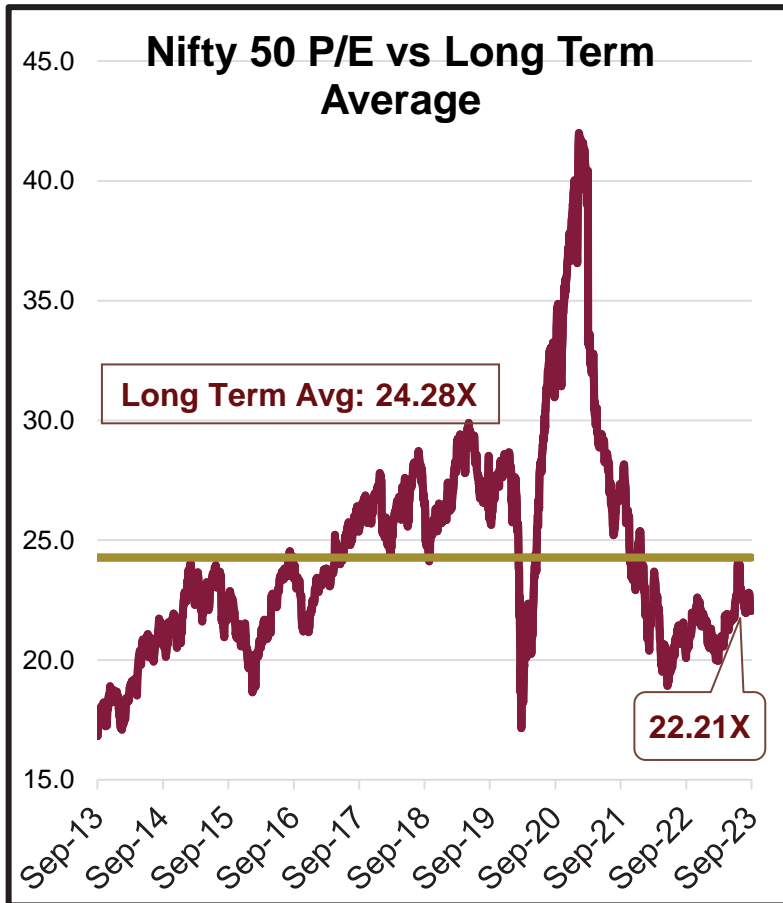
YTD Performance as on 30th September 2023. Source: ICRA MFI & RBI - DBIE

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

Nifty 12-month trailing P/E of 22.1X is lower than its historical long-term average of 24.28X

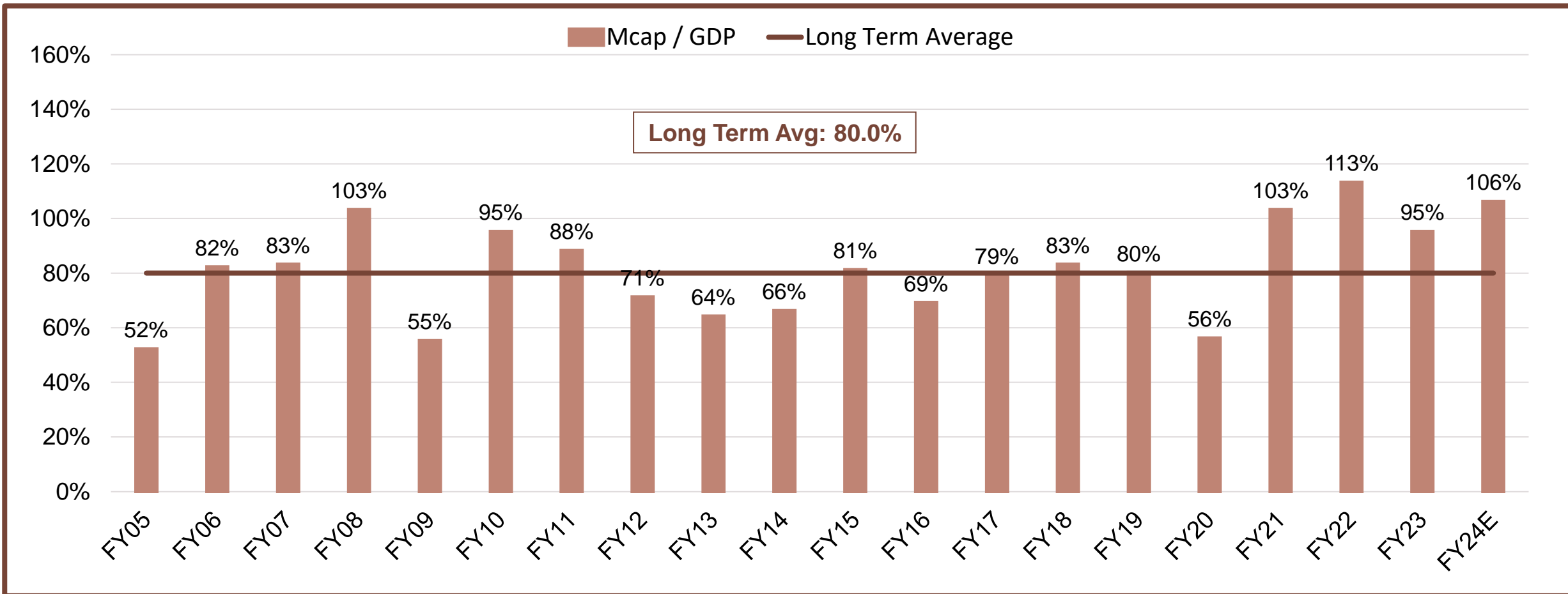
At 4.45X, the Nifty Trailing P/B is above the historical long-term average of 3.61X

At 1.37%, the Nifty Trailing Dividend Yield is marginally above the historical long-term average of 1.30%



Valuations on a Market Capitalisation / GDP perspective

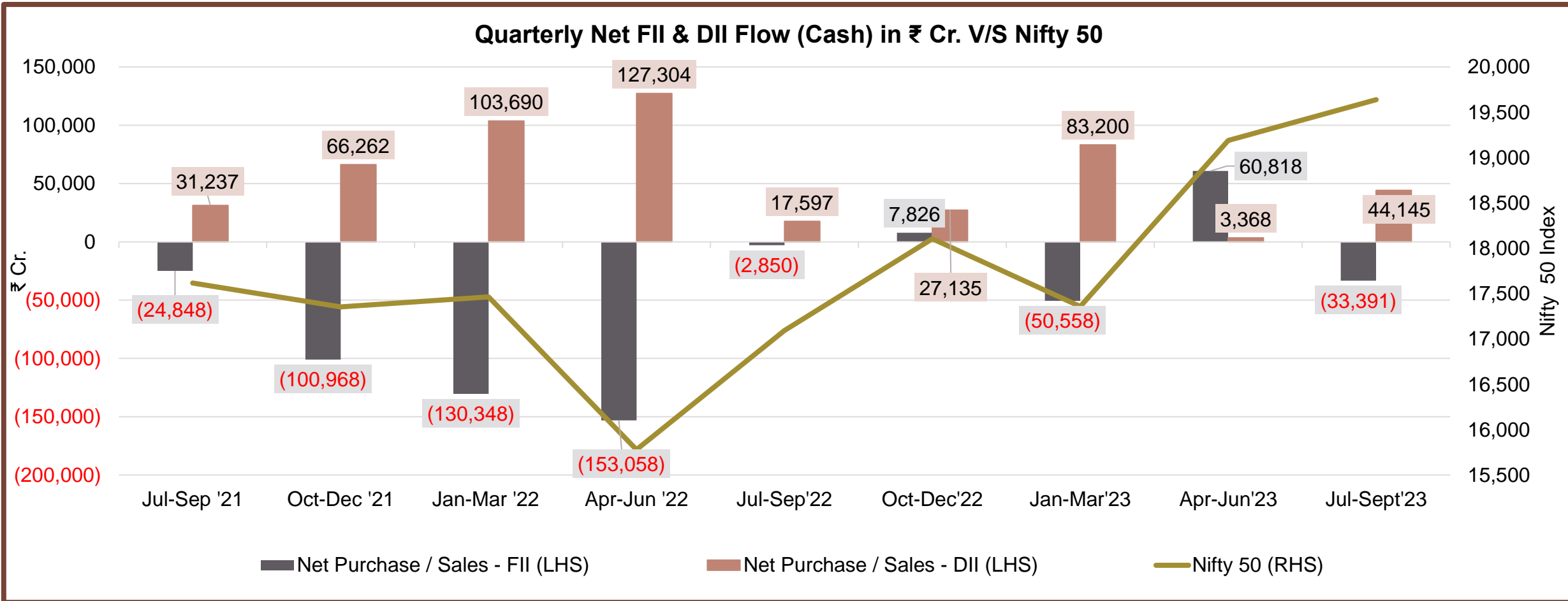
On Market Capitalisation to GDP parameter (FY24E 106%), India is trading above the long-term average of 80%



Source: Kotak AMC, Monthly Market Outlook, September'23

Quarterly FII & DII Flow into Equity

- FIIs remained net sellers for the second quarter, they sold over ₹33,000 cr of equities.
- On the other hand, DIIs continued to remain net buyers for the second quarter, DIIs purchased equities worth a net of ~ ₹44,000 cr.



Equity Mutual Fund Category Average Performance – Sept'2023

- For September month, performance of all the equity categories were in the green with Dividend Yield, Contra & Value outperforming the rest. Among the sectoral funds, Technology and Infrastructure outperformed. Financial Services & FMCG saw a negative growth.
- 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 Dividend Yield, Value, and Contra categories. In case of sectoral/thematic categories, **Infrastructure, followed by the healthcare category has been the top performer** across given time frame as on September end.
- On a 3-year CAGR basis, among the sectoral category, **Healthcare generated lowest returns** as compared to other categories.
- With respect to the 5-year CAGR returns, barring **Financial Services** which generated ~10% CAGR returns; all other categories delivered returns above 10%.
- **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	1.97	3.98	15.90	16.04	6.41	20.51	12.80
Large & Mid Cap	1.77	7.03	21.44	19.72	9.52	25.25	15.70
Multi Cap	1.71	8.79	24.09	22.25	11.39	28.77	17.73
Flexi Cap	1.88	6.35	20.17	18.20	7.86	22.83	14.54
Mid Cap	1.62	10.14	27.59	22.90	12.72	29.00	18.77
Small Cap	1.30	11.12	30.21	26.74	15.57	35.71	22.00
Focused	1.71	5.45	18.65	17.11	7.66	22.57	14.22
ELSS	1.98	5.94	19.06	18.49	8.20	22.99	14.43
Contra	2.73	7.77	21.19	23.76	13.49	29.18	17.50
Dividend Yield	3.46	8.31	19.70	24.94	11.59	26.13	15.46
Value	2.50	8.23	22.19	24.89	11.88	27.69	14.92
Sectoral / Thematic							
Consumption	0.97	8.79	20.34	14.39	13.53	24.55	13.35
Infrastructure	1.46	14.37	26.12	25.61	19.57	34.88	15.83
Financial Services	-1.58	5.13	15.16	15.30	9.32	22.72	9.57
FMCG	-1.99	3.58	13.99	17.01	18.34	22.28	11.49
Healthcare	0.82	17.37	26.71	22.12	3.64	15.61	16.16
Technology	4.26	11.16	14.71	18.26	1.56	26.34	18.76
Others	0.52	10.56	19.71	16.72	11.63	24.58	12.15

Source: Morningstar Direct

Debt Market - Review



Debt Market Roundup - Key Takeaways

- The **India 10-Year G-sec yield** for the month of **September closed at 7.21% as compared to 7.17% at the end of August.**
- Markets were volatile during the month; initially, yields rose following continuous rise in the U.S. Treasury yields on growing possibility of another rate hike in 2023 by the U.S. Fed. Later during the month, yields remained steady as optimism over inclusion of Indian bonds in global indexes outweighed the bearishness triggered by rising U.S. peers. However, at the end of the month, bond yields increased sharply tracking the all time high U.S. yield since 2007. Losses extended further after government maintained its borrowing goal for the second half of FY24, defying market expectations that supply would decrease.
- The recent rise in crude oil prices and volatility in vegetable prices have clouded the domestic inflation outlook, with the RBI emphasized in its Oct'23 policy meet that its inflation target is 4% and not 2 to 6%.

Outlook:

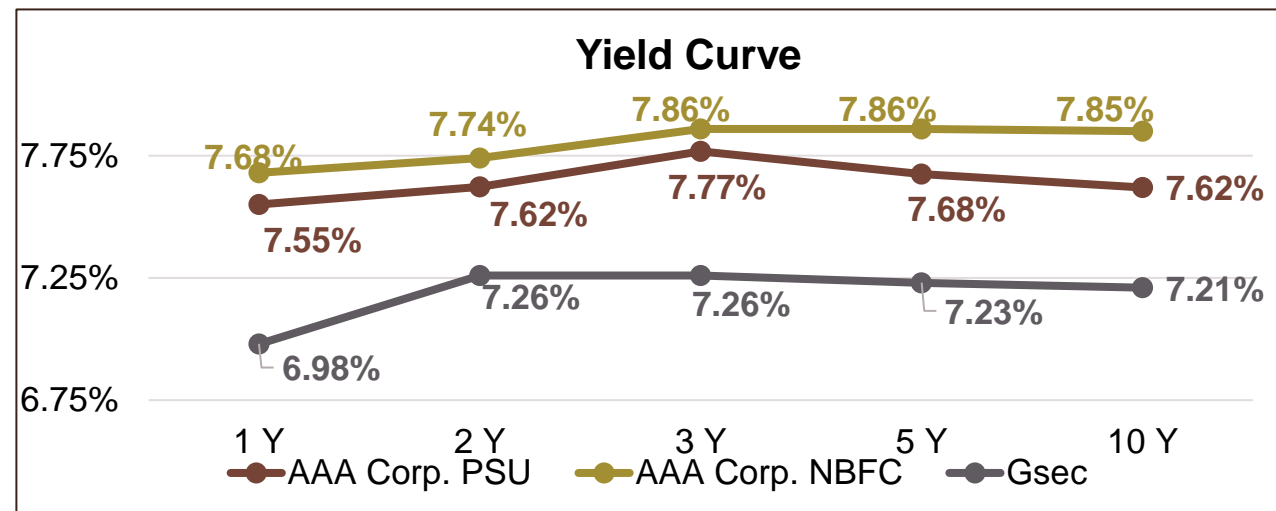
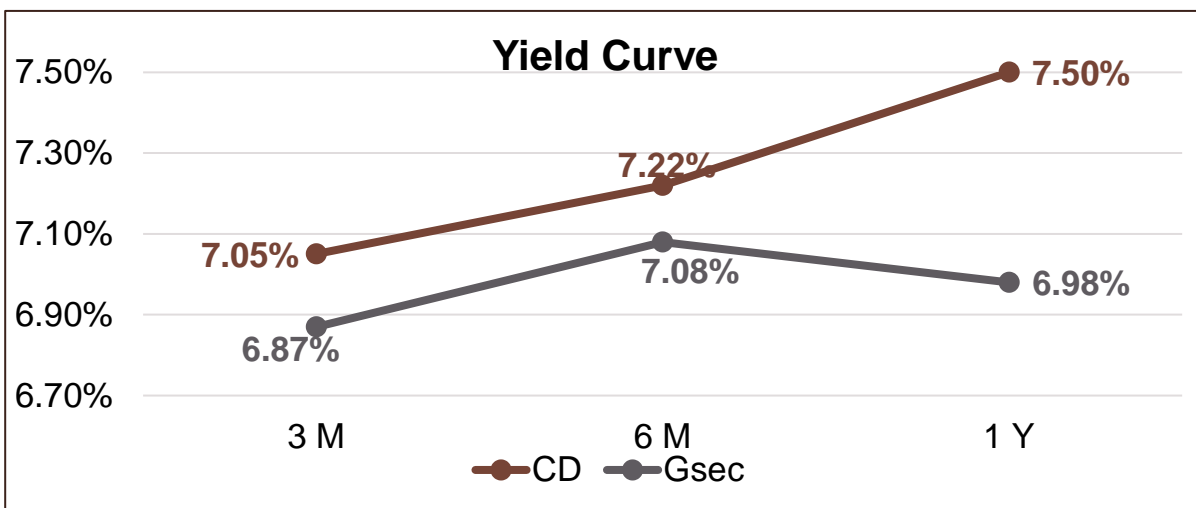
- Markets have largely seen a rise in yields over the last one year across the G-Sec & corporate bond markets.
- While the global economy is slowing, the **domestic economic activity exhibits resilience on the back of strong domestic demand.** As the **industrial sector** extended recovery in Q2 as reported in the IIP number of July, core growth of August and the PMI numbers of September; the **services sector** activity too is maintaining buoyancy as indicated by healthy expansion in high frequency indicators in August-September.
- **However, headwinds from geopolitical tensions and geo-economic fragmentation, volatility in global financial markets, global economic slowdown, and uneven monsoon, however, pose risks.**
- **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 (29 Sep'23)	One Month Ago (31 Aug'23)	One Quarter Ago (30 Jun'23)	Half Year Ago, (31 Mar'23)	One Year Ago, (29 Sep'22)	M-o-M Change (bps)
Interest Rates						
Repo rate	6.50%	6.50%	6.50%	6.50%	5.40%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	7.05%	7.08%	6.98%	7.20%	6.58%	-3
6 month	7.22%	7.20%	7.13%	7.28%	6.88%	2
1 Year	7.50%	7.45%	7.40%	7.57%	7.25%	5
T-Bill/G-sec						
91 Days	6.92%	6.81%	6.73%	7.00%	6.14%	11
364 Days	7.08%	7.03%	6.86%	7.29%	6.78%	5
India 10 Year G-Sec Yield	7.21%	7.17%	7.11%	7.32%	7.34%	4
AAA Corp. Bonds (PSU)						
1 Year	7.55%	7.65%	7.38%	7.67%	7.19%	-10
3 Year	7.77%	7.61%	7.48%	7.67%	7.39%	16
5 Year	7.68%	7.58%	7.56%	7.79%	7.45%	10
AAA Corp. Bonds (NBFC)						
1 Year	7.68%	7.78%	7.63%	7.84%	7.32%	-10
3 Year	7.86%	7.81%	7.86%	8.05%	7.61%	5
5 Year	7.86%	7.77%	7.88%	8.00%	7.62%	9
US Markets						
10 Year US Treasury Yield	4.58%	4.11%	3.84%	3.47%	3.78%	47
Currency & Commodity						
USD/ INR	83.03	82.70	82.09	82.18	81.48	↑
Crude Brent (\$/Barrel)	95.31	86.86	74.90	79.77	88.49	↑

- Yields on the 10-year U.S. Treasury rose 47 bps to close at 4.58%, from the previous month's close of 4.11%.
- Bond yields rose as the Fed kept rates unchanged signaling a possibility of another rate hike in 2023.
- In line with the U.S. markets, yield on the India 10-year benchmark closed at 7.21% higher than the previous month's close at 7.17%.
- Corporate bond yields of PSU's and NBFC's closed the month on a mixed note on variegated cues from the domestic and global markets.
- Though, for the past 4 policy meets (April, Jun, Aug & Oct-23) the MPC kept the policy rates stagnant, but the cumulative rate hike of 250 bps undertaken by the MPC is working its way into the economy.

Yield Curve and Policy Rates & Reserve Ratios – as on 30 September 2023

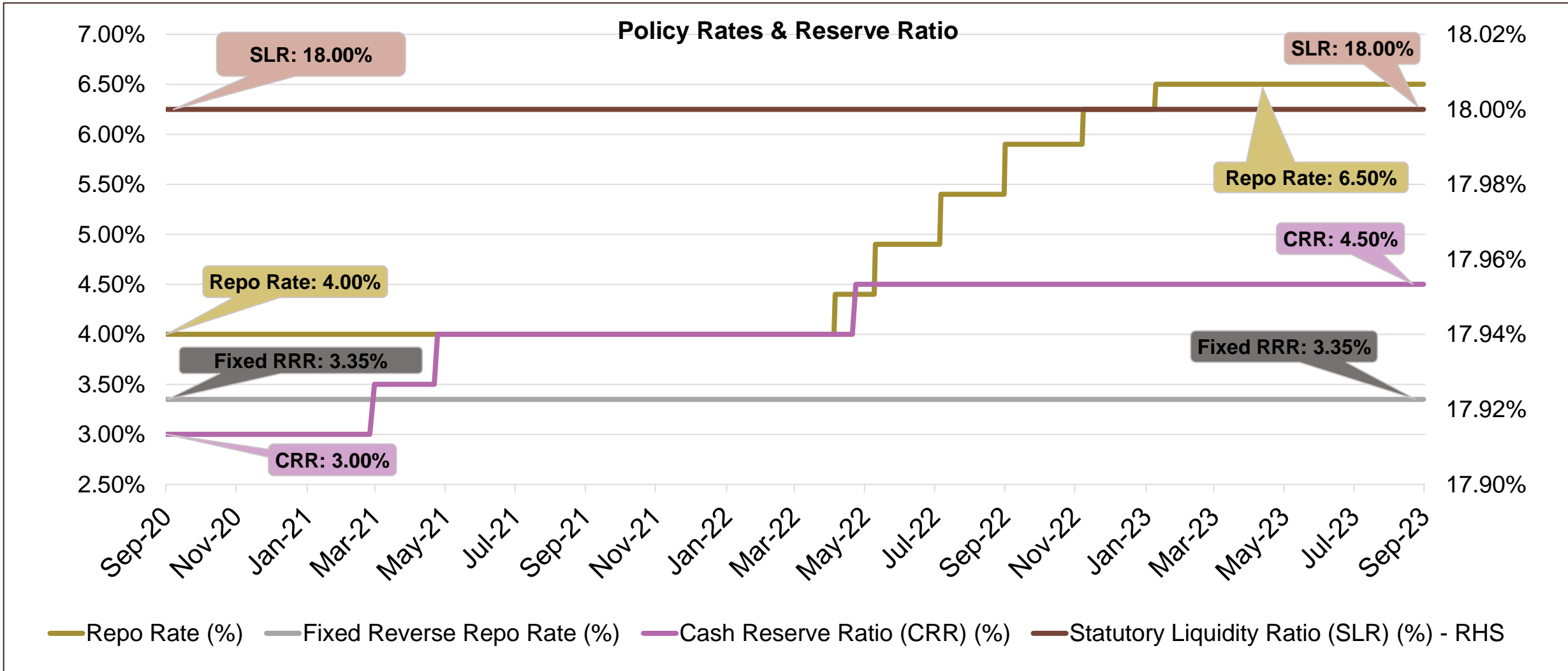


Data as on 30 Sep'23; Source: Bandhan AMC, Investing.com

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, in an off cycle monetary policy committee (MPC) meeting the interest rates were increased. Then **the short end of the yield curve was placed between 4.9% to 6.9%. The yield curve was steep in shape.**
- Now over a year after the rate hike cycle had begun, the yield curve has almost flattened. **The 10 Year minus 3 Months spread was at 125 bps in Sep '22 whereas at the end of Sep '23 it has reduced to 34 bps.**
- **Yields have remained mixed across categories and maturity profiles in Sep '23.**
- **The spread between AAA corporate bond (NBFCs) and G-sec contracted from 55-95 bps from 3 year ago to 50-70 bps in the end of Sep '23.**
- In **Oct '23 policy meet**, though the RBI did not increase the policy rates, however said it may consider OMO-sales to manage system liquidity.

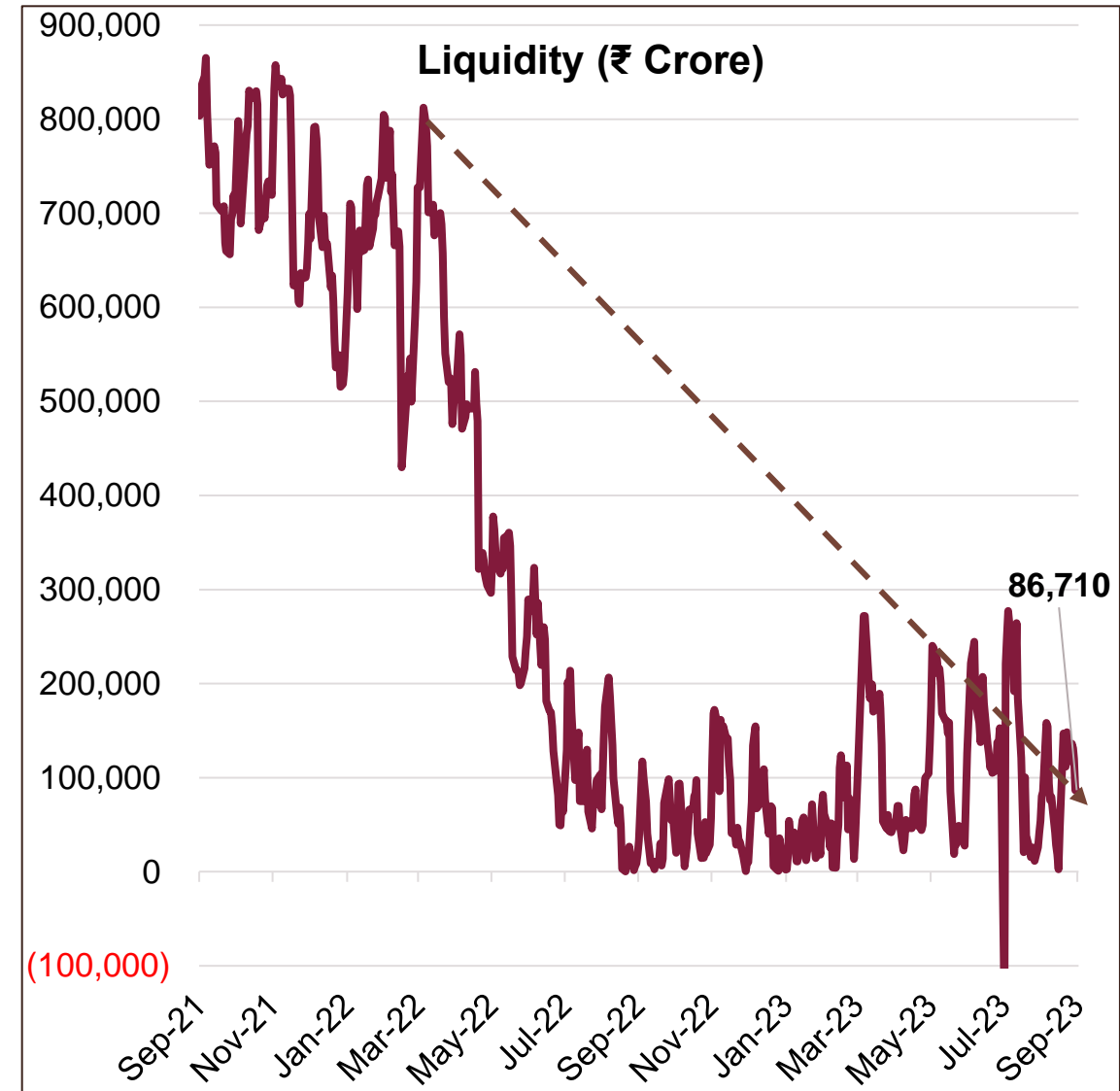
Policy rate & Reserve Ratio movement since September '20



Source: Bandhan AMC

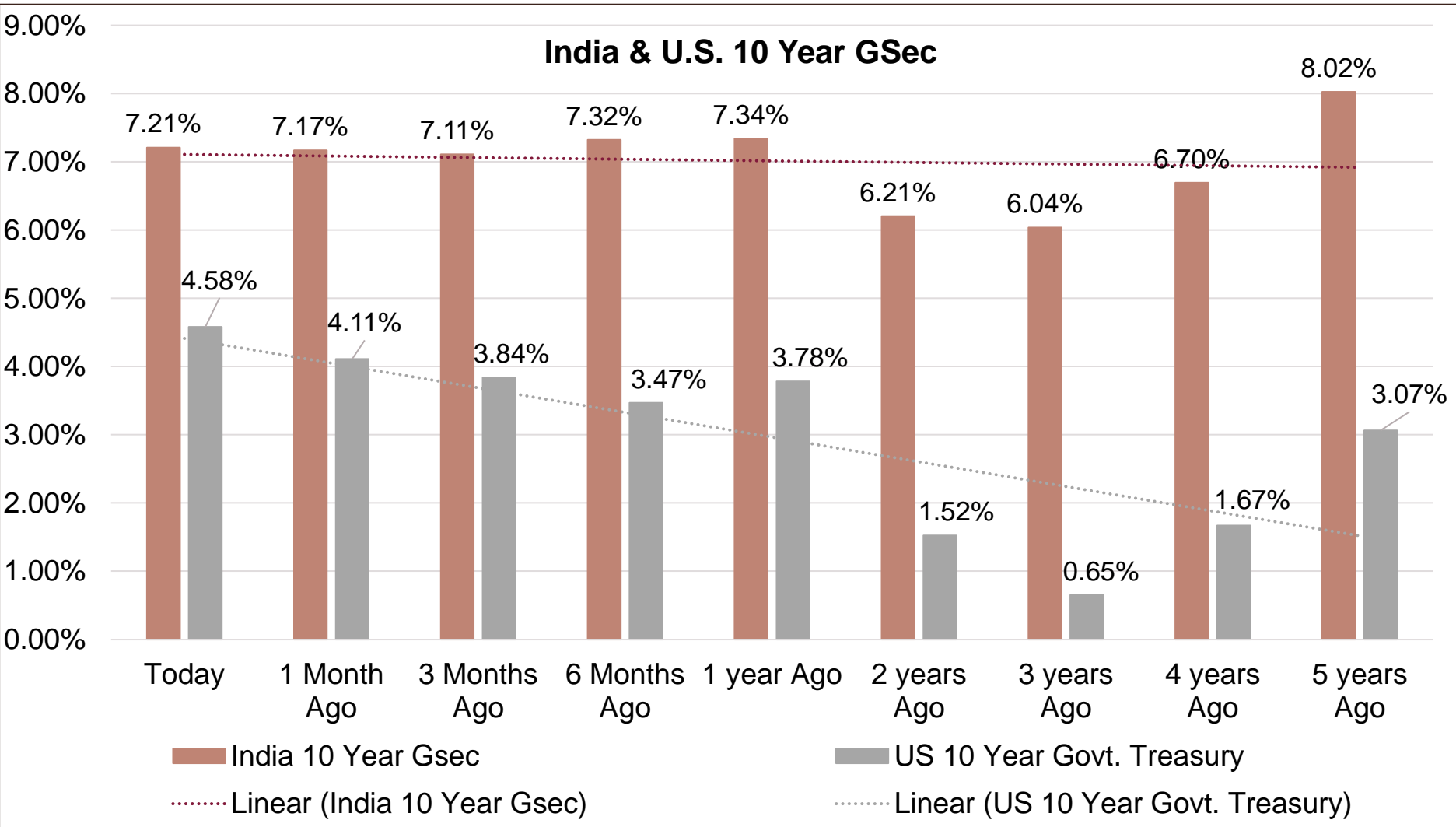
Liquidity in the system

- 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.**
- In the Aug '23 policy meet, the governor stated that excessive liquidity can pose risks to both price & financial stability. Accordingly, it had imposed an incremental CRR (ICRR) of 10% which impounded about ₹ 1.1 lakh crore. The ICRR was reviewed and is being discontinued ending Oct 7, 2023.
- The release of the remaining impounded CRR funds along with pick-up in government spending are expected to ease liquidity conditions.
- Moderation in excess liquidity conditions because of the combined impact of CRR and advance tax outflows in September has resulted in greater recourse to the marginal standing facility (MSF) by banks. **The Governor pointed to skewed liquidity in the system with some banks utilising SDF for excess funds whilst others borrowing from MSF window.**
- RBI may consider **OMO-sales (Open Market Operation sales)** to manage liquidity which will be consistent with the stance of monetary policy.



Source: Bandhan AMC

Yields Movement across India and U.S. - as on 30 September 2023



- The **10-year Indian G-sec** has now been trading above ~7% levels.
- **U.S. Govt. Treasury yields** further increased in Sep '23 after the U.S. Fed kept interest rates unchanged after a 25-bps interest rate rise in the Jul '23 policy meet.
- In case of U.S., the yields have risen from 3.8% from a year ago to 4.6% at present. **While for the Indian markets, the yields have fallen from 7.34% from a year ago to 7.21% at present.**

Source: G Sec – Investing.com

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

➤ The YTM's have gone up significantly in the past couple of months in the broad category of Money Market and Accrual Funds. This phenomena was not witnessed in the broad category of Duration Funds and Passives.

➤ 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				
	Aug-23	May-23	Feb-23	Aug-22	Aug-21	Aug-23	May-23	Feb-23	Aug-22	Aug-21	Aug-23	May-23	Feb-23	Aug-22	Aug-21
Money Market															
Liquid	7.00	6.85	7.19	5.64	3.32	0.11	0.11	0.10	0.10	0.09	0.11	0.11	0.09	0.09	0.08
Ultra Short Duration	7.30	7.22	7.57	6.15	3.68	0.43	0.45	0.41	0.38	0.39	0.39	0.41	0.37	0.34	0.39
Low Duration	7.47	7.43	7.71	6.43	4.01	1.12	1.22	1.26	1.25	1.17	0.78	0.80	0.72	0.65	0.68
Money Market	7.23	7.20	7.40	6.18	3.58	0.43	0.56	0.39	0.40	0.36	0.41	0.53	0.38	0.39	0.35
Accrual															
Short Duration	7.50	7.31	7.70	6.74	4.67	2.89	3.04	2.44	2.25	2.38	2.15	2.24	1.85	1.60	1.76
Medium Duration	7.79	7.62	7.88	7.21	5.77	4.55	4.90	4.14	3.97	4.07	3.21	3.22	2.90	2.76	2.94
Banking & PSU Debt Fund	7.52	7.35	7.72	6.72	4.82	4.07	4.07	3.36	2.85	3.40	2.55	2.45	2.19	1.88	2.32
Corporate Bond Fund	7.56	7.42	7.74	6.84	4.64	3.52	3.49	2.76	2.57	2.50	2.51	2.45	1.85	1.65	1.79
Floating Rate	7.66	7.70	7.76	6.48	4.57	3.65	4.13	3.43	3.62	3.38	1.15	1.15	0.97	0.94	1.09
Credit Risk	8.15	7.99	8.27	7.43	5.88	3.42	3.52	2.56	2.34	2.34	1.77	1.69	1.67	1.63	1.69
Duration															
Medium To Long Duration	7.40	7.23	7.64	6.99	5.58	7.30	7.44	6.54	6.21	6.24	4.97	4.88	4.41	4.14	4.14
Long Duration Fund	7.38	7.23	7.54	7.48	6.91	19.90	19.67	20.40	17.14	19.19	9.19	9.24	9.15	8.93	9.70
Dynamic Bond	7.39	7.22	7.60	6.73	5.51	5.65	5.94	5.21	4.67	5.68	3.74	3.80	3.08	2.77	3.77
Gilt	7.21	7.10	7.49	6.74	5.43	6.21	6.73	6.94	6.13	8.40	4.09	4.49	4.31	3.77	4.30
Gilt - 10 Year	7.25	7.10	7.57	7.16	6.16	9.32	9.40	9.36	9.42	9.62	6.59	6.56	6.61	6.71	6.52
Passives															
Target Maturity Funds / Index Funds	7.42	7.22	7.65	7.16	6.13	4.78	5.01	5.04	4.72	6.16	3.71	3.87	3.89	3.73	4.71

Debt Category Average Performances - September 2023

- **During the month** under consideration, all the categories were in the green except for Long Duration fund.
- With respect to the **3 months and 6 months trailing returns** too, all the categories were in the green delivering returns 1%-2% for 3 months time horizon and 3%-4% for 6 months time horizon.
- **For the full year**, all the categories were in the green, 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 Medium Duration & Credit Risk Funds, our recommended categories - the Ultra Short Duration, Low duration, Money Market, Overnight, Liquid, Medium Duration, 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
Money Market							
Overnight	0.53	1.62	3.24	6.38	5.14	4.43	4.61
Liquid	0.52	1.57	3.18	6.37	5.05	4.34	4.88
Ultra Short Duration	0.50	1.58	3.30	6.52	5.03	4.62	5.44
Low Duration	0.49	1.62	3.46	6.69	4.98	4.78	5.36
Money Market	0.52	1.63	3.47	6.85	5.26	4.70	5.82
Accrual							
Short Duration	0.37	1.33	3.21	6.71	4.77	4.89	5.99
Medium Duration	0.29	1.21	3.30	6.70	4.73	5.69	5.57
Banking & PSU Debt Fund	0.41	1.39	3.35	6.59	4.46	4.76	6.90
Corporate Bond Fund	0.41	1.44	3.47	6.74	4.41	4.79	6.82
Floating Rate	0.57	1.93	3.92	7.21	5.13	5.28	6.70
Credit Risk	0.42	1.53	3.50	7.00	9.19	9.20	4.65
Duration							
Medium To Long Duration	0.10	0.89	3.14	6.52	3.77	4.25	6.18
Long Duration Fund	-0.23	0.87	3.30	7.68	3.53	3.72	7.96
Dynamic Bond	0.18	1.05	3.22	6.47	4.15	4.63	6.52
Gilt	0.12	0.98	3.18	6.52	3.73	4.08	7.19
Gilt - 10 Year	0.00	0.78	3.63	7.70	3.14	3.67	7.91
Passives							
Target Maturity Funds / Index Funds	0.34	1.19	3.41	7.25	4.15	5.55	0.00

Returns of Credit risk have been adjusted for one time anomalies in the category.

Source: Morningstar Direct

Event Update

RBI MPC maintains status quo, keeps repo rate unchanged at 6.5%

Key Highlights

- MPC unanimously keeps repo rate unchanged at 6.50%
- Cash reserve ratio (CRR) kept unchanged at 4.50%
- The MPC voted by majority on “**withdrawal of accommodation**”
- For FY24, retail inflation target maintained at 5.4%
- FY24 Real GDP growth projected at 6.5%
- Going forward, the RBI may consider OMO-sales to manage system liquidity

Policy Rates / Reserve Ratio	10 Aug '23	6 Oct '23	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 economy is slowing** under the impact of tight financial conditions, protracted geopolitical tensions and increasing geo-economics fragmentation.
- **Domestic economic activity exhibits resilience** on the back of strong domestic demand. The **industrial sector** extended recovery in Q2 as indicated by the IIP and Core Sector growth in July-August 2023 and PMI numbers of September 2023.
- **Services sector** activity is maintaining buoyancy as indicated by healthy expansion in high frequency indicators in August-September 2023. **Investment activity** maintained its momentum with good support from government capex.
- On the **demand front**, steady expansion is seen in urban consumption while rural demand is showing signs of revival.

Inflation Outlook

- Headline inflation which had surged in July, corrected partly in August, is now expected to see further easing in September. A silver lining amidst all these is **declining core inflation (i.e., CPI excluding food and fuel)**.
- The **overall inflation outlook**, however, is clouded by uncertainties from the fall in kharif sowing for key crops, low reservoir levels, and volatile global food and energy prices.
- Considering all these factors, **inflation projection for the full year was maintained at 5.4%.**

Thank You!

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