

Market Outlook

November 2022

Equity Market

Macro Stability and Earnings growth should keep India in good stead

The Indian markets had another strong month with the NIFTY gaining 4.1% during the month. In the broader markets, large caps outperformed the mid and small caps with their respective indices being up 1.9% and 3% respectively. Positive sentiments were witnessed globally on the expectations of peaking inflation and consequent moderation in rate hikes.

Sector wise, metals, O&G, IT and Banks outperformed while Utilities, Pharma and Auto were the laggards. On the Earnings front, NIFTY saw better than street estimated earnings growth of 9% with the 3-year CAGR being 19%. Earnings growth for the quarter were led by BFSI sector on account of credit growth, NIM expansion as well as lower provisioning. YoY H1FY23 earnings growth for the NIFTY has been 15%.

On the macro front, 2QFY23 real GDP growth print came at 6.3% broadly in line with expectations. S&P Global Ratings lowered India's FY2023 GDP growth forecast to 7% from 7.3% earlier. CPI inflation, eased to a three-month low of 6.77% in the month of October. WPI inflation eased to 8.4% in October from 10.7% in September 2022. September IIP registered growth of 3.1% yoy versus (-)0.7% in August. 2QFY23 real GDP grew by 6.3%. GST revenue collection for the month of November rose 11% YoY to Rs 1.46tn. India's monthly merchandise trade deficit remained high, with the October deficit widening further to \$26.9 bn from \$25.7 bn in September. During the month crude also corrected by ~10% to \$81/bbl. INR appreciated by 1.7% MoM, reaching ~81.43/USD in November while the dollar Index weakened 5% over the month.

Revival of IPO market gained momentum in November with execution of twenty-seven deals (including secondary) worth ~\$2.23bn. FIIs were net buyers in the month of November 2022 to the tune of \$4.6bn and DIIs sold to the tune of \$769mn. It is pertinent to note that FII's were net sellers of \$12.7 in the current calendar year.

Going forward

Indian markets continue to perform well. While valuations of NIFTY at ~20x 1 year forward earnings are a tad higher than historical averages, it is also a reflection of macro stability, healthy earnings growth that India Inc is seeing and is particularly noteworthy in light of the global challenges as well as an inflationary environment. While we do not rule out near term volatility, we expect a healthy earnings growth trajectory should continue to aid India's premium valuations.

We reckon, as the inflationary environment starts to ease and the rate hike cycle globally as well as domestically sees to moderate, earnings momentum should be good. We are constructive on the long-term prospects of the Indian market led by earnings growth rather than valuation multiple expansion.

We believe Indian economy performance should stand out in the times to come, with most of the developed world teetering on the brink of recession and larger emerging markets also seeing much lower growth rates. While India is not totally immune to global shocks and events, however being largely a domestic consumption driven economy the risks are lesser and smaller in comparison. Further, with lower leverage and repaired balance sheets India Inc. and the financial system is in much better situation to weather out any global financial volatility.

Debt Market

Yield Curves - Staying Flat or Elevated

Indian Bond yields came down during November 2022 in line with the fall in US and Europe bond yields though the fall in domestic yields was less pronounced. The rally in bond yields started as the US Inflation print came in lower than expected. The subsequent data points were mixed and Fed speakers continued to sound hawkish but yields continued to fall with the yield on the US 10yr Bond falling by 45bps during the month. Crude oil also fell by 10% during the month as market geared up for the impending price cap on Russian oil and slowdown in Chinese demand amidst lockdowns. The Indian yield curve remained flat with the shorter end of the curve remaining elevated on expectation of further rate hikes while the long end of the curve was supported by real money investment demand.

As the dollar index fell sharply, INR strengthened against the US dollar by 1.63% during the month though we expect weakness in INR to persist as our trade deficit continues to be high at USD26 bn a month.

The CPI Inflation for September (released in August) came in line with market expectations at 6.77% and we expect it to moderate towards 6% by April 2023.

Inflation slowed more than expectations both in US and Europe though central banks speakers both in US and Europe continued with their cautious stance. The Fed meeting in early November was more hawkish than market expectations as the Fed chairman stated that the terminal rate can be higher though the pace of rate hikes can slow.

The incremental Credit / Deposit ratio of the banking system is sustaining at an elevated level with credit growth @17.20% and deposit growth @9.60% on a YOY basis, putting pressure on short term deposit rates and money market yields. This gap between the deposit and the credit growth rates means that the money market rates will continue to sustain at elevated levels.

We expect MPC to hike rates by 35 bps in the upcoming December meeting as India will be required to maintain some Interest rate differential with the Fed Funds rate in light of our Twin Deficits (Current and Fiscal Deficit). We expect the terminal repo rate to be at 6.50%-6.75% by April 2023.

Fixed Income Market


	October 2022	November 2022	Change (in bps)
Overnight rate (NSE MIBOR)	6.25%	5.86%	-39
1 yr CD	7.50%	7.50%	0
10 yr GOI Yield	7.44%	7.28%	-16
USD/INR	82.78	81.43	-135 paise
IIP (Monthly with 2 month lag)	-0.80%	3.10%	390
CPI (Monthly with 1 month lag)	7.41%	6.77%	-64
5 Yr AAA PSU spread (bps)	15	15	0
5 Yr OIS	6.91%	6.34%	-57
US 10 Yr yield	4.05%	3.60%	-45
CRR	4.50%	4.50%	0
REPO	5.90%	5.90%	0
SDF (Standing Deposit Facility)	5.65%	5.65%	0

Source: RBI Weekly Statistical Supplement & Bloomberg

Note: IIP has been revised lower for the previous reading.

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Source: BSE, RBI & Bloomberg

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