Investor Insights & Outlook

FEBRUARY 2024

07 Mar 2024

Market Update

Nifty	22494
Sensex	74119
10Y G-Sec	7.03%
USD INR	82.71
Gold	65560 (Rs/10gm)
Brent	83.00 ($/bbl)
Repo Rate	6.50%
Reverse Repo	3.35%

Product Recommendations

Equity

Nippon India Pharma Fund
Parag Parikh Flexi Cap Fund
ICICI Pru Bluechip Fund
ICICI Pru Banking & Financial Services Fund
Tata Banking & Fin. Ser. Fund
ICICI Pru Balanced Advantage Fund

Debt

ICICI Pru Equity Savings Fund
Kotak Equity Savings Fund
ICICI Pru Corporate Bond Fund
Kotak Dynamic Bond Fund
HDFC Ltd Fixed Deposit
Bajaj Finance Fixed Deposit

Contact

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KEY HIGHLIGHTS & MARKET DEVELOPMENTS

EQUITY

- The markets remained volatile during February with selling by FIIs offset by buying from DIIs.
- Certain sectors, such as infrastructure and agriculture, responded positively to budgetary allocations, while others displayed cautious sentiment.
- Several sectors in the Indian stock market exhibited noteworthy performance. However, the bank index remained under pressure. Challenges related to deposits, net interest margins, and asset quality impacted certain banks.

DEBT

- The 10-year benchmark 7.26% GS 2033 bond yield dropped to 7.07% as of February 29, 2024, from 7.14% in January 2024.
- The RBI's Monetary Policy Committee (MPC) chose to keep the policy repo rate at 6.50% and the standing deposit facility rate at 6.25% during its meeting from February 6-8, 2024.
- Retail inflation in India dropped to a three-month low of 5.1% in January, down from 5.7% in December, signalling easing price pressures.
- Bond prices increased in the latter half of January due to continued buying by foreign investors. However, the rise in bond prices was tempered by an increase in US treasury yields after the minutes from the FOMC meeting indicated concerns among policymakers about lowering interest rates too rapidly.
- According to RBI data, India's outward foreign direct investment (FDI) commitments in January 2024 increased by 25.7% year-on-year to $2.09 billion, up from $1.66 billion in January 2023.

MARKET OUTLOOK

EQUITY

India's 2024-25 Interim Budget has set the stage for targeted growth initiatives amidst economic challenges. While market reactions post-budget were mixed, the emphasis on infrastructure development and fiscal prudence underscores the government's commitment to economic resilience.

While most sectors and stocks are overvalued, large caps and defensive sectors remain exceptions and relatively inexpensive. India's macroeconomic situation and growth prospects appear reasonable.

We believe it is prudent to exercise caution in micro-cap and small-cap categories due to high valuations as we expect market consolidation until earnings justify current valuations. Despite market challenges, those with higher risk profile can consider large Non-Banking Financial Companies (NBFCs); can lead to better returns compared to banks, whilst equity investors with moderate risk profile can consider large private banks and defensives.

In summary, while the market may witness fluctuations, our view on domestic equity market remains constructive in the long term. Over the next 3-6 months, the benchmark indices, could potentially witness extreme volatility. However, it's essential to stay informed and monitor market developments closely.

DEBT

As anticipated, the RBI kept its policy rate steady, citing the ongoing, yet incomplete, rate transmission process as a crucial consideration in maintaining its stance. Positively, the RBI upgraded its growth forecasts and lowered inflation expectations compared to the December 2023 policy meeting. However, the forecasted inflation rate of 4.5% for FY25 still surpasses its target, prompting the RBI to adopt a moderately hawkish tone. This approach reflects concerns over stable global growth and persistent geopolitical tensions, notably the Red Sea conflict, which could exert additional inflationary pressures domestically. The RBI's liquidity statement suggests satisfaction with current levels, aiming to maintain a slight deficit until rate transmission concludes, including the potential use of variable reverse repo auctions (VRRR) to assist banks and financial institutions as needed.

The market's reaction was subdued, aligning with expectations. Looking ahead, global bond yields are expected to influence domestic G-sec yields, with the 10-year G-sec anticipated to oscillate between 6.80-7.20% until March 2024. Given favorable G-sec demand/supply dynamics, yields are projected to decrease. RBI's future policy decisions may hinge on any US Federal Reserve cuts amid a slowing growth outlook.

For investors, this environment suggests an opportunity for those willing to tolerate high volatility and adopt a long-term view to consider active duration strategies on an opportunistic basis. Meanwhile, conservative investors may prefer shorter-duration and money market-focused funds for their portfolios.