

# Market Outlook

June 2022

## Equity Market

### Markets are factoring in the global slowdown, but India is better placed

Along with most global markets, Indian markets too were down 4.8% in June 2022 on the back of concerns over a global recession and tightening stance from central banks. Broader indices such as the NSE500/Midcap were down even sharper at 5.2%/6.5%, respectively during the month. Sector-wise Auto, Energy and Consumption Staples outperformed while Metals, Realty and IT underperformed.

In its June meeting, the RBI MPC unanimously voted to hike the repo rate by 50 bps to 4.9%. On the economy front, IIP growth in April came in at 7.1% compared to 2.2% in March. CPI inflation in May moderated sharply to 7.04% from 7.79% in April. May WPI inflation rose sharply by 80 bps to 15.9%. The World Bank cut India's FY2023 GDP growth forecast to 7.5% from 8% because of rising inflation, supply chain disruptions, and geopolitical tensions, while Fitch Ratings revised it to 7.8% from 8.5% earlier.

The Cabinet Committee on Economic Affairs (CCEA) approved the increase in minimum support price (MSP) for all mandated kharif crops. GST revenue collection for June was at Rs 1.44 lakh cr; up 56% YoY while they were flat MoM.

FPIs continued their selling spree in May, pulling out nearly ~US\$6.4 billion from domestic markets, this being the ninth straight month of FII selling. FIIs have sold close to US\$34 bn in the last nine months. FII holding in NSE500 companies dropped to 20.3% in Q4FY22 end vs 22.2% in Q4FY21 end. However, DIIs bought equities worth US\$5.9 bn in June, thereby providing enough liquidity.

### Going forward

While markets have corrected about 15% from recent highs and are 1 standard deviation below their five-year mean, there is still some gap with longer-term averages. The market is rightly worried about the high inflation rate, GDP growth slowdown, and likely cut on corporate earnings growth. Overall, we believe markets have started factoring in the global slowdown and believe that India is relatively placed.

However, on the positive side, commodity prices have been coming off highs, and this should provide some respite on the inflation front. With India being a net energy importer (energy imports account for 4% of GDP by value) and reliance on metals/other commodities on imports being on the higher side, it bodes well for consumption industries.

We continue to stick to our investment philosophy of Growth at Reasonable Price (GARP), focusing more on the reasonable price given the challenging global and macro environment. We prefer investing in companies with good growth visibility, a healthy balance sheet, and good cash flows.

## Debt Market

### Lower yields on global slowdown fears

The Monetary Policy Committee (MPC), raised the policy repo rate by 50 bps on 6th June 2022, while keeping the Cash Reserve ratio (CRR) unchanged. This was on the back of the surprise 40 bps hike done in May along with CRR hike of 50 bps. The RBI increased its inflation forecast to 6.70% for FY22-23 while retaining its growth forecast at 7.20%. The MPC decision to hike rates was unanimous. The stance was changed to "Withdrawal of accommodation" from accommodative stance.

The US Fed increased rates by 75 bps as inflation came in higher than expected. Bond yields were volatile during the month. First, the fear of aggressive tightening by central banks across the world took hold, leading to higher yields, and then, towards the end of the month the bond market narrative changed to fears / higher probability of recession in US and Europe by next year on the back of aggressive tightening by Central Banks. As a result, the US benchmark 10-yr bond yield ended the month at 3.01% after touching a high of 3.47% during the month. In tandem with the fall in yields worldwide, Indian yields also fell with the benchmark 10-yr GSec ending the month at a yield of 7.41% after touching an intra-month high of 7.62%. The yield curve further flattened during the month.

The CPI Inflation print for May (released in June) came in line with expectations @7.04%. Commodity prices came down across the board as markets started factoring in a higher probability of recession in US & Europe on the back of an aggressive monetary stance of the US Fed and ECB. The slowdown in China also contributed to the weakness in the commodity space. Brent Crude was lower by 6.50% during the month. Currently, the Indian swaps curve is pricing in close to 200 bps of incremental rate hikes by the RBI over the course of the next one year.

INR depreciated by 1.70% during the month as portfolio outflows continued, though the RBI increased its intervention in the FX market. FPI outflows in debt for the month of June 2022 were US\$300 mn while the YTD debt outflows are at US\$2.22 bn.

We expect the yield curve to flatten further as RBI front loads the rate hikes. The spreads between AAA bonds and GSec are still very tight and running at historically low levels and we expect them to gradually widen as the surplus liquidity in the system reduces. Also, the credit offtake on a YoY basis is at a healthy 13% which can lead to some widening pressure on corporate spreads.

We continue to be underweight duration as we expect further rate hikes along with liquidity tightening and will look to tactically add duration at yields above 7.50% on the 10-yr bond. We would also continue to be underweight corporate bonds.

## Fixed Income Market

	May 2022	June 2022	Change (in bps)
Overnight rate (NSE MIBOR)	4.27%	4.95%	68
1 yr CD	6.29%	6.53%	24
10 yr GOI Yield	7.41%	7.45%	4
USD/INR	77.64	78.97	133 paise
IIP (Monthly with 2 month lag)	1.90%	7.10%	520
CPI (Monthly with 1 month lag)	7.79%	7.04%	-75
5 Yr AAA PSU spread (bps)	10	10	0
5 Yr OIS	6.98%	6.88%	-10
US 10 Yr yield	2.85%	3.01%	16
CRR	4.50%	4.50%	0
REPO	4.40%	4.90%	50
SDF (Standing Deposit Facility)	4.15%	4.65%	50

Source: RBI Weekly Statistical Supplement & Bloomberg

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

Connect with us on:    

 [www.pgimindiamf.com](http://www.pgimindiamf.com)

 1800 2667 446

Source: BSE, RBI & Bloomberg

The views of the Fund Manager should not be construed as an advice and investors must make their own investment decisions regarding investment/disinvestment in securities market and/or suitability of the funds based on their specific investment objectives and financial positions and using such independent advisors as they believe necessary. None of the information contained in this document shall be constituted as a recommendation to buy or sell any particular security.

©2022 Prudential Financial, Inc. (PFI) and its related entities. PGIM, the PGIM logo, and the Rock symbol are service marks of Prudential Financial, Inc., and its related entities, registered in many jurisdictions worldwide.

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.