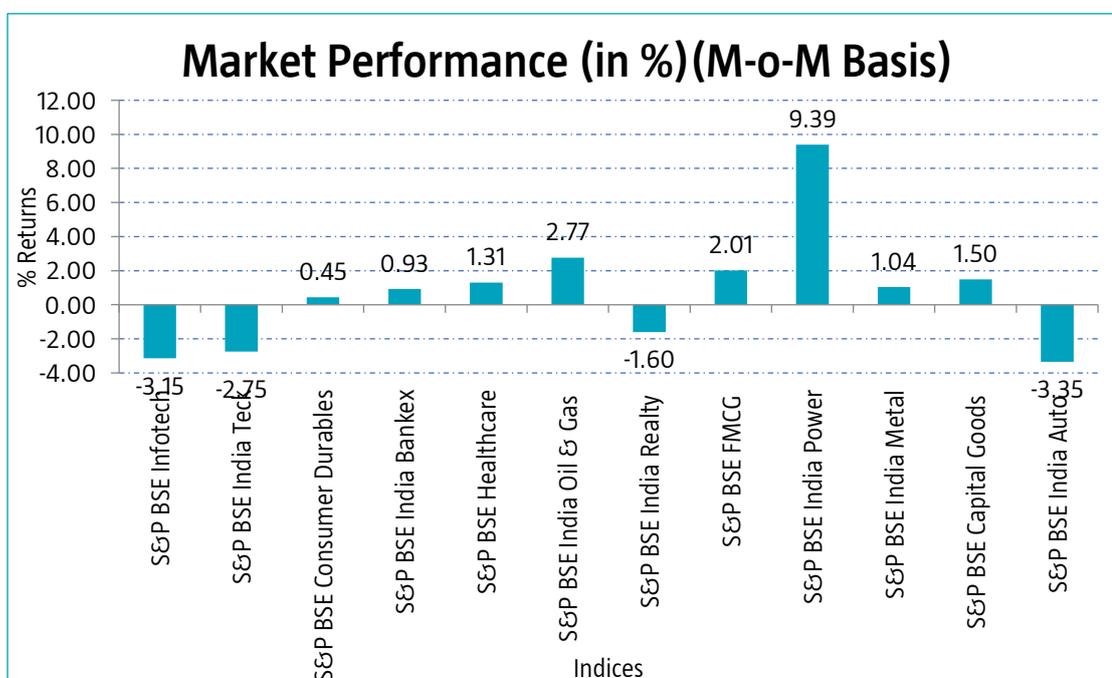


## Equity Market Update

- In the month of Mar'23, equity markets remained significantly volatility during the month but ended flattish with Nifty 50 rising marginally by 0.32% m-o-m basis majorly due to weak global cues leading to a sell-off in the global equity markets due to significant decline in share price of a prominent private sector bank based in U.S. that mainly funded startups. Domestic retail inflation continuing to remain above the Reserve Bank of India's upper tolerance level of 6% in Feb'23 also added to negative sentiments in the markets.
- Foreign Institutional Investors (FIIs) were net buyers in Indian equities to the tune of ₹ 7935.51 crores
- Goods and Services Tax (GST) collection shows that ₹1.60 lakh crore were collected for Mar'23, which is 13% more than the corresponding period of last year. Monthly GST collections for the month of Mar'23 being the second highest of all time, coupled with 22% higher GST collections for FY22-23 over last year point towards the growing trajectory of the Indian economy.
- Further, uncertainty over aggressive rate hike by the central bank and government hiking securities transaction tax on futures and options contracts also added to the losses. Sentiments were further dampened after the United Nation downgraded its GDP growth forecast for India and warned that higher interest rates contributed to the decline as well.
- Though at the end of the month, markets were resilient with the help from the financial year-end rally, cooling off global inflationary pressures, and buoyancy in domestic macro indicators. Climate expert also suggest the 2023 monsoon may be normal. Government Data showed that the India's Eight Core Industries growth increased by 6 per cent in Feb'23 as against a growth of 5.9 percent recorded in the year-ago period.
- Globally, US equity markets went north by 1.89% as there was slowdown in the annual rate of core consumer price growth in U.S. and pending home sales in U.S. increased for the third consecutive month. Asian and European Equity Markets too rose on the back of consumer prices slowing, hope of a slowdown in the pace of monetary policy tightening and upbeat economic data from China made market participants optimistic regarding the recovery of China's economy.



Note: The past performance may or may not be sustained in the future.

Source: MFI Explorer, ICRA Analytics Ltd.

# Equity Market Outlook

Global environment remains complex with persistent inflation at higher level than expected, persistent supply chain challenges (now oil production cuts by OPEC to keep prices above 85 dollars/bbl) and geopolitical re-alignment and its long-term implications for supply chains, dollar as a global currency and global inflation in this new context. Inflation might have peaked, based on the latest inflation data in US; though not at a level enough for Fed to start getting accommodative. The latest banking crisis could mean Fed might have to slower pace of increase in the interest rates despite inflation. Terminal interest rates in US have clearly moved to 5.5%-5.75% over last 6 months. Combination of slowing growth but yet sticky inflation is an outcome of elevated energy prices and challenged supply chains in China/Energy, which are taking time to correct itself. Geopolitical tensions are taking time to abate and are only getting complex. Given these tensions, supply chains and global trade has become vulnerable to new dimension in 2023, missing till 2022. The banking crisis is being talked by central bankers through regulatory channel without compromising on inflation fight through interest rate increases. This will mean that the developed world will see growth moderation through FY24; though China might see some improvement due to post covid opening-up of economy.

In our worldview, 1) the Liquidity, 2) Growth and 3) Inflation surfaced post monetary and fiscal expansion in CY20-21 in that order and they will reverse in the same order during CY22-23. We have already witnessed liquidity reversal since last few quarters (although was forced to reverse due to banking crisis); growth has started receding lately (Europe is already in recession, US is slowing) and inflation will be the last one to moderate. We have seen an initial downtick in inflation. Inflation is taking more time than usual to recede given healthy household savings, elevated energy prices, tight labor markets and challenged supply chains in China. In-turn, further interest rate increases become imperative - expect additional 25-50bps increase through next 6months to 5.25%-5.75% in US – and remain there for some time.

Indian macro remains resilient. CAD has improved with falling commodities and slowing growth. Most domestic macro and micro indicators remain steady. The only worrying aspects domestically are latest consumption slowdown and sticky core inflation above 6% level. Given these aspects, the domestic equity market remains focused on earnings. Both key factors, earnings growth and cost of capital (interest rate outlook globally) are neutral to negative for India from near term perspective and thus market will continue to consolidate till we get visibility on earnings upgrades or substantial decline in interest rates (Inflation globally/locally) to change multiples. The internals of the earnings are not very healthy expect in financials, auto and industrials. India trades at premium to other EMs and thankfully that is correcting with the consolidation in market over last 1.5 year. Indian equity market trades at 19x FY24 earnings – with earnings CAGR of 13-14% over FY23-25E – in a fair valuation zone from near term perspective. We will watch out for one year forward (Earnings yield – Gsec yield) gap to compress to ~150bps for getting more constructive in near term. **The earnings growth/Valuation expectations context is turning more and more favorable for anyone who has 24-36months view from hereon.**

Having said this on near term earnings /market context, we believe that Indian economy is in a structural upcycle which will come to fore as global macroeconomic challenges recede over next few quarters. Our belief on domestic economic up-cycle stems from the fact that the enabling factor are in place viz. 1) Corporate and bank balance sheets are in best possible shape to drive capex and credit respectively, 2) Consumer spending remains resilient through cycle given our demographics, 3) Govt is focused on growth through direct investments in budget as well as through reforms like GST(increasing tax to GDP), lower corporate tax and ease of doing business (attracting private capex), PLIs( private capital through incentives for import substitution or export ecosystem creation) and 4) Accentuated benefits to India due to global supply chain re-alignments due to geopolitics. This makes us very constructive on India equities with 3-5years view.

Source: ICRA MFI Explorer

**Disclaimer:**

The information used towards formulating the outlook have been obtained from sources published by third parties. While such publications are believed to be reliable, the opinions expressed in this document are of personal nature and does not constitute the views of Canara Robeco Asset Management. It is hereby expressly stated that, neither the AMC, its officers, the trustees, the Fund or any of their affiliates or representatives assume any responsibility for the accuracy of such information or the views thereof. Further, CRMF, its Sponsors, its Trustees, CRAMC, its employees, officer, Directors, etc. assume no financial liability whatsoever to the user of this document. This document is for general information purposes only and should not construed as solicitation to invest in the Mutual Fund schemes.

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