Pranitya Wealth LLP
Market Outlook
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Summary / Key Highlights for the Month
We remain cautiously optimistic on equity markets and sticking to asset allocation remains key. Remaining invested in equity is important.
India is showing signs of decoupling by hitting new heights, with Rs. 300 Lakh Crore as market cap.
India has opportunity to host the G-20 events with many such events planned in many cities. India has an option of showcasing growth and attracting more investment opportunities through the G-20 presidency.
We have Gujarat elections just taking place this month and results of this election will be closely watched – it will act like a trend setter for the upcoming general elections in 2024.
Elections 2024 will be a very big event in India which will be closely watched and the market will keep one eye on it post budget.
The Fed's minutes for the upcoming meeting in December are important to watch, primarily for its stance on interest rates and an indication of going easy could be a reality.
The Indian economy and its stock market will touch the USD 5 trillion Mark as expected in the few years to come.
Oil may remain range bound and China will open up its economy which will help restore supply logistics – this becomes an important assumption under such uncertain circumstances.

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Overview

We have been writing about markets and its understanding in very simple language. This may be used as guidance for fresh investment and also help in staying within your stated asset allocation with a very long-term view in mind.

Many times, social media and many news channels tend to cloud your long-term views and judgement with short term strategies. However, we believe that one should stay invested as long as possible unless there is a fundamental change in the economy of the market that you are invested in.

It is also observed that many times previous highs of the markets act like a sky ceiling but one tends to forget the fact that its not a permanent number – we are in fact talking about the Nifty and or Sensex which is just 50 or 30 stocks in the market.

Additionally, the market may become cautious or rich in terms of valuation but not necessarily get sold off always when it touches old highs.

General Economy

The Indian economy has grown by about 6.30% in the Q2 of FY 2022-23. Manufacturing PMI has increased to a 3-month high of 55.7 in November 2022. Overall domestic auto sales have crossed 3 Lakh units for a consecutive 6 months. Thus, it is no a wave of pent-up demand or back log effect.

GST collection of Rs. 1.47 Lakh crore in November 2022 also indicate 11% growth over the last year. Usually, November is a slow month and it was estimated that there will be some moderation.

FMCG rural demand has dropped in November and white goods manufacturers have cut production by 30% as well – for inventory to get cleared.

Economy remained in good health with support of private consumption, infrastructure remained flat and Government spend was lower.

Auto sales growth of 31.50% over last year indicate a positive picture. Current account deficit needs to be brought under control but there is no sign of stress with the amount of forex reserve that India has today.

Equity Markets

NSE rallied 4% in the month of November on the back of huge Foreign Portfolio Investment ('FPI') flows. FPIs invested close to USD 4 Billion in the month of November 2022, one of the best flows after a long gap.

Every foreign institution is keen on investing in India and wants to increase allocation even now. We would like to draw your attention to a few factors which might support the market even at current levels.

1. FPI positive flows to continue in India;
2. Good local liquidity and SIP allocation;
3. Better macro-economic environment than other markets;

4. Highest GDP growth in the world;
5. Cool off in commodity prices;
6. Moderate rate hikes going ahead;
7. Inflation will eventually cool off;
8. Better Q2 numbers;
9. Better performance of IT, Auto and real estate sector; and
10. Volatility indicators don't show any panic.

Having said that we feel we may see some intermittent corrections and bouts of selling in the market. Going by valuation and conservative EPS of Rs. 978 for 2024, we are trading 19 times which is neither cheap nor very expensive but closer to the long-term average.

One should adopt a differentiated approach this time as the market has hit a high of 18,800 (Nifty) without the support of some of the common large cap names like HDFC, Reliance, ICICI and HUL. All these stocks are much below their 52-week highs. Thus, we feel, one needs to adopt bottom-up approach to make money in this market. Lot of mid cap and small cap are looking attractive even today.

The very fact that most of the frontline stocks are much below their 52-week of lifetime high indicate more headroom for the market to move up.

We know there is lot of local money in the waiting for investment and once global concerns start easing then any deep correction in the market may be ruled out. If you don't expect any sell off, then there is no point in profit booking too.

Indian fundamentals are continuously improving and sectors likely to do well are consumer durables, financials, industrials and information technology.

China opening up its economy and the Fed slowing down in their hikes will help the overall sentiment to improve and allocation to emerging markets to go up.

Thus, the Nifty may go past 19,000 and then consolidate. It is very important to note that the next move in the market will be completely based on improving corporate earnings.

Fixed Income

The Fed finally indicated slower hike going ahead, and it also has a difficult job to handle as employment data is too prominent to ignore.

The Fed Chief has gone on record to say that US may even avoid recession and we will soon enter a phase of lower inflation and supportive central bank stance.

The Indian fiscal deficit will end around at 6.40% due to robust tax collection including GST which is up almost by 20.80%. The Government has reduced revenue spend and capex expenditure was up almost by 176% in October 202.

Meanwhile, bond yields have come off sharply again from 7.50% to almost 7.20%. RBI in its meeting in December 2022 is likely to go slow, in hiking rates. It is widely expected that we may see about 30 to 35 bps hike this time around. Bond yields may not move up though the rates may go up with RBI action. Thus, it makes all the sense to look at Target Maturity Plans as one of the options to see your gross returns of 7.20% is locked in. Crude Oil at around USD 85 to 90 is difficult to make a dent with China still under lockdown.

We may see a last repo rate hike from the RBI and rates will eventually cool off. Further, the 10 Year G-Sec has already cooled off in anticipation to 7.20% and is likely to head down further.

Some Key Numbers

1) Wholesale Price Inflation: 8.39% in October 2022. Decline in the rate of inflation in October, 2022 is primarily contributed by fall in the price of mineral oils, basic metals, fabricated metal products, except machinery and equipment; textiles; other non-metallic mineral products; minerals etc.
2) Retail Price Inflation:6.77% in October 2022;
3) Forex Reserves: USD 550.14 Billion
4) 1 Year CD: 7.55%
5) Yield of 10 Year Government Bond: 7.23%;
6) Yield of US Treasury Bonds: 4.27%