

Perspective

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Dear Investor,

On the outset, let me wish you and your family a very happy and prosperous new year.

2022 was a year of resetting and recalibrating. From the old regime of easy liquidity and extremely low-interest rates, 2022 saw one of the fastest and highest rate hikes. Fed has increased rates 7 times by a total of 425 bps since March 2022. The RBI on the other hand has raised rates by a cumulative 225 bps since the start of the tightening cycle in April 2022.

The highest rise in global inflation was accompanied by the highest fall in NASDAQ stocks. NASDAQ is down by nearly ~34% YTD. US FAANG stocks took a beating across the board, falling between 30% - 65%. In contrast, both Nifty and Sensex have been up nearly ~3% YTD (Dec 30, 2022). Erosion in equity value and an increase in bond yields resulted in one of the largest mark-to-market losses in the world economy. The U.S. government bond represents an inverted yield curve, with 10-2 year showing an inversion, indicating risk-off sentiment.

India on the other hand has been an outlier with a resilient economy and emerged as one of the best performers in the EM pack. Surprisingly the developed economies were unprepared for high inflation, energy crisis and climate change. Living on energy exports has hurt the global economy. But India has shown resilience in the face of a global energy crisis with a combination of policy measures, facilitative infrastructure and a focus on green energy. India today, is the fifth-largest economy in the world and has entered the world's top five in terms of overall market capitalisation. On the global stage, India's perception has changed into an economy to look forward to in the coming years. The sizeable inflow of domestic money (both institutional and retail) kept markets buoyant, acting as a counterforce to outflows from Foreign Institutional Investors. It appears that the dominance of DIIs and retail investors are likely to continue in the new year with FII inflow gaining momentum in 2023.

Based on the current environment and the related monetary policy actions taken, there are reasonable opportunities in the fixed-income space. It appears 2023 will be the year for actively managed fixed-income funds, and on a risk-reward adjusted basis there are many options for an investor. Short-term yields have gone up spurred by a flurry of rate hikes, while long-term bond yields have remained flattish thus compressing the spread between the two. At current yields, short-duration funds and two- to three-year corporate bonds provide the best risk-reward ratio. High bond yields also pose a good opportunity for investors to lock in at current levels through instruments like Target Maturity Funds. Actively managed debt funds would become a choice for HNI and Retail investors too.

While global headwinds will continue to pose challenges in 2023, India is on a strong footing from a long-term perspective, and its growth levers augur well for equity investment. Corporate India's balance sheet is fairly strong and has deleveraged significantly. Bank balance sheets are also healthy with decadal low NPAs. Credit growth is expected to pick up big time. Consumption is another theme that is likely to play out strongly. While urban consumption will continue to drive growth, one can expect a revival of rural consumption from the slowdown seen in 2022. Investors should approach investments with a focus on diversification. Keeping in mind the macro indicators, asset allocation as per your risk profile is the way to go.

Lastly, budget is around the corner and I am sure this budget will once again be growth oriented and drive the Indian economic growth further.

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