IDFC MUTUAL FUND

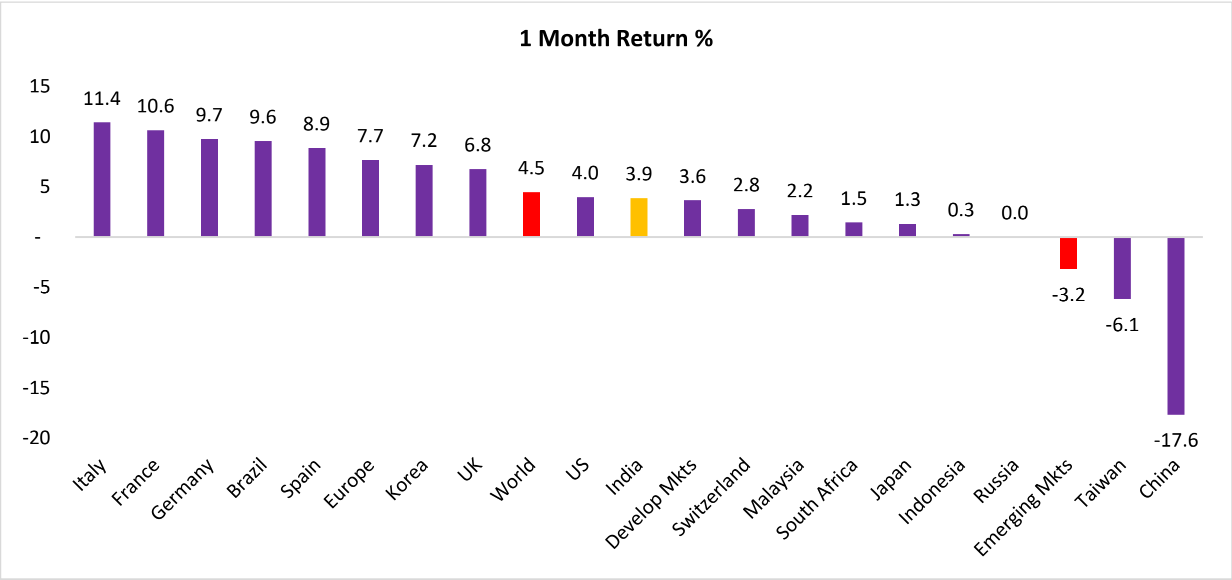
EQUITY OUTLOOK

November 2022

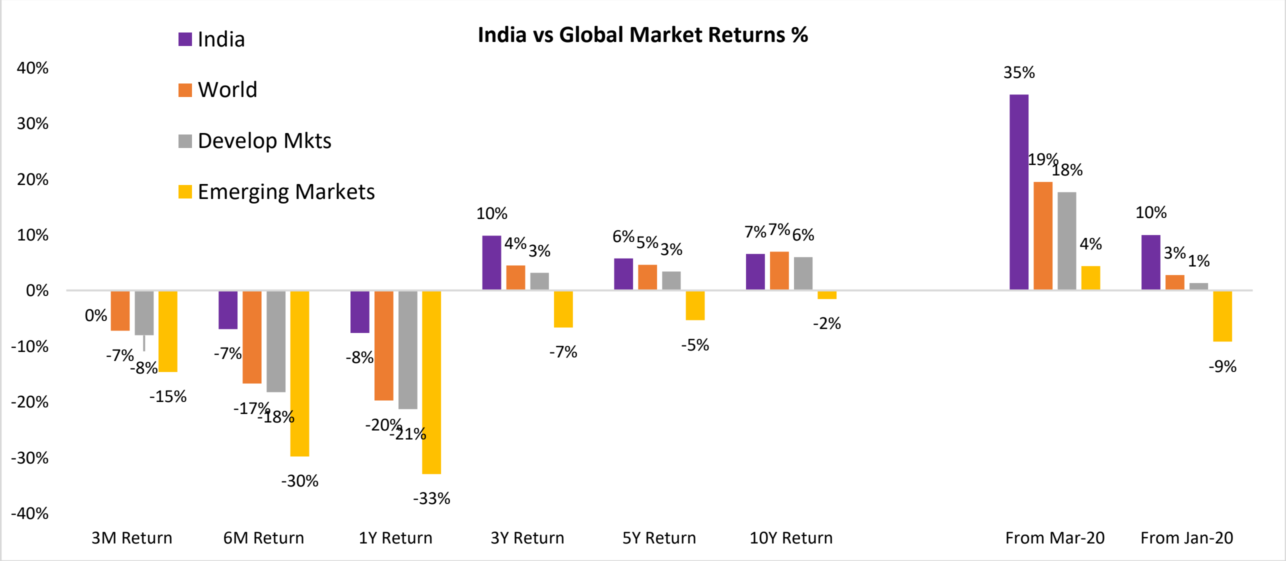
Global Markets

Global equities improved across regions (+4.5% MoM/-21.2% YTD). China (-17.6% MoM) and Taiwan (-6.1% MoM) were in red dragging the EM performance (-3.2% MoM).

Indian equities rose +3.9% MoM (in USD terms), while outperforming the APAC region and its peers (MSCI APxJ/EM: -4.2%/-3.2%).



Source: Bloomberg, Returns are absolute in USD terms as of Oct 2022 (All Indices are respective country MSCI Index, World is MSCI AC World, Developed Markets is MSCI World and Emerging Markets is MSCI Emerging Markets Index)

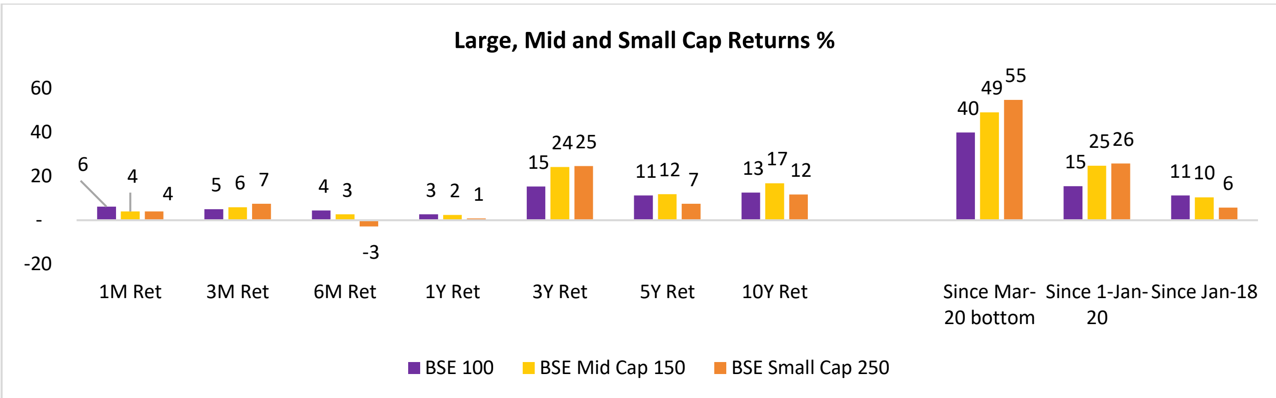


Source: Bloomberg, Data as of Oct 2022. (India is MSCI India Index, World is MSCI AC World Index, Developed Markets is MSCI World Index and Emerging Markets is MSCI Emerging Markets Index)

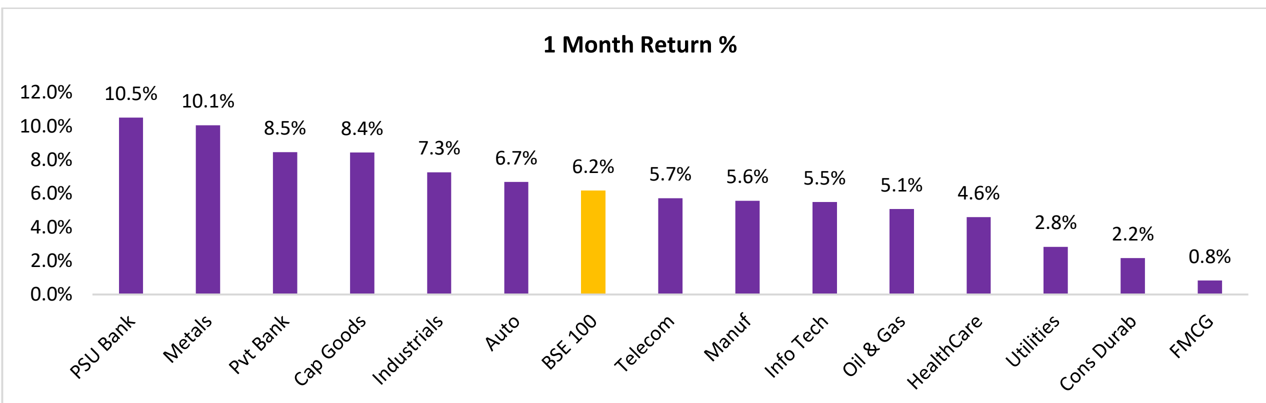
Domestic Markets

Within India, Mid-caps (+4% MoM) and small caps (+4% MoM) underperformed the large caps (+6.2% MoM). All sectors ended the month in the green with Financials, Metals, Capital Goods, Industrials and Auto outperforming the benchmark NIFTY (+6.8% MoM), reclaiming the 18K level at the close of the month.

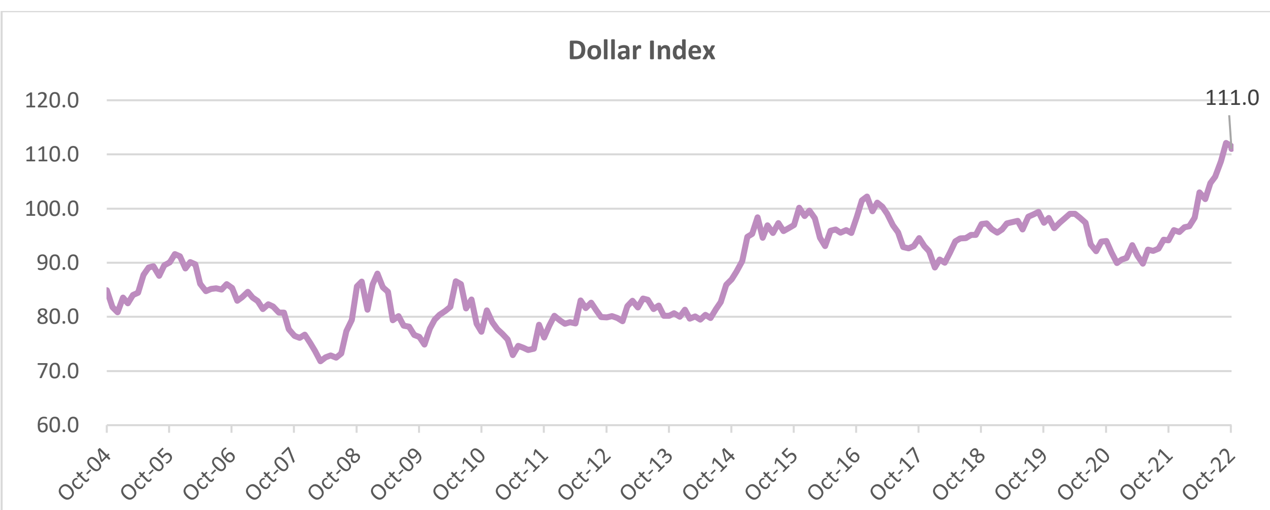
INR depreciated by 1.7% MoM, reaching ~82.79/USD at the end of October. DXY (Dollar Index) weakened marginally over the month and closed at 111.



Source: Bloomberg, Data as of Oct 2022



Source: Bloomberg, Data as of Oct 2022 (All Indices are S&P BSE Index of respective sectors)



Source: Bloomberg, Data as of Oct 2022

Commodities, Interest rate and Inflation:

Brent crude prices rose (+6.2%) over the month of October, following steady declines since June. Weakness is seen in prices amidst weaker than expected manufacturing data from China, hinting towardsdemand worries.

Indian bond yields closed higher amidst anticipation ahead of US Fed policy and an additional MPC meeting on November 3rd. The 10-Yr closed at 7.45 (+3 bps) and the 5-Yr closed at 7.37 (+3 bps).

Domestically, the quantum of excess rainfall is receding and rabi sowing has picked up a good pace across cereals supported by reservoir levels are at 89% of total capacity (much higher than the long period average). 1st advance estimates for FY23 indicated a 4% decline in food grains and a 1% decline in pulses (with the first decline in rice after eight years).

Commodities	1M Return	3M Return	6M Return	1Y Return	3Y Return	5Y Return	10Y Return	YTD Return	FYTD Return	From Mar-20	From Jan-20
Oil & Gas											
WTI	5.3%	-12%	-2%	4%	17%	10%	0%	15%	-14%	270%	42%
Brent	6%	-14%	4%	12%	16%	9%	-1%	22%	-12%	251%	44%
Natural Gas	-7%	-23%	30%	17%	34%	16%	6%	70%	13%	297%	190%
Metals											
Gold	-2%	-7%	-9%	-8%	3%	5%	0%	-11%	-16%	5%	8%
Silver	1%	-6%	-15%	-20%	2%	3%	-5%	-18%	-23%	44%	7%
Aluminium	5%	-11%	-26%	-18%	8%	1%	2%	-21%	-36%	42%	23%
Copper	0%	-6%	-22%	-22%	9%	2%	0%	-23%	-28%	61%	21%
Zinc	-5%	-18%	-25%	-20%	3%	-3%	4%	-24%	-35%	48%	19%
Steel	-9%	-13%	-33%	-40%	0%	-4%	-2%	-32%	-39%	5%	-8%
Agri											
Sugar	-2%	2%	-1%	-7%	13%	4%	-1%	-5%	-8%	63%	34%
Cotton	-20%	-30%	-44%	-37%	4%	1%	0%	-36%	-47%	38%	4%
Rubber	-7%	-23%	-28%	-25%	0%	-3%	-7%	-25%	-31%	18%	-11%
Coffee	-22%	-18%	-24%	-13%	20%	7%	1%	-21%	-22%	47%	37%
Corn	3%	12%	10%	22%	21%	15%	-1%	17%	-8%	101%	78%
Wheat	-2%	9%	16%	14%	20%	16%	0%	14%	-12%	57%	58%

Source: Bloomberg, Data as of Oct 2022

Macro prints deteriorated:

i) Fiscal deficit YTD has touched 37.3% of BE v/s 33% last month. Upbeat direct and indirect tax collections was offset by an increase in spending, both revenue (6% YTD) and capital (49.5% to Rs.3.4tn YTD).

ii) Manufacturing PMI came in at 55.3 for Oct-22 v/s 55.1 in Sept-22, reflecting an increase in employment, stocks of purchase, and improved demand. October Services PMI rose to 55.1 vs. 54.3 last month indicating a recovery in some of the growth momentum lost in the last month.

iii) GST collections rose to 1.52tn in Oct-22 vs 1.48tn in Sept-22.

iv) Sept'22ember CPI continued to rise since July and was up 7.4%; August's Industrial production fell sharply (-0.8% YoY).

v) India's foreign exchange reserves continue to fall ($533bn now) as policymakers mitigate the transmission of global volatility/ tightness to India. The deterioration in the Current Account is not only on account of higher oil, but Coal also has been a bigger culprit so far. Weakening INR is causing a double whammy to the external account.

FII flows remained flat for the month, following -$1.6bn outflows in September. So far, India has seen YTD FII outflows of $22.6bn. DIIs saw buying of $1.3bn in October, with YTD inflows of $33.8bn. Mutual funds and Insurance funds were both net buyers in October.

For the September'22 Earnings season so far, we are seeing 4th straight quarter of downgrades higher than the earnings upgrades. Nifty consensus earnings for FY23 have also seen -2.3% revision during the results season with another ~1% cut due to index component changes. Consumer durables, Industrials, Cement, and Metals have seen cuts; though margin pressures are estimated to ease going ahead. On the positive side, the cyclical viz. autos and banks have seen upgrades. Also, strong order booking by contractors/developers is seen, raising the hopes of eventual Pvt CAPEX recovery. What remains crucial to be seen is whether the FY23 Nifty earnings growth holds up to the double-digit consensus YoY growth estimates.

Macro trends		Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
CPI	Index	163	163	166	167	166	166	166	167	170	172	173	173	174	175	
	% YoY	5.3	4.3	4.5	4.9	5.7	6.0	6.1	6.3	7.8	7.0	7.0	6.7	7.0	7.4	
IIP	Index	132	130	135	128	139	139	132	148	135	138	138	134	131		
	% YoY	13.0	4.4	4.2	1.0	1.0	1.5	1.5	1.9	6.7	19.6	12.7	2.2	-0.8		
Manufacturing PMI	Units	55.3	52.3	55.9	57.6	55.5	54.0	54.9	55.9	54.7	54.6	53.9	56.4	56.2	55.1	55.3
Services PMI	Units	56.7	55.2	58.4	58.1	55.5	51.5	51.8	53.6	57.9	58.9	59.2	55.5	57.2	54.3	55.1
Exports	USD b	33.4	33.8	35.6	30.0	37.3	34.1	33.8	34.6	40.2	37.3	37.9	35.2	33.9	35.5	
	% YoY	46.5	22.6	43.0	27.2	37.0	23.7	22.4	-1.9	30.7	15.5	16.8	-0.8	1.5	4.9	
Imports	USD b	45.1	56.3	55.4	52.9	59.3	52.0	55.0	55.5	60.3	60.6	63.6	66.3	61.9	61.2	
	% YoY	53.0	85.7	62.5	56.6	38.0	23.7	35.0	13.4	31.0	56.1	51.2	43.6	37.3	8.7	
GST Collections	INRb	1,120	1,170	1,301	1,315	1,298	1,499	1,330	1,421	1,675	1,409	1,446	1,490	1,436	1,477	1,517
	% YoY	29.6	22.5	23.7	25.3	12.7	25.0	17.6	14.7	18.5	44.0	55.8	28.0	28.2	26.2	16.6
FII flows	USDb	1.0	1.1	-2.3	-0.8	-1.7	-4.8	-5.0	-3.7	-3.8	-4.9	-6.3	0.8	6.8	-1.4	-0.0
DII Flows	USDb	0.9	0.8	0.6	3.6	4.1	2.9	5.6	5.2	4.1	6.6	5.7	1.3	-0.9	1.8	1.3

Real GDP	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
INR b	33841	34047	34930	37215	35667	35615	36076	38334	26954	32967	36262	39180	32380	35735	38222	40780	36850
% YoY	7.6	6.5	6.3	5.8	5.4	4.6	3.3	3.0	-24.4	-7.4	0.5	2.2	20.1	8.4	5.4	4.1	13.8
2yr CAGR %	6.8	5.9	6.5	7.4	6.5	5.5	4.8	4.4	-10.8	-1.6	1.9	2.6	-4.7	0.2	2.9	3.1	16.9

Source: Bloomberg, PIB, IDFC Research. Data as of Oct 2022

Market Performance

	1M Ret	3M Ret	1Y Ret	3Y Ret	5Y Ret	10Y Ret	YTD Return	FYTD Return	Since Mar-20 bottom	Since 1-Jan 20
USD INR	-1.0%	-4.4%	-10.6%	-5.3%	-5.0%	-4.3%	-11.4%	-9.2%	-3.2%	-5.5%
Market Cap Wise										
Nifty 50	6.8%	5.0%	1.9%	14.9%	11.7%	12.3%	3.8%	3.1%	39.2%	14.8%
Nifty 100	5.9%	4.8%	2.0%	14.9%	11.1%	12.7%	3.5%	3.3%	39.1%	15.0%
NIFTY Large Mid 250	4.8%	5.5%	3.2%	19.6%	11.7%	15.1%	3.2%	5.0%	44.3%	19.9%
Nifty Next 50	1.3%	4.2%	1.3%	14.1%	7.5%	14.6%	1.0%	3.7%	37.7%	15.6%
BSE Mid Cap 150	4.0%	5.9%	2.5%	24.1%	11.9%	16.8%	2.0%	5.3%	49.0%	24.8%
BSE Mid Small Cap	3.6%	6.0%	1.7%	24.2%	9.7%	15.1%	-0.5%	3.5%	51.1%	25.3%
BSE Small Cap 250	4.0%	7.4%	0.9%	24.6%	7.5%	11.7%	-3.0%	1.2%	54.7%	25.8%
Sector Wise										
SPBSEPrivBINR	8.5%	9.7%	2.9%	8.6%	9.3%	14.8%	15.0%	12.3%	38.5%	6.8%
S&P BSE PSU	10.5%	9.8%	10.1%	9.8%	0.1%	2.8%	16.8%	10.5%	38.1%	11.5%
S&P BSE FastMovConsGoods	0.8%	4.1%	15.2%	9.6%	9.5%	11.1%	17.0%	21.0%	26.9%	12.8%
S&P BSE AUTO	6.7%	6.9%	21.2%	17.5%	3.8%	11.5%	23.8%	27.7%	50.7%	19.8%
S&P BSE CONSUMER DURAB	2.2%	7.8%	-1.3%	16.6%	18.4%	19.7%	-4.7%	0.9%	40.4%	21.3%
S&P BSE Healthcare	4.6%	4.5%	-4.4%	21.8%	10.9%	12.2%	-8.7%	-1.6%	34.7%	22.5%
S&P BSE Information Tech	5.5%	-1.9%	-13.6%	23.4%	22.6%	17.4%	-23.6%	-20.5%	43.9%	24.4%
S&P BSE Telecom	5.7%	9.4%	3.9%	25.4%	2.1%	6.8%	-1.7%	-3.1%	30.2%	18.1%
S&P BSE Utilities	2.8%	5.5%	34.5%	29.3%	12.2%	9.7%	35.1%	16.0%	57.2%	31.7%
S&P BSE CAPITAL GOODS	8.4%	11.9%	24.7%	20.9%	12.5%	11.6%	15.7%	20.9%	58.7%	26.7%
S&P BSE Industrials	7.3%	14.1%	24.5%	30.0%	12.6%	13.3%	17.6%	20.7%	69.6%	34.1%
S&P BSE India Manufac	5.6%	4.2%	6.0%	12.9%	8.4%	11.4%	6.9%	7.3%	37.9%	15.7%
S&P BSE OIL & GAS	5.1%	2.6%	7.4%	7.4%	3.3%	8.7%	11.3%	4.0%	34.8%	10.4%
S&P BSE METAL	10.1%	4.6%	-5.0%	26.9%	4.9%	6.4%	-1.1%	-14.9%	62.2%	23.7%

Source: Bloomberg. Returns are <1 year, returns Since Mar'20 bottom and returns since 1st Jan'20 are absolute. Data as on Oct 2022.

Outlook

The divergence of Indian markets with either Emerging markets or even Developed markets is becoming curiouser and curiouser. India shining amidst a pall of global gloom is not a belief we have had to face as investors many times before. Usually, if Developed (read, US) markets sneezed, emerging markets caught a cold. The case for "global caution" – a term we have coined, is well documented – US markets (MSCI USA) are down by -17% YTD; Europe markets are in a funk (MSCI Europe down -26% YTD), awaiting a "winter of extreme discomfort"; China's Covid policy has forced the Government to defer declaring quarterly GDP growth numbers (MSCI China down -44% YTD); Crude oil production is planned to be reduced by OPEC+ by 2mn barrels per day from Nov'22; inflation in Developed economies is higher than many emerging markets. Yet amidst all this pall of gloom, Indian equity markets continue to defy rules of "equity gravity" – every EM market is destined to fall each & every time the US market falls!

Logic and rationality, it appears have taken a back seat. Liquidity and flows rule the roost. While every equity bull market is always fueled by easy and cheap liquidity; currently RBI has taken several measured steps to curb liquidity – even housing loan rates are up 150bps in just over a quarter. Yet, Indian equities continue to stay strong. Amidst all these rational "fears" the market mood appears robust – retail participation in Options trading hasn't reduced sharply from the Oct-Dec'21 quarter when Nifty spiked to a new all-time high. MF flows, especially SIP flows remain robust. FII flows remain uneven, after briefly turning positive in July-August'22, and turned negative from September'22.

Today, when one can easily counter every positive with a negative and vice versa without taking a polemic side on either side of this argument, we have consciously tried to respect and follow one factor which we believe will work in such contrasting and confusing times – follow the earnings trail. Rather than focus exclusively on valuations, we are focusing primarily on sectors with strong visibility of earnings growth over the next two/three quarters – Banks incl. PSU banks; Automobiles and ancillaries; Capital goods; Hospitality

– Hotels and QSRs; and some emerging sectors like Defence which we have missed. Hopefully, by having exposure across most of the segments of the markets which will deliver the earnings pool growth over the next few years, we will be relatively better placed. We have also become more selective while evaluating IPOs, another area where mistakes creep in.

A similar conundrum is faced by investors – with all experts forecasting caution, do not get swayed to reduce equity nor rush to increase allocation. This is the time to stay put and learn the meaning that equity investing is akin to a roller coaster ride. Buckle up and enjoy the ride.

Note: The above graph is for representation purposes only and should not be used for the development or implementation of an investment strategy. Past performance may or may not be sustained in the future.