HDFC Bank – Research Presentation

December 2023

Classification - Public

Risk profile-based asset allocation

Asset Class	Overall View	Asset Allocation		
		Aggressive	Moderate	Conservative
Equity Funds	◆	75%	55%	25%
Debt Funds	▲	20%	40%	70%
Gold	▲	5%	5%	5%

Note:	Optimistic	▲
	Cautiously Optimistic	◆
	Cautious	▼

Category-wise view

MF Categories	View
Equity Oriented Funds	
Largecap Funds	▲
Large Cap Index Funds	▲
Multi/Flexicap Funds	▲
Large and Mid Cap Funds	◆
Mid cap / Small cap	◆
ELSS	◆
Value / Contra / Dividend Yield Funds	◆
Focused Funds	◆
Aggressive Hybrid Funds/Dynamic Asset Allocation/Balanced Advantage Funds	▲
Equity Savings Funds	▲
Sector/Thematic Funds	◆
Multi Asset Allocation Funds	▲

MF Categories	View
Debt Oriented Funds	
Short Duration Funds/Medium Duration Funds	◆
Banking & PSU Funds	◆
Corporate Bond Funds	▲
Target Maturity Index Funds	▲
Medium to Long / Long Duration Funds	◆
Dynamic Bond Funds	▲
Gilt Funds	◆
Ultra Short Duration/Low Duration/Money Market Funds	▲
Arbitrage Funds	▲
Liquid/Overnight Funds	◆
Conservative Hybrid Funds	◆
Credit Risk Funds	◆

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Equity MF Strategy – December 2023

- The tight monetary condition in the US seems to be bringing the inflation lower and there are early signs which suggest weakening of key lead and concurrent indicators. With this, we have seen the softening of the US bond yields and the Dollar Index, which has been positive for the risk assets globally. Going forward, **a very important element that all risk assets will have to pay attention to is how the focus of both the US Fed and the US Government moves towards further tightening the liquidity conditions.**
- Tight liquidity conditions and high interest rates are causing the growth rates in the Euro Zone to remain weak. There is continued weakness in the leading and concurrent indicators in the EU, which continues to be a cause of concern for the markets as this weakness is likely to hit its trade (imports) from other economies .
- China has not been able to recover as fast as market was expecting from the Covid-19 lockdown. While this has led to weakness in the Chinese markets, the Chinese government seems to be putting in measures to drive confidence back, including hiking its budget deficit targets to drive government spending in the economy. Some market participants seem to be betting on a cyclical recovery of the Chinese markets on back of the Government stimulus.
- Key elements of global headline inflation seem to be consolidating at lower levels, as most of the commodity and food prices have come off. This could lead to gradual deceleration in the inflationary expectations. However, impact of climate change on food production and new global geopolitical alignments, may have implication on future food inflation trend. World Bank seems to be suggesting that world may see high cereal inflation in the next year and it would also be an important variable for food inflation. With the tensions easing in the Middle east the Crude oil prices have also cooled, but the tight supply would be key monitorable for the future.
- New estimates coming from the multilateral agencies suggest of weakness in global growth in CY24 driven by trade disruptions and monetary tightening. **India is expected to be a key growth outlier and one of the drivers of the growth upgrade.**
- With the Dollar Index weakening, most of the emerging markets are seeing steady FPI flows and improved equity market sentiments.
- The overall economic indicators in India continued to remain strong. The Q2FY24 GDP growth rate which came in at 7.6% YoY (Better than consensus), suggest the robustness in the economy. The growth was primarily by higher Gross Fixed Capital Formation, which ties well with our view that this is a investment driven upcycle in the economy. Consumption growth data remains tepid and remains a monitorable for the medium term, as higher capex should drive employment growth which should drive consumption growth.
- Many of the key indicators like the PMI, E-way bill generation, general demand conditions, etc., remain healthy. Revival in the real estate and construction activities bodes well for rural economy, which has yet to fire completely. Higher MSP and rising agriculture prices at the Mandi level also bodes well for rural income. The growth in Two-wheeler sales seems to give an early sign of improvement in the rural demand Softening core inflation and expectation of rising employment in rural areas could further help lifting the demand sentiments.
- Some indicators like the lower Household financial savings, weakening trade balance and depreciation in currency are concerning and continue to remain important monitorable.
- Urban demand trends still remain robust. Improvement in employment creation is also likely to help the urban demand remain robust. Indicators like Credit card spends have been hitting new highs. Auto sales, especially of SUV's have been pretty strong. Nevertheless, the deceleration in the services sector growth in the Q2FY24 GDP seem to be a concern and needs to be monitored.
- Corporate and Banking sector balance sheets in India have shown strong improvement, capacity utilisation data too has improved, and this has set the stage for increasing private capex demand. With policies like PLI, preference by global corporations to diversify out of China into economies like India and others, need to create more renewable energy assets and focus on import substitution by Indian government, the capex cycle seems to be on its way. Strong revival in capex demand from the private sector along with the steady spending from the Government (centre and state) is driving the capex cycle in India. This was also evident in the Q2FY24 GDP data.
- The RBI has paused its rate hikes and is projecting moderation in inflation going forward. It has also increased the risk weights in some categories to control unsecured lending. However, volatility in currency and crude may have near term implication for the Bond yields. The recent focus of the RBI to keep liquidity on a tight leash in India could help contain inflation. While this has not had negative implication on growth trajectory so far, but with the economy geared up for high capital spending, such tightness remains a key monitorable.
- The Equity markets have moved to all time highs on Key indices, led by stable earnings performance. At the time of writing this report, the state election results have come in, which show strong performance of the ruling party at centre. This is likely to give more comfort to the markets from a perspective policy continuity. The strong inflows into the Smallcap and Midcap funds vs the Largecap funds seem to have driven the valuations in these segments higher than the largecap segment.
- Any large earnings cuts and consumer spending trends, relative valuations play (within the EM basket) could still weigh on the market performance. However, with the government pushing through strong capex drive, we expect positive triggers to continue on the cyclical earnings front that can sustain Indian equity markets performance in the medium term. While, in the long term, improving domestic macro conditions, favourable demographics, higher capex investments and stable consumption growth could keep driving the Indian corporate earnings higher and support the equity markets.
- The return expectations over 2-3 year period from the equity markets is likely to be in line with earnings growth. However, with relatively weaker global growth, future earnings potential remains a key monitorable. **We continue to maintain an investment deployment strategy of 50% lumpsum and rest 50% to be staggered over the next 5-6 months. Investors could focus on Largecap, Large & Midcap, Multicap, Hybrid Equity funds in line with their risk profile and product suitability.**

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Debt MF Strategy

- Given the relative flatness in the yield curve, staying invested at the short end could be better from a risk-reward perspective currently. Furthermore, if the yields spike up again, it will give investors a tactical opportunity to invest in the longer end.

- Corporate Bond Funds, which typically have a higher yield to maturities, look a safe bet at the current juncture. Additionally, corporate bond spreads and SDL spreads have widened recently, making the case for Corporate Bond Funds and SDL funds, from an accrual perspective.

- Thus, investors can look at Corporate Bond Funds for a horizon of 15 months and above.

- Investors who are comfortable with volatility and have a longer horizon of 24 months and above can take exposure in a staggered manner to Dynamic Bond Funds and SDL Index Funds.

- For lower volatility and a horizon of 3 months and above, investors can consider Ultra Short Duration Funds, Low Duration Funds, Money Market Funds and Arbitrage Funds.

- Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds.

- Investors can also look at Multi asset allocation funds for a horizon of 36 months and above. Investors should invest in line with their risk profile and product suitability.

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Research presentation – Content

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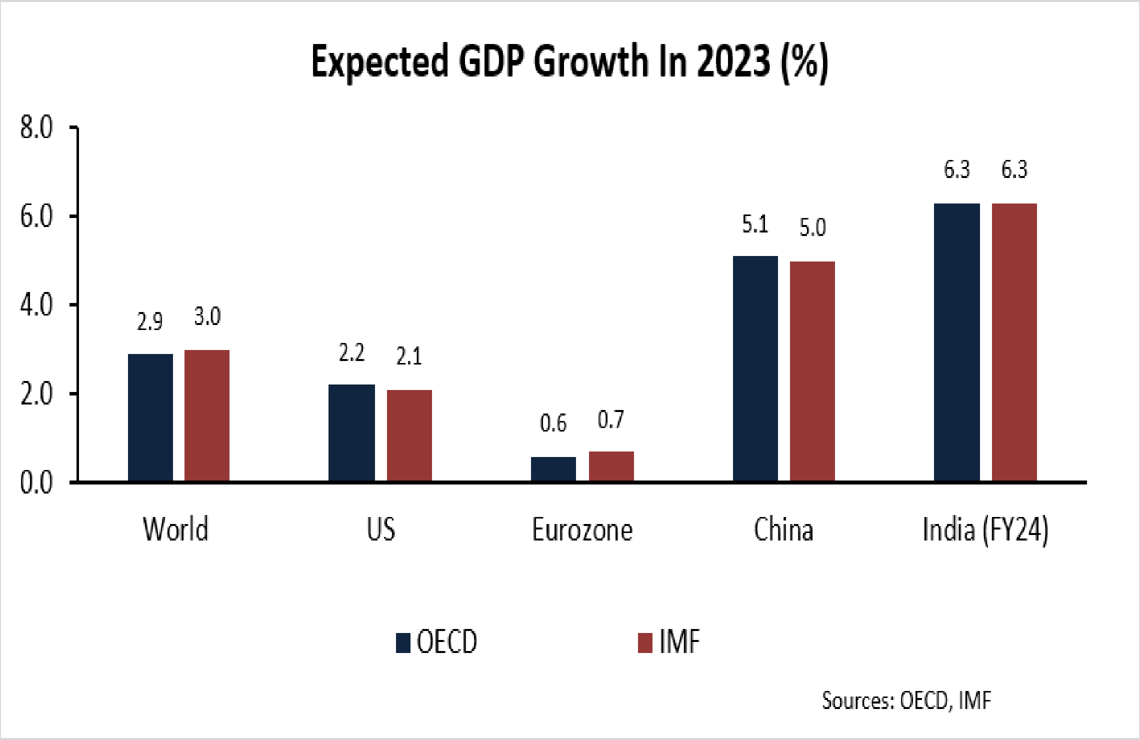
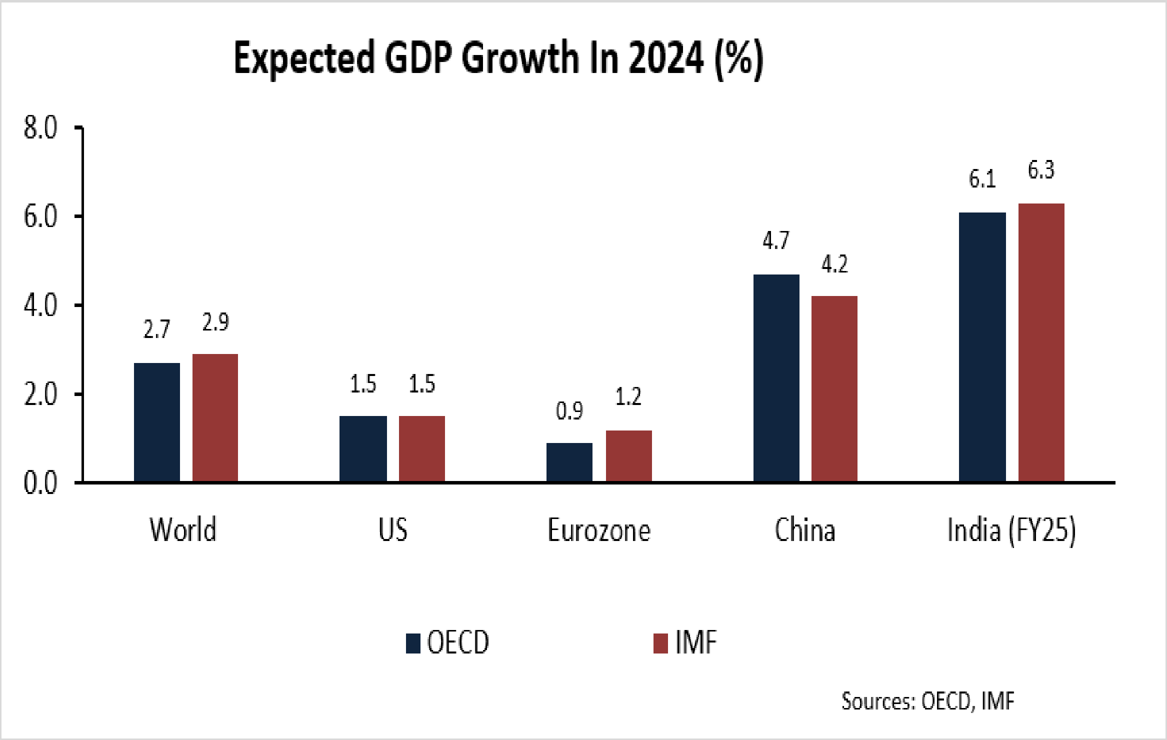
Global growth may be impacted, India an outlier





Among major economies, India continues to exhibit strong growth prospects

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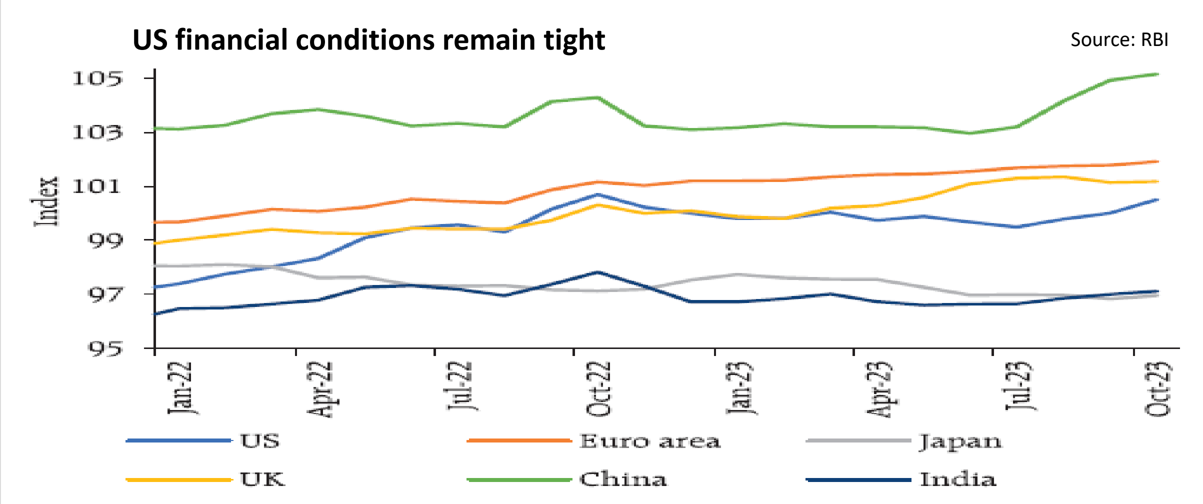
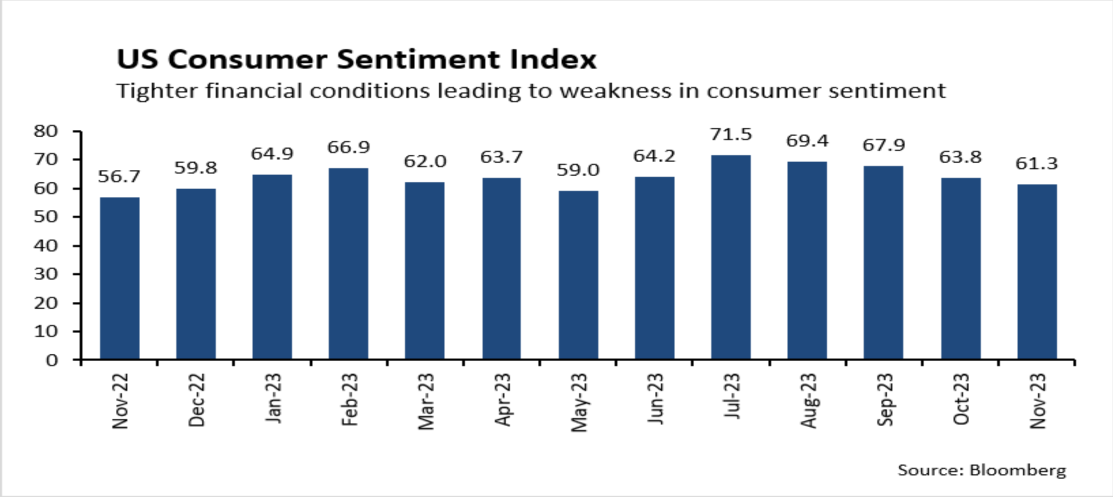
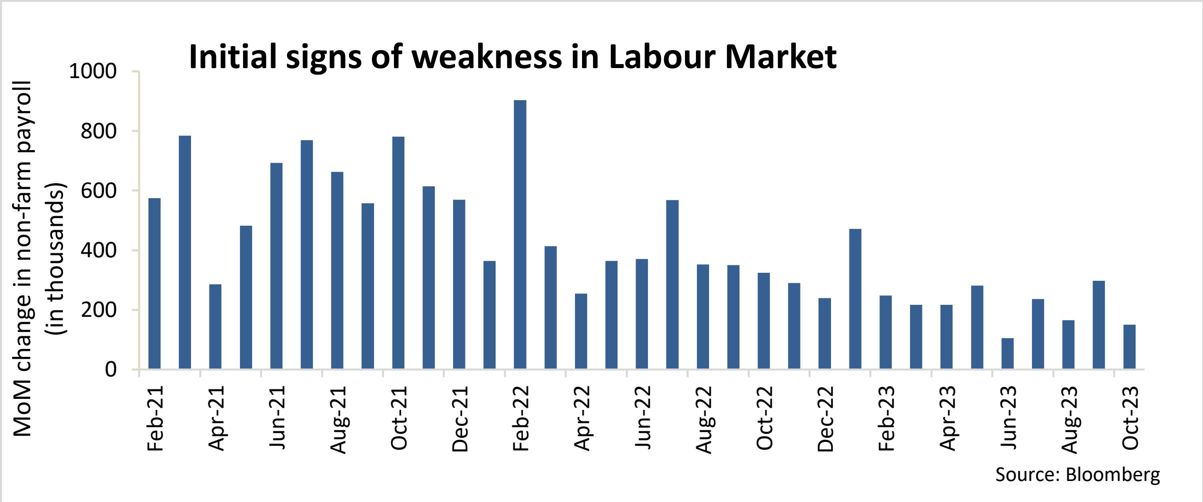
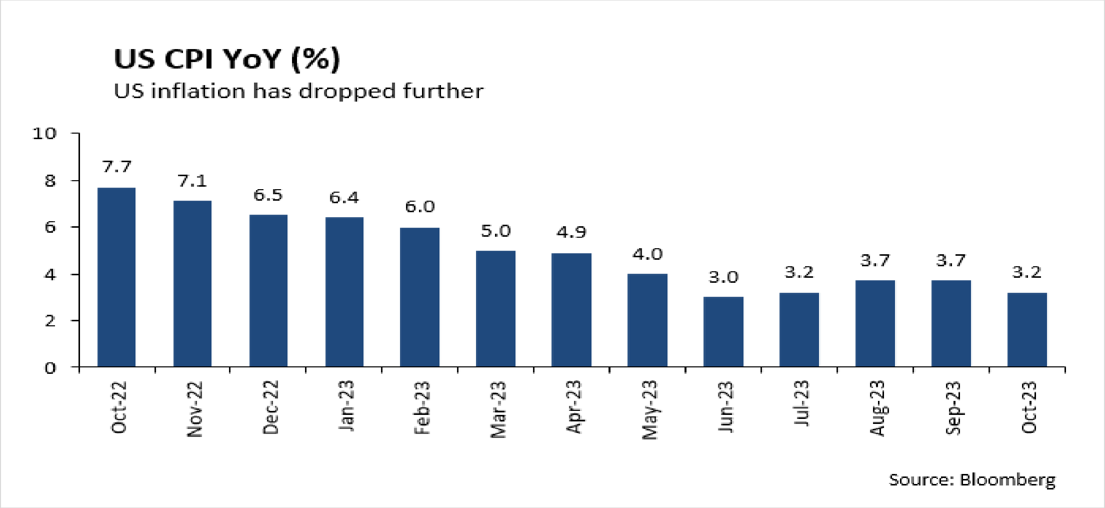
US – Inflation falling, growth picture remains mixed, driving expectation of rate cuts









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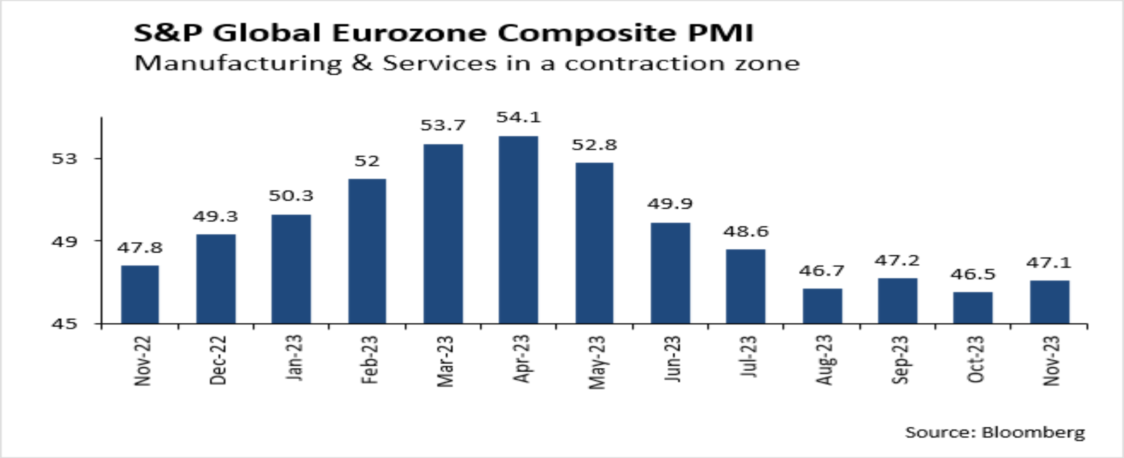
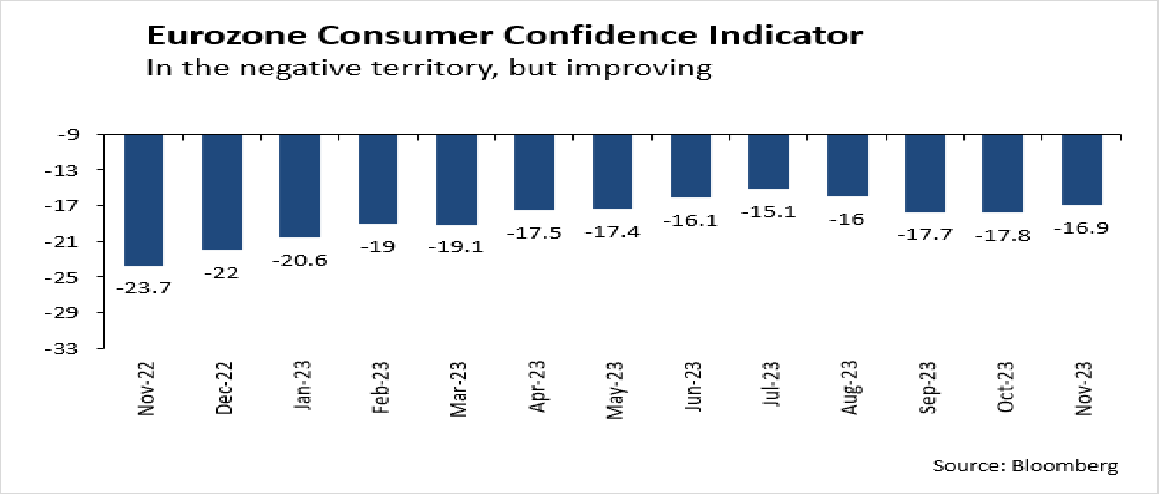
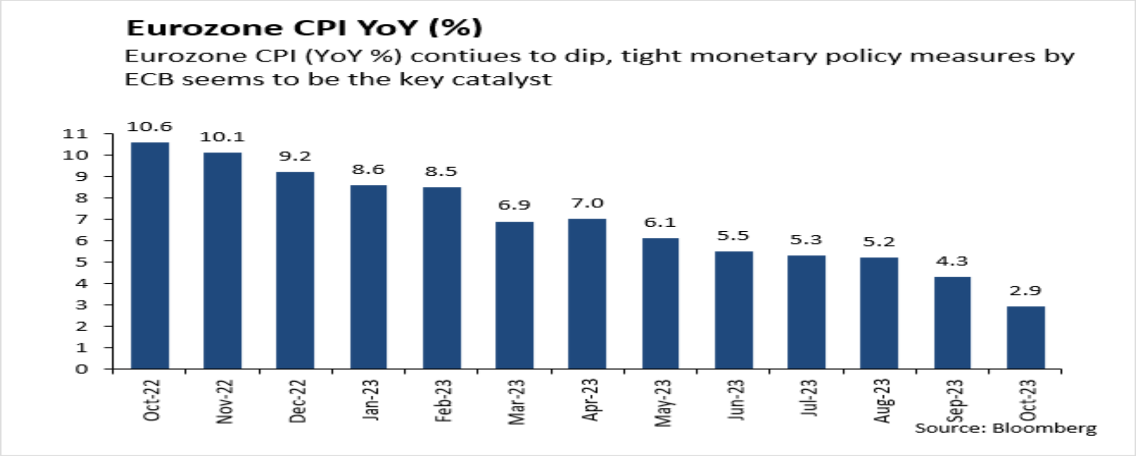
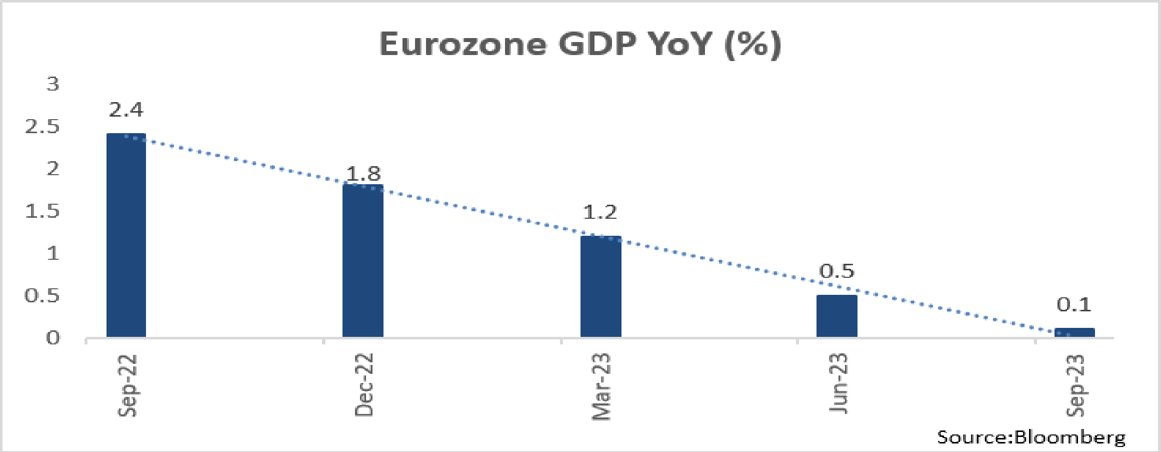
Europe – Economic weakness persists while inflation dips









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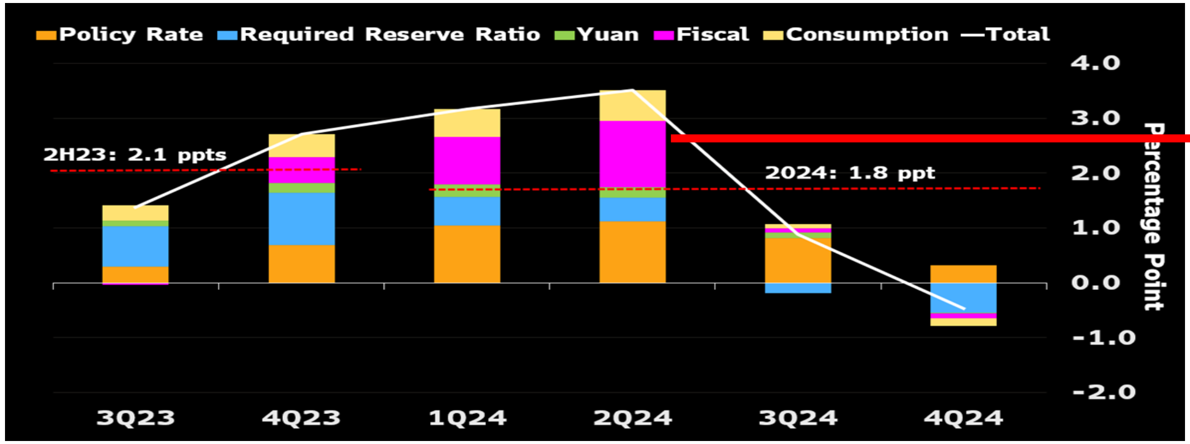
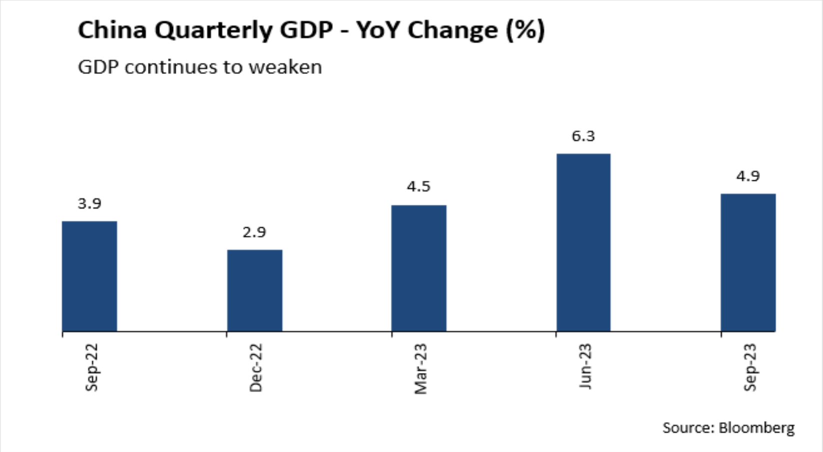
China – Economic slowdown necessitating stimulus, may lead to growth in future

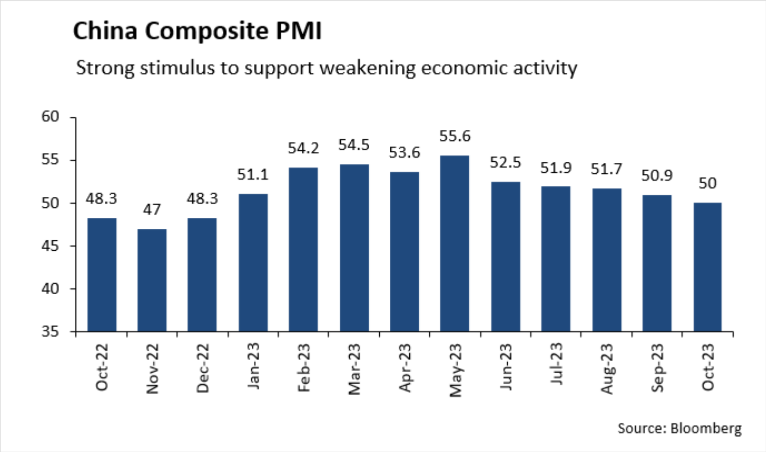
Stimulus measure – An overview

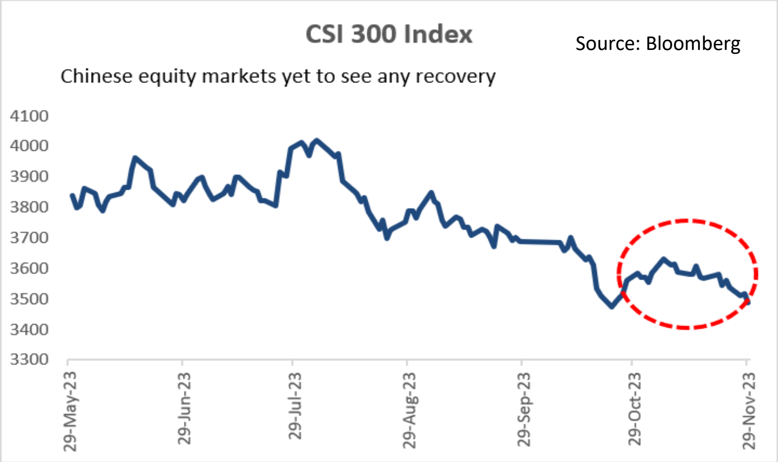


Source : Bloomberg

China's issuance of 1 trillion yuan (US$137 billion) sovereign debt plan will raise the budget deficit ratio to about 3.8% of GDP (well above the 3% target set in March 2023) and is expected to drive economic growth.







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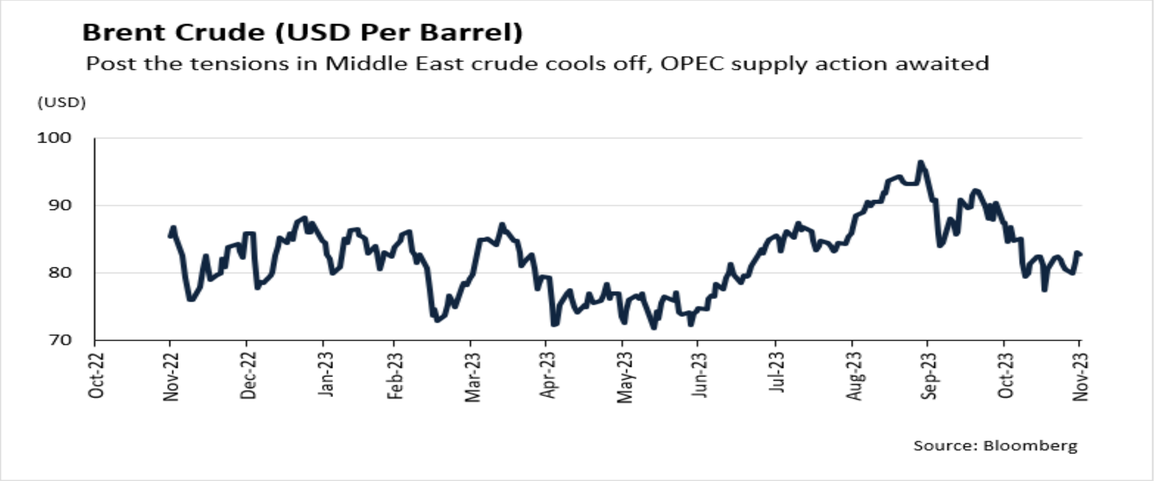
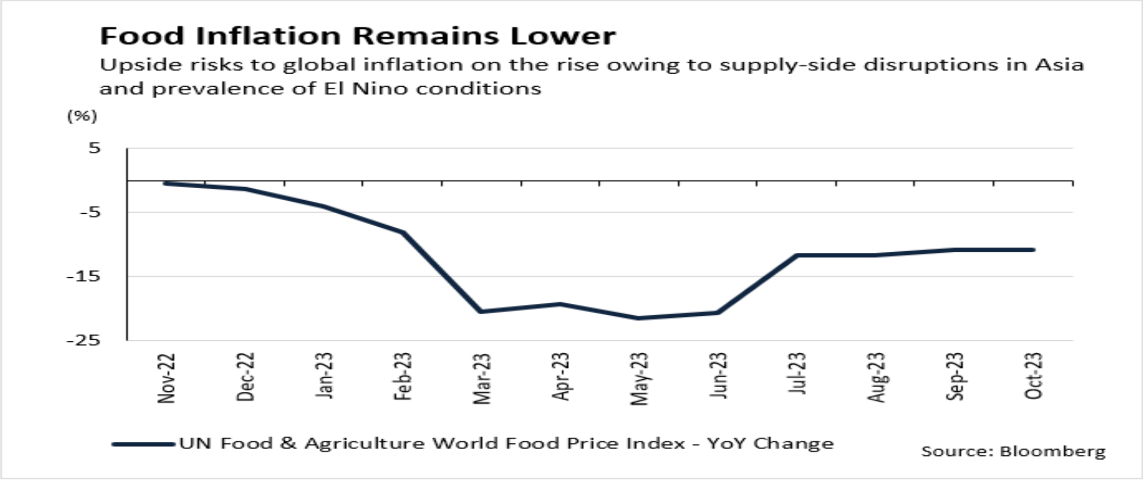
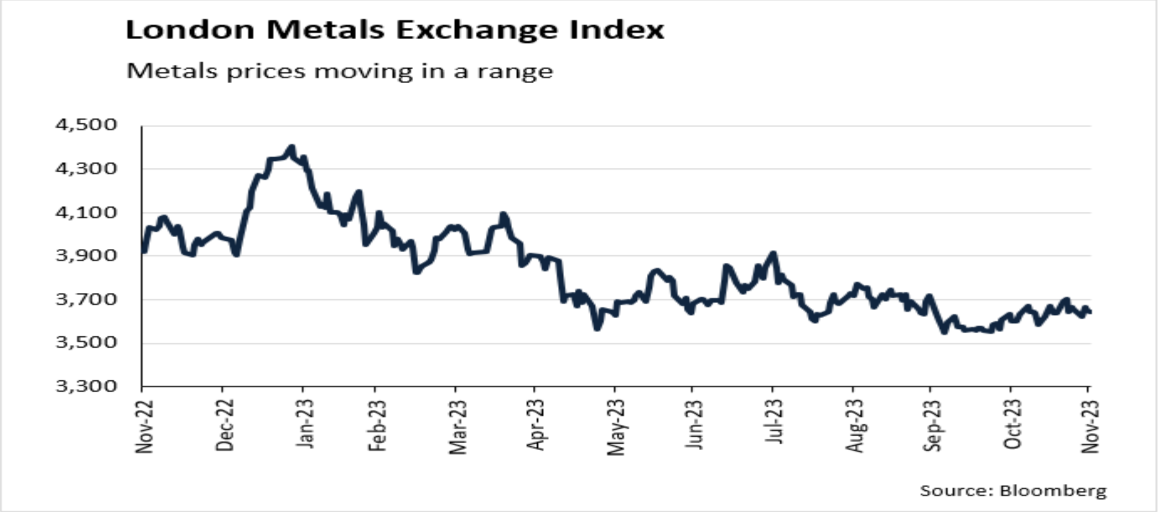
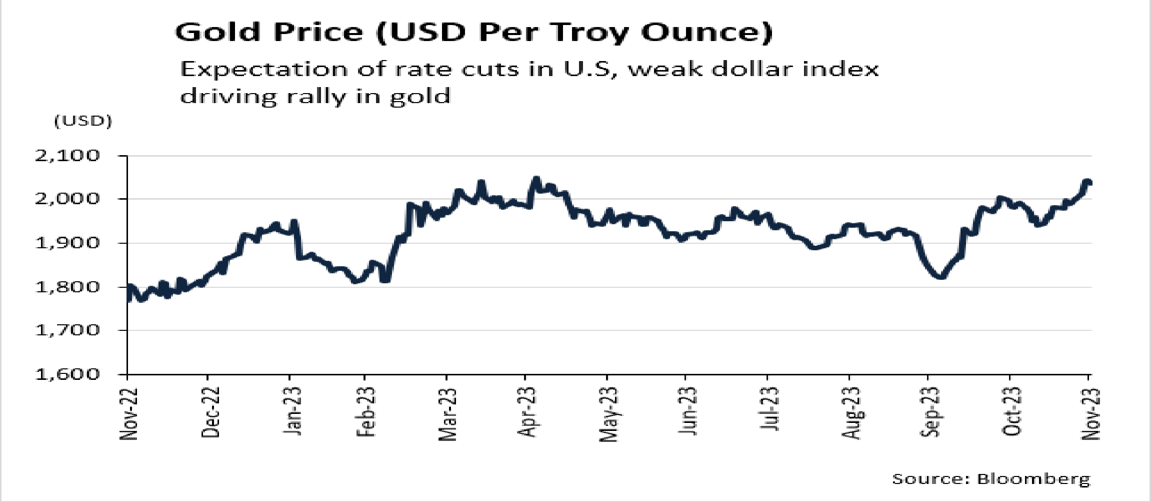
Commodities moving in a range, while Gold breaks out





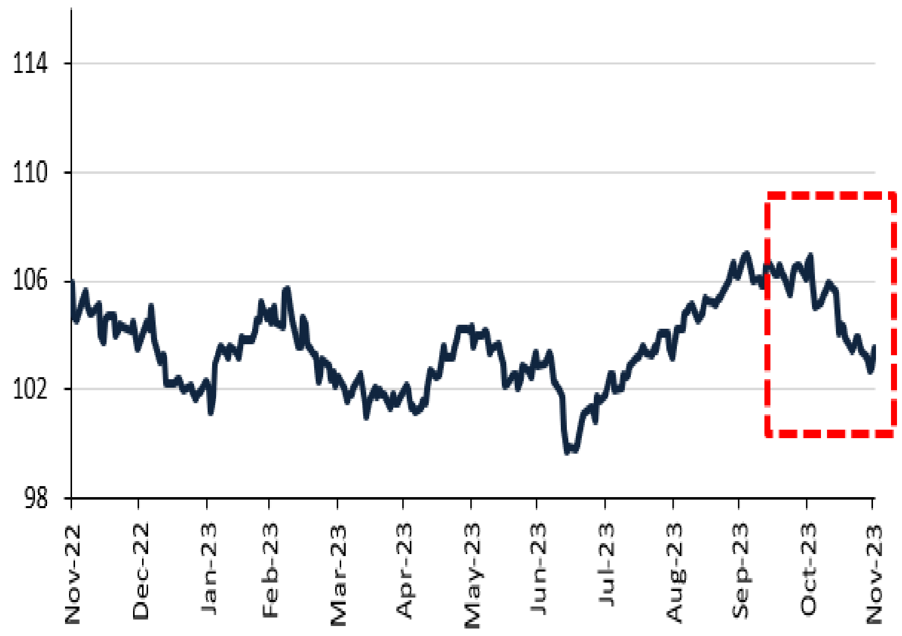




Emerging markets – As dollar index falls, currency appreciates and flows turn positive

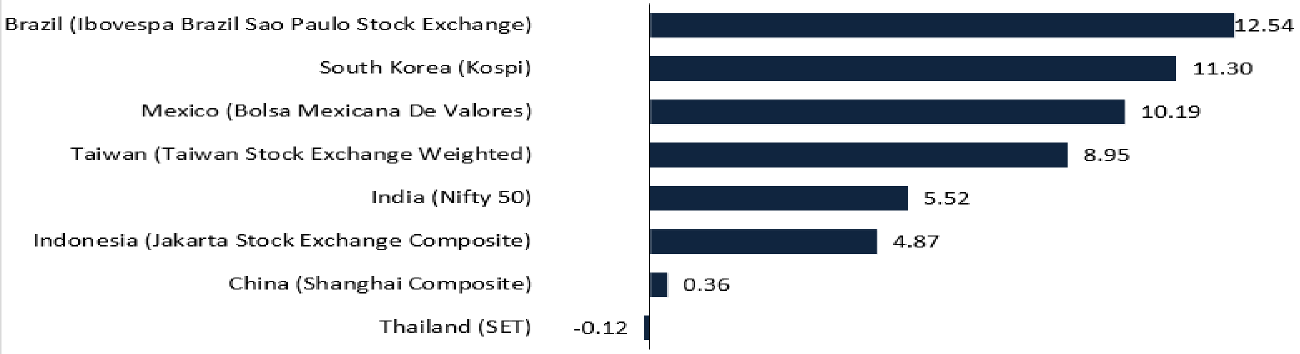
US Dollar Index

Possibility of rates peaking, coupled with falling bond yields led to a decline



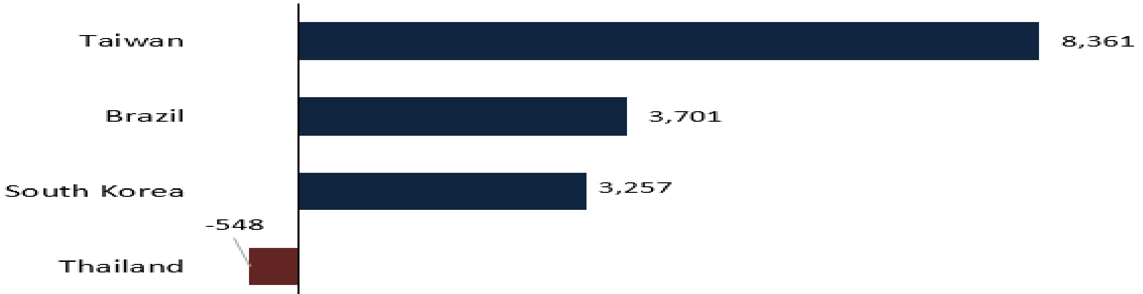
Source: Bloomberg

Emerging Markets - Absolute Returns of major equity indices in November 2023 (%)



Source: Bloomberg

Emerging Markets - Net Flows In November 2023 (USD Million)



Source: Bloomberg

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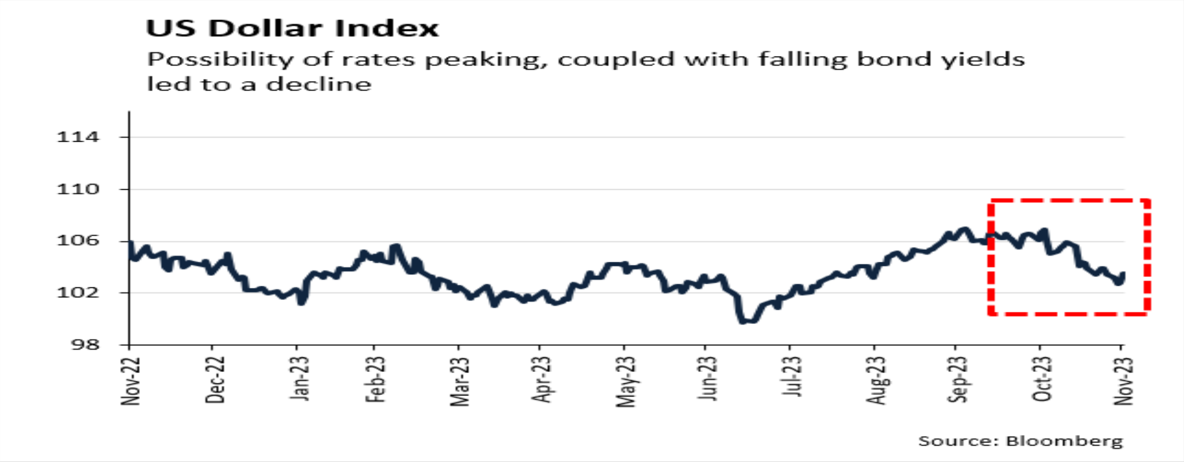
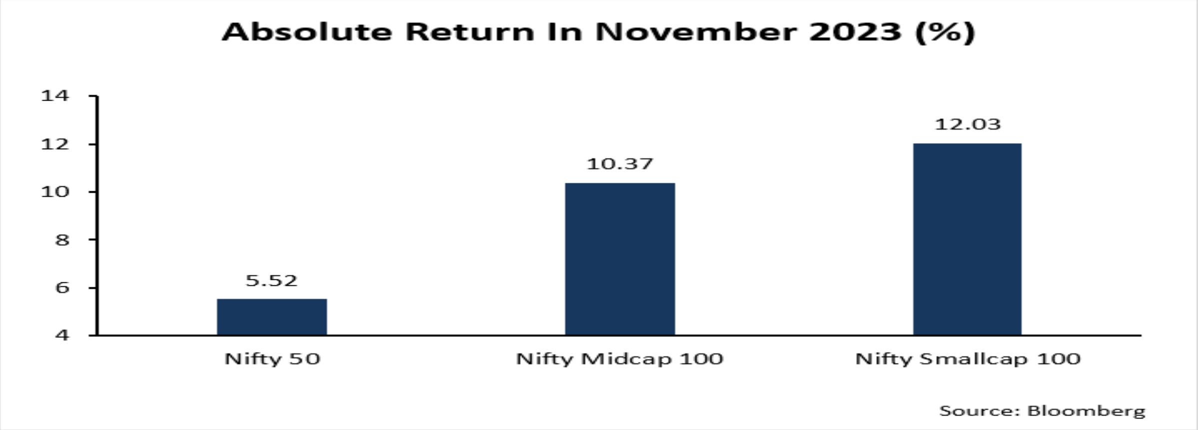
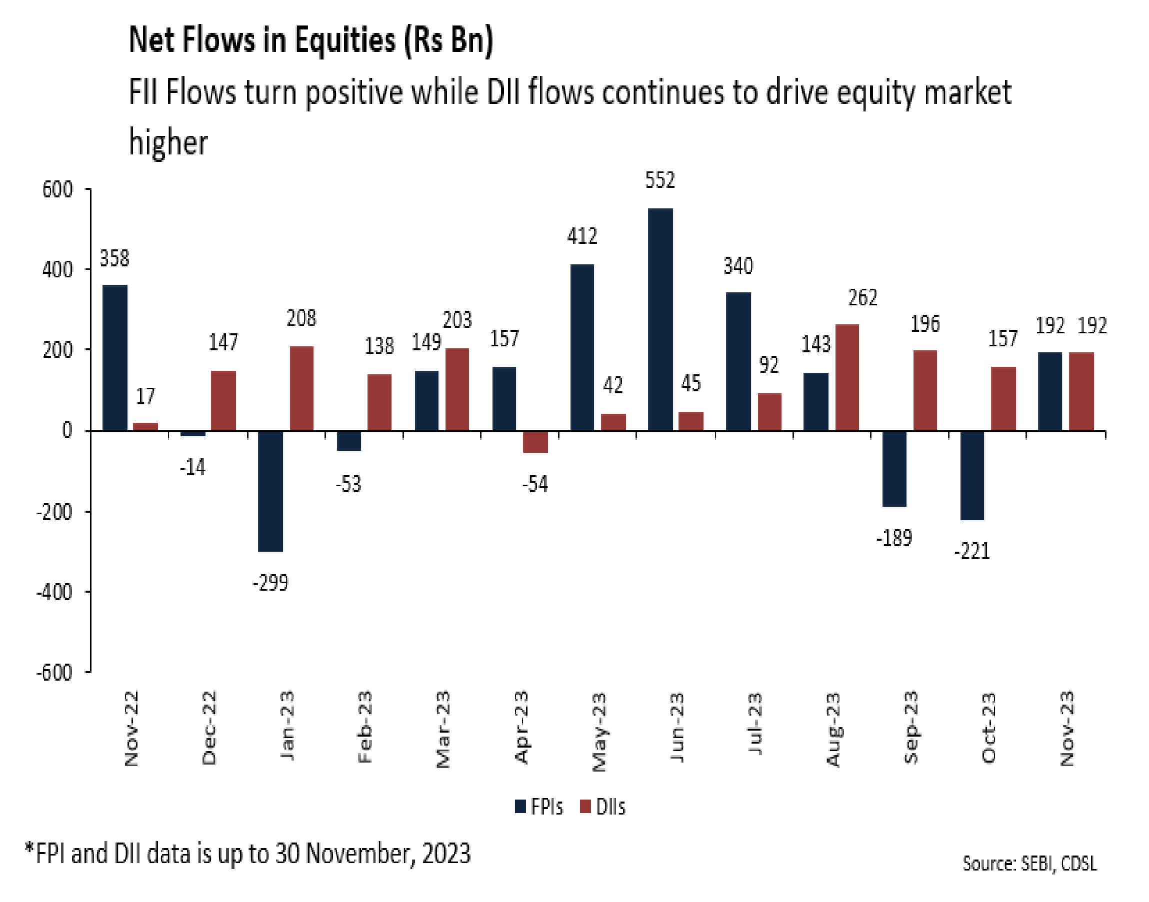
Market rise on the back of positive FPI flows & strong DII flows







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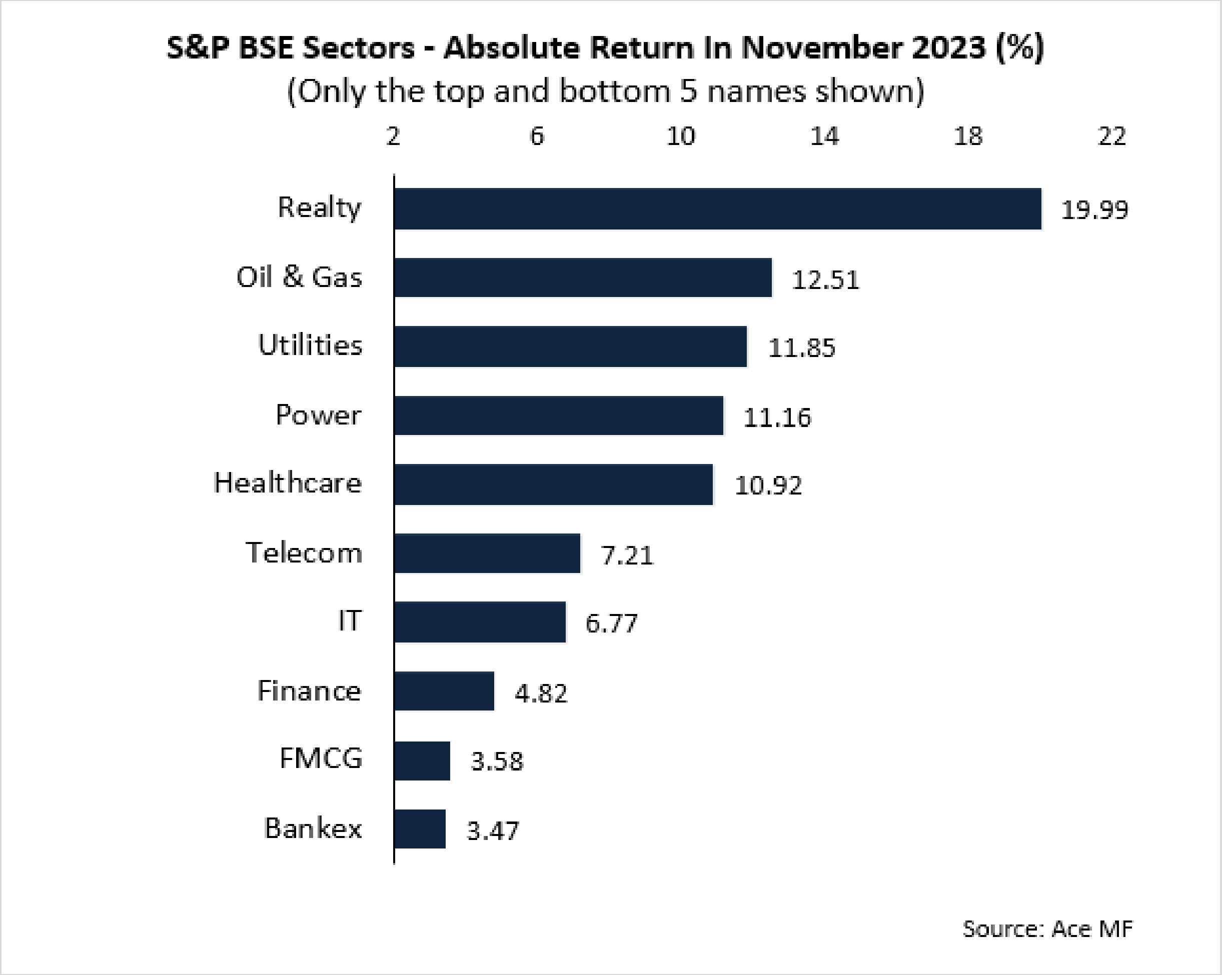
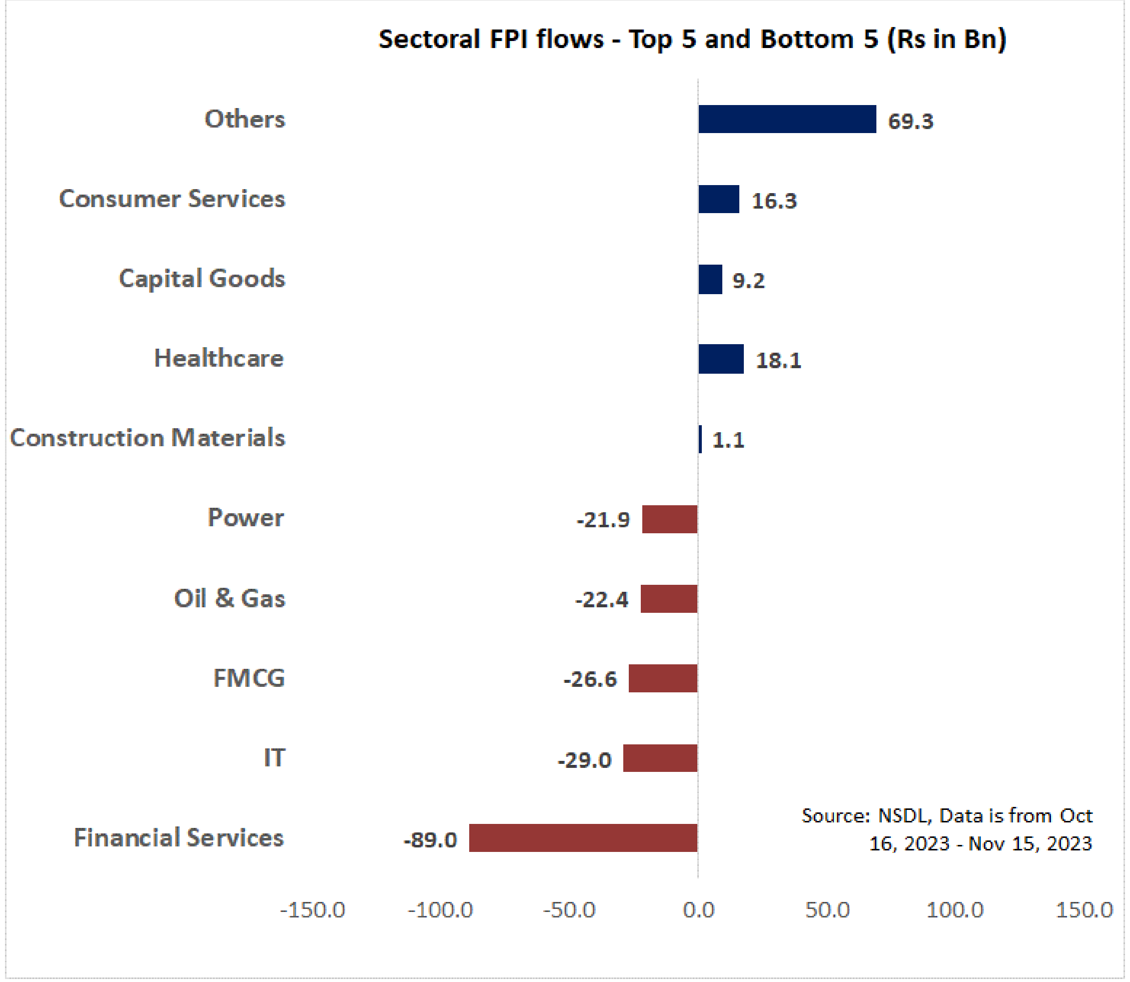
Sectoral performance and FPI flows in November 2023





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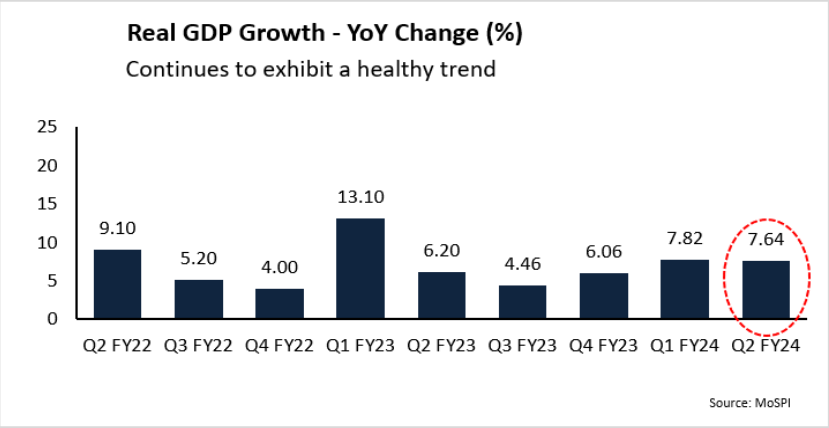
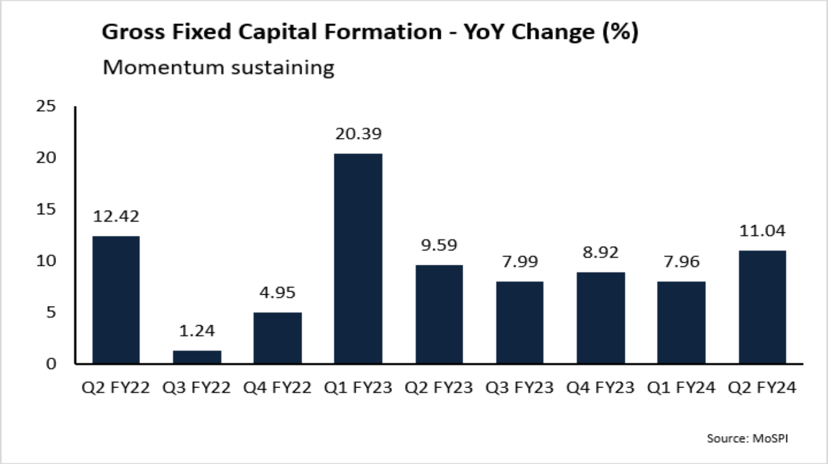
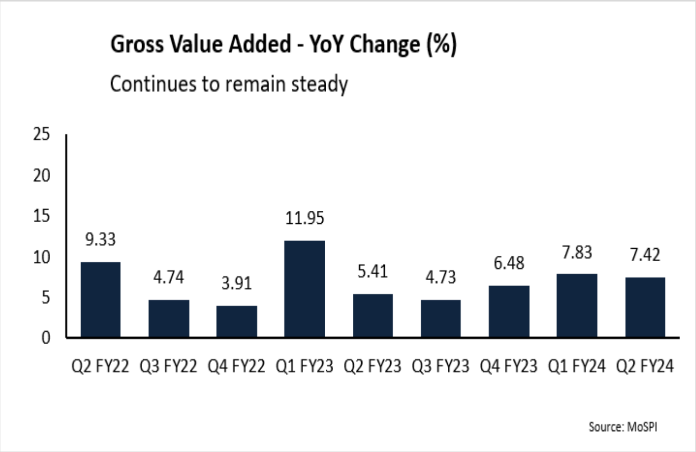
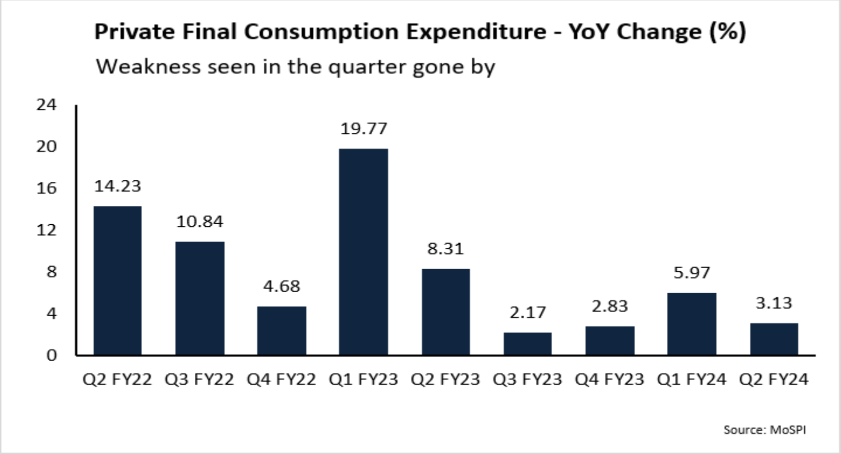
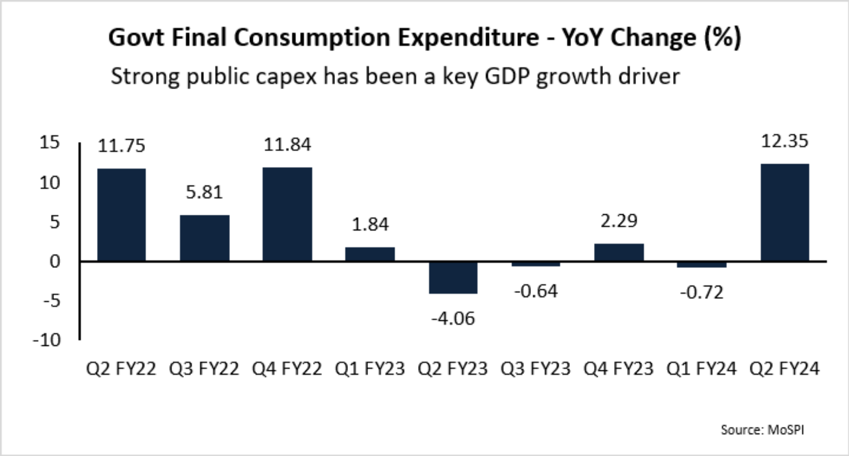
Q2 FY24 GDP surprises positively attributable to thrust on capex and strong government spending, weakness in Services & Agriculture sector - emerging concerns











Sectoral Growth In Q2 FY24

Sector	YoY (%)
Agriculture	1.22
Mining	9.97
Manufacturing	13.91
Electricity, Utilities	10.06
Construction	13.28
Trade, Hotels, Transport	4.26
BFSI	6.02
Public Admin, Defence	7.56

Source: MoSPI

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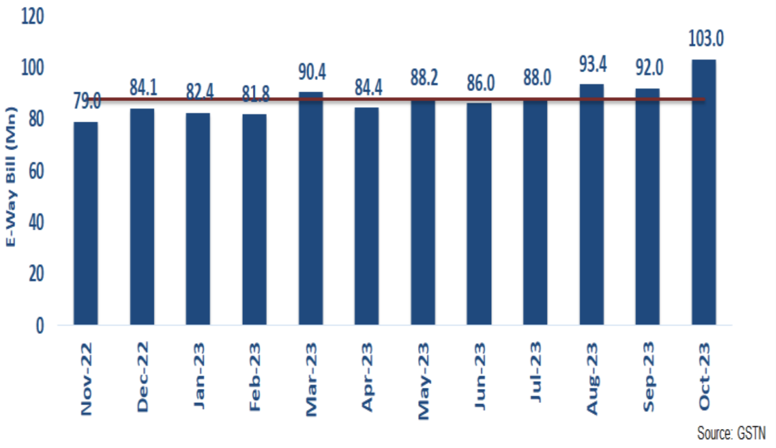
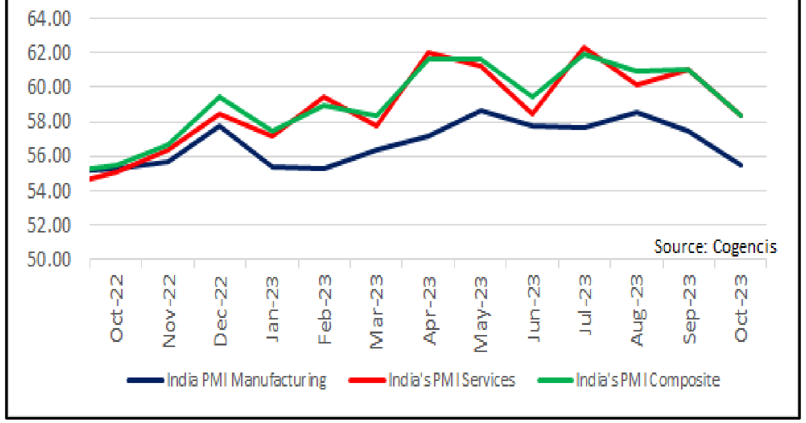
Domestic economic indicators positive, weakness in trade and currency are emerging risks

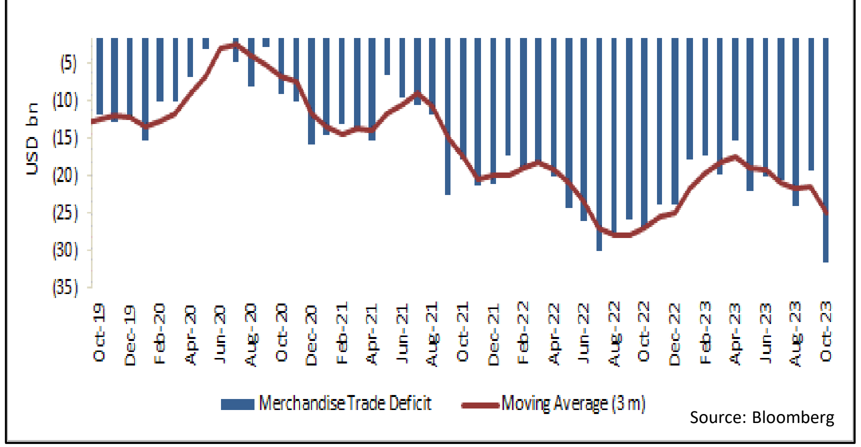
E-way bills at an all-time high



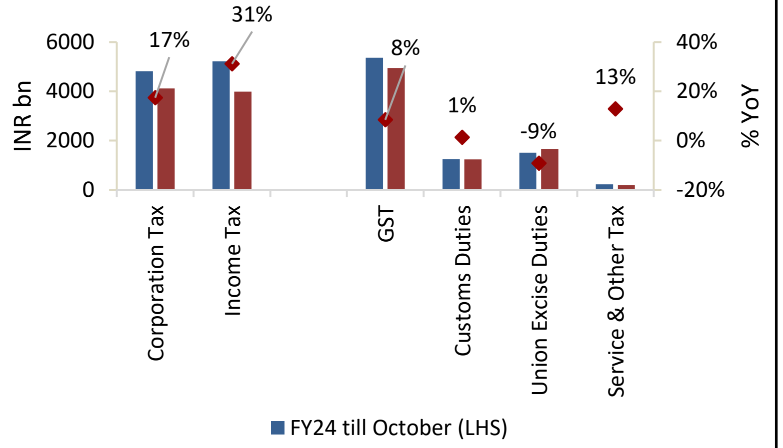
Manufacturing & Services PMI have dipped but remain in expansionary zone



Trade deficit spikes



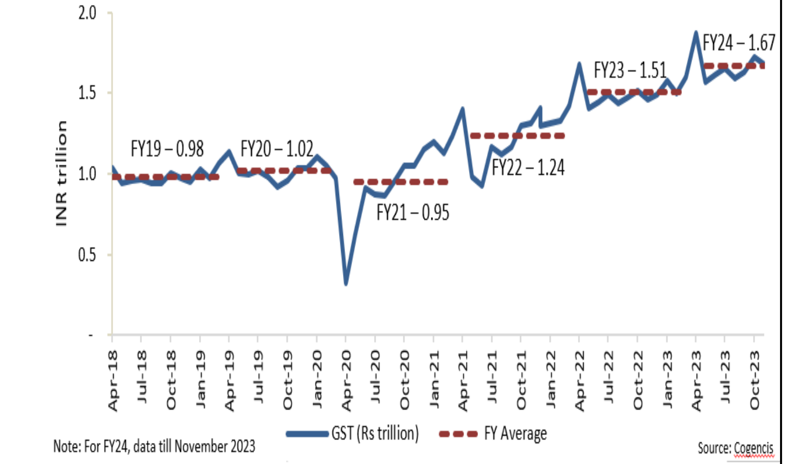
Tax Revenue remains robust



Note: Till October month of both the fiscal years

Source: CGA

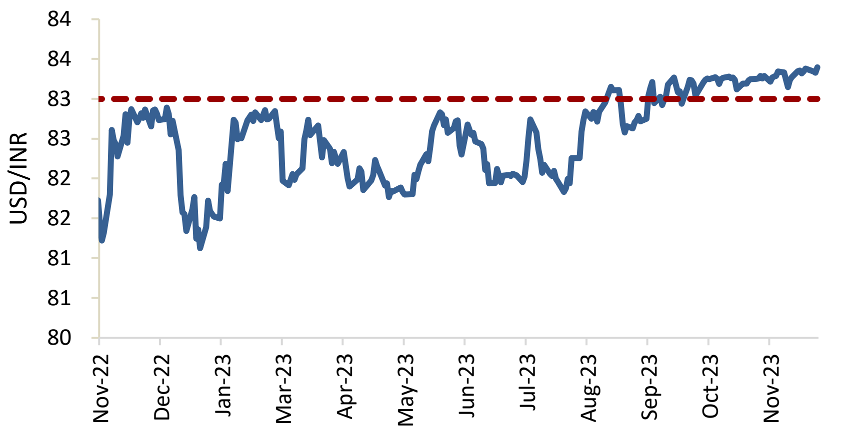
GST collection levels continue to move upward



Note: For FY24, data till November 2023

Source: Cogencis

INR touches recent lows



Source: Bloomberg

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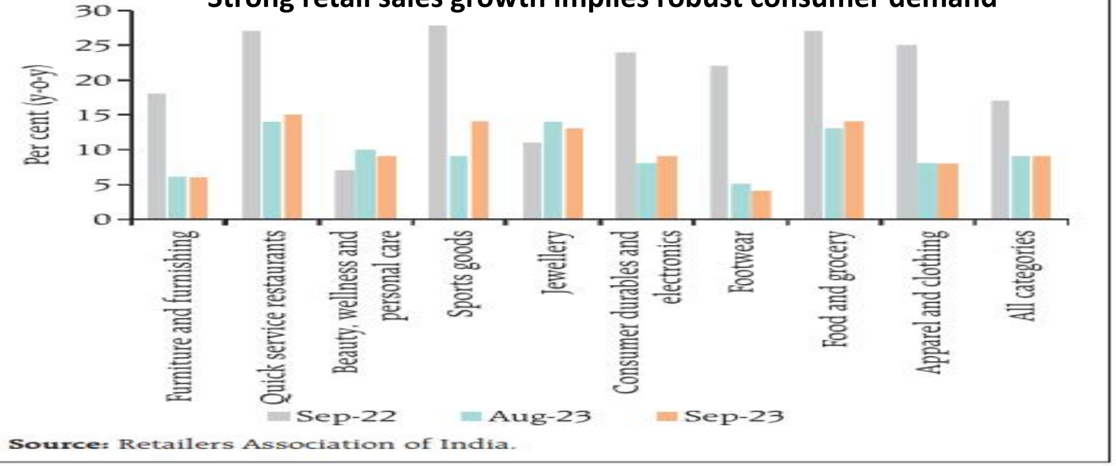
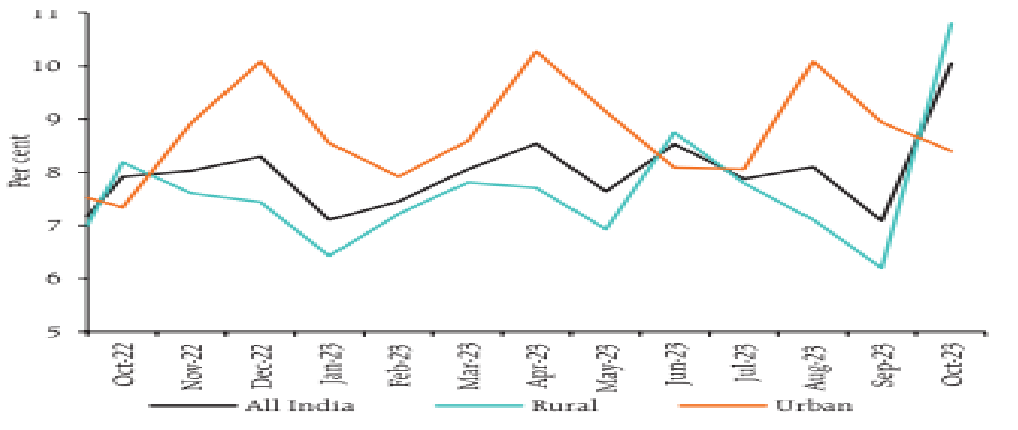
Urban demand continues to remains robust

Strong retail sales growth implies robust consumer demand

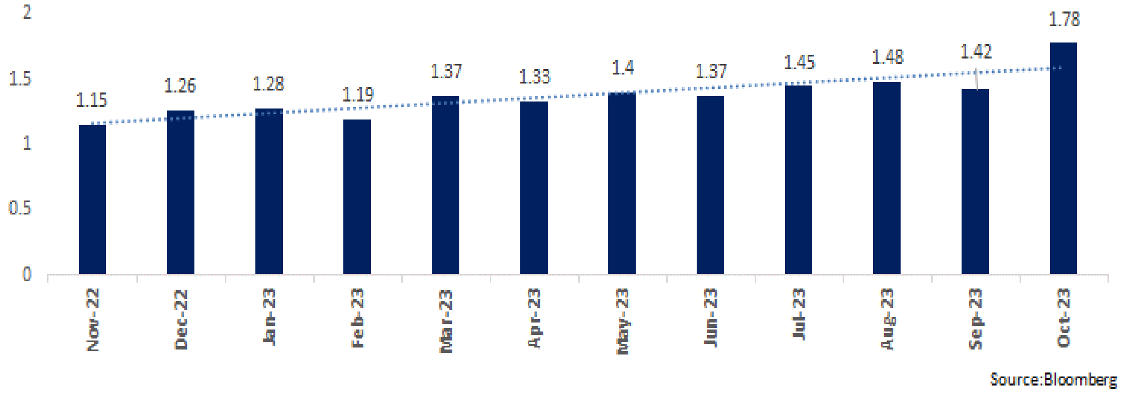


Urban unemployment continues to decline



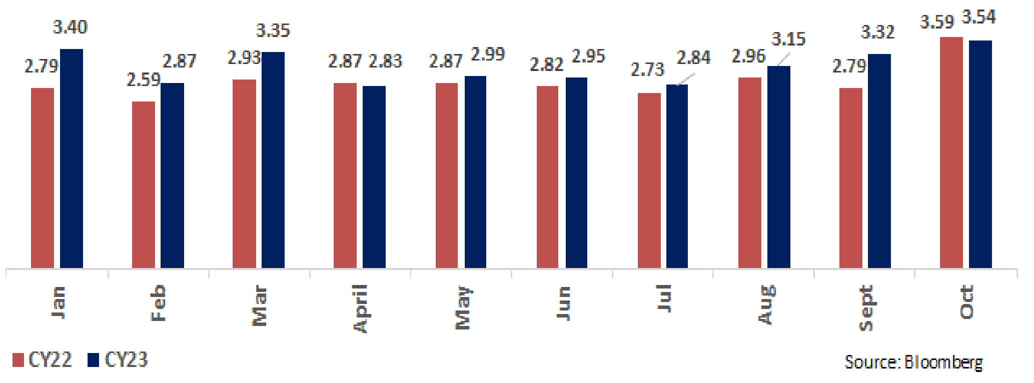
High Credit card spending (in trillion Rs)

Shows sign of robust Discretionary spending



Passenger Vehicle (PV) Retail Sales - Continues to grow (MoM)

Shows Urban demand has been steady



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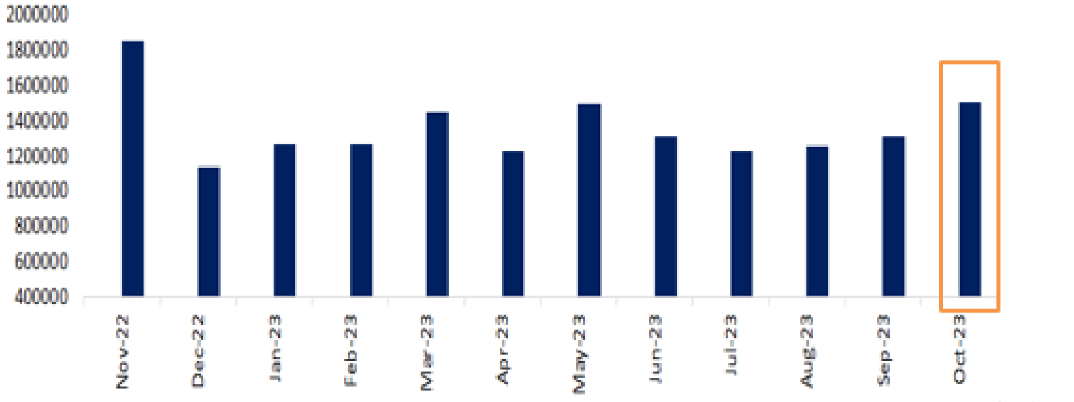
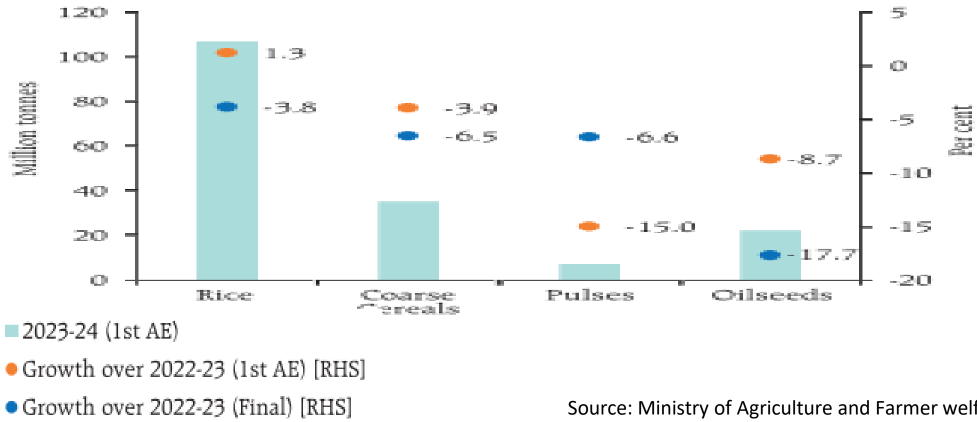
Rural India still a mixed picture

Two-Wheeler Sales showing green shoots of recovery



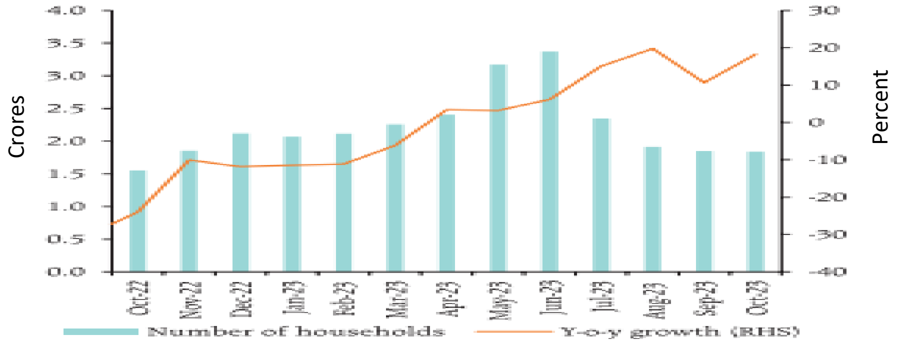
Source: Bloomberg

Kharif advance estimate down – Uneven rainfall impacts kharif production



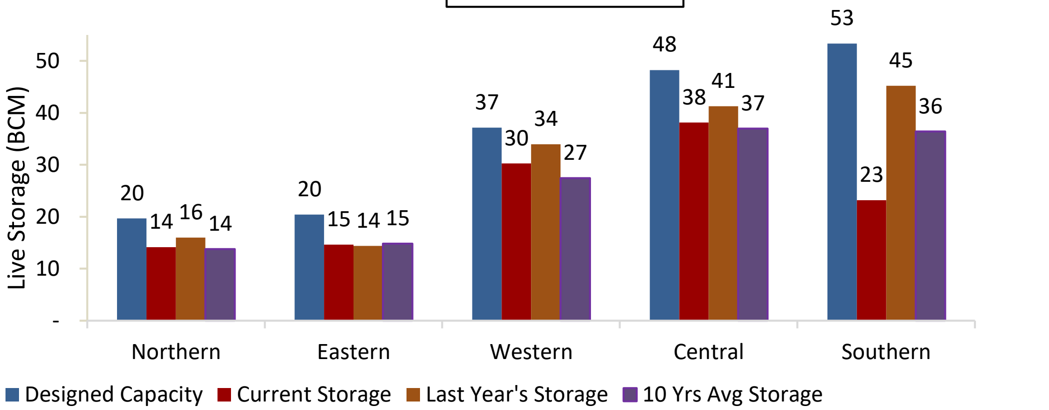
Source: Ministry of Agriculture and Farmer welfare

Low demand for MGNREGA as rabi sowing picks up – To improve rural incomes for agri labour



Source: Ministry of Rural Development, GoI

Reservoir Levels



Note: Region wise storage position as on Nov 23. 2023

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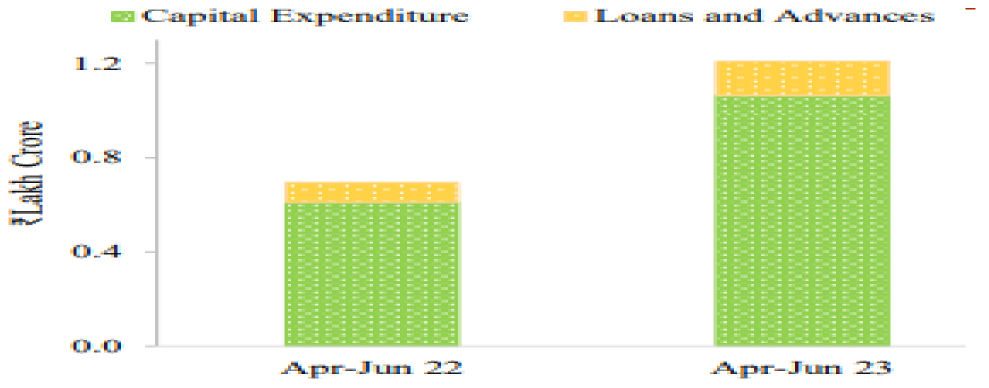
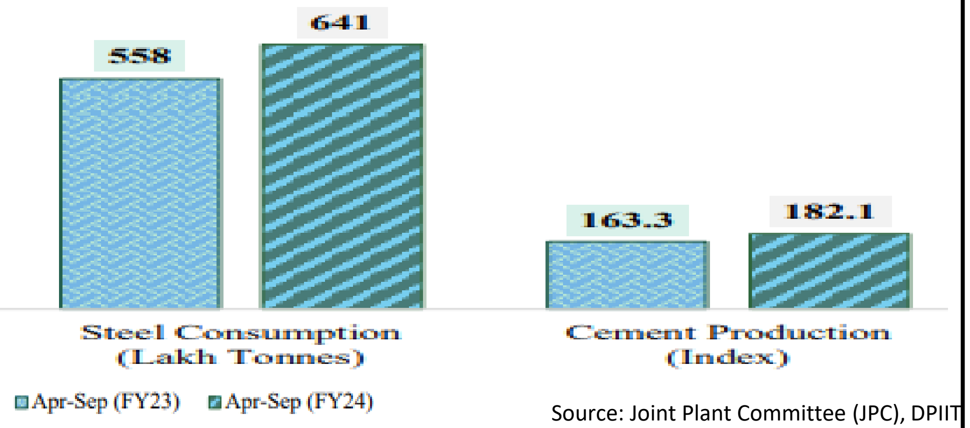
Capex traction continues to remain robust

State Govt's Capex shows robust growth in Q1FY24



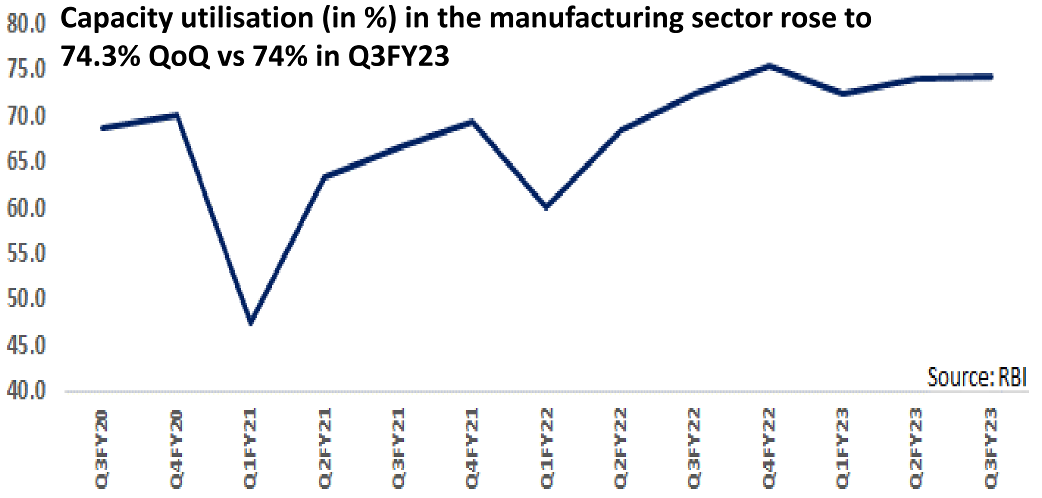
Source: O/o CAG States' Monthly Fiscal Accounts data

Steel and cement consumption on the rise



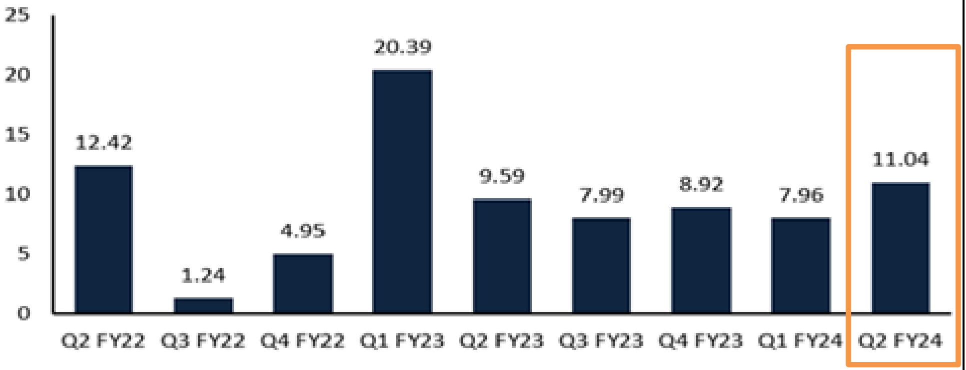
Source: Joint Plant Committee (JPC), DPIIT

Capacity utilisation (in %) in the manufacturing sector rose to 74.3% QoQ vs 74% in Q3FY23



Gross Fixed Capital Formation - YoY Change (%)

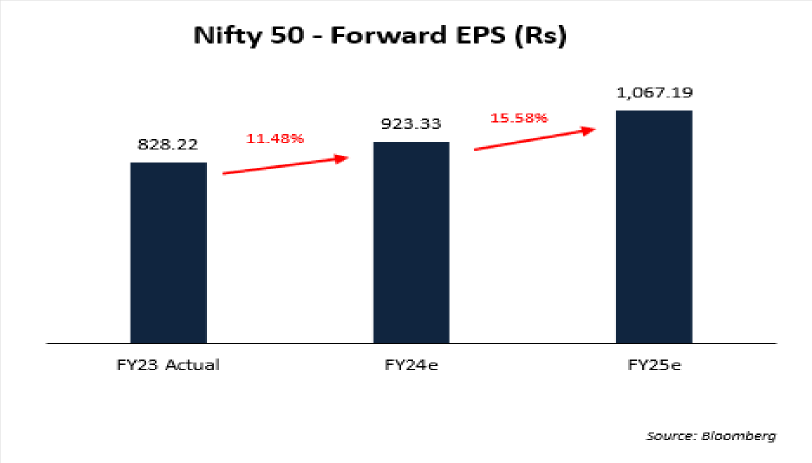
Momentum sustaining

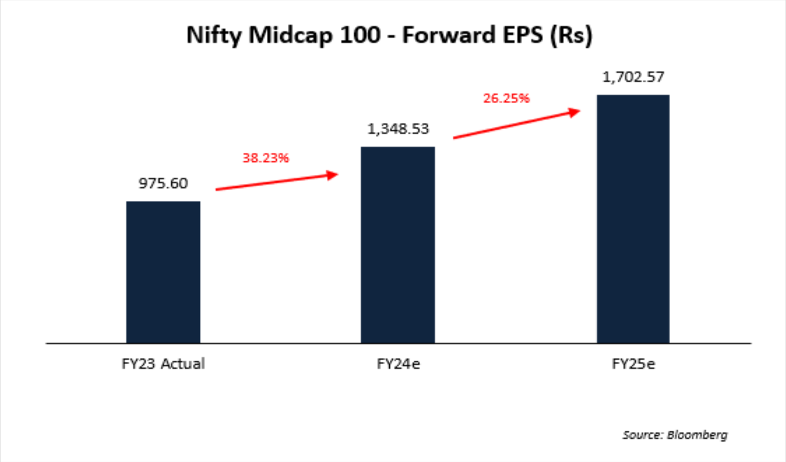


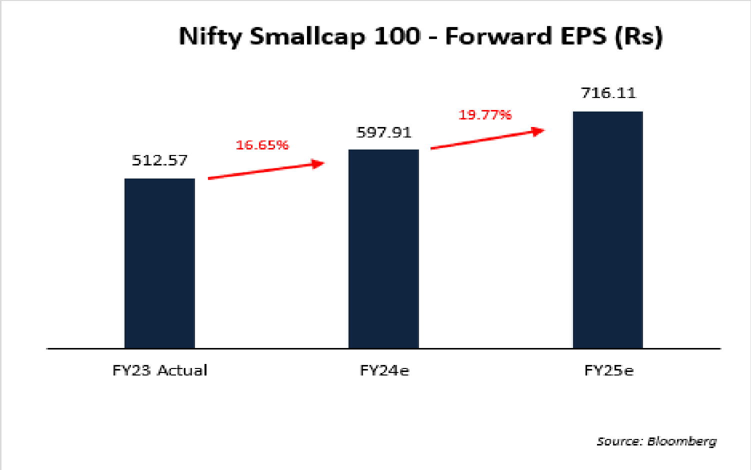
Source: MoSPI

Classification - Public

India valuations – Large caps continue to remain attractive from a risk-reward perspective



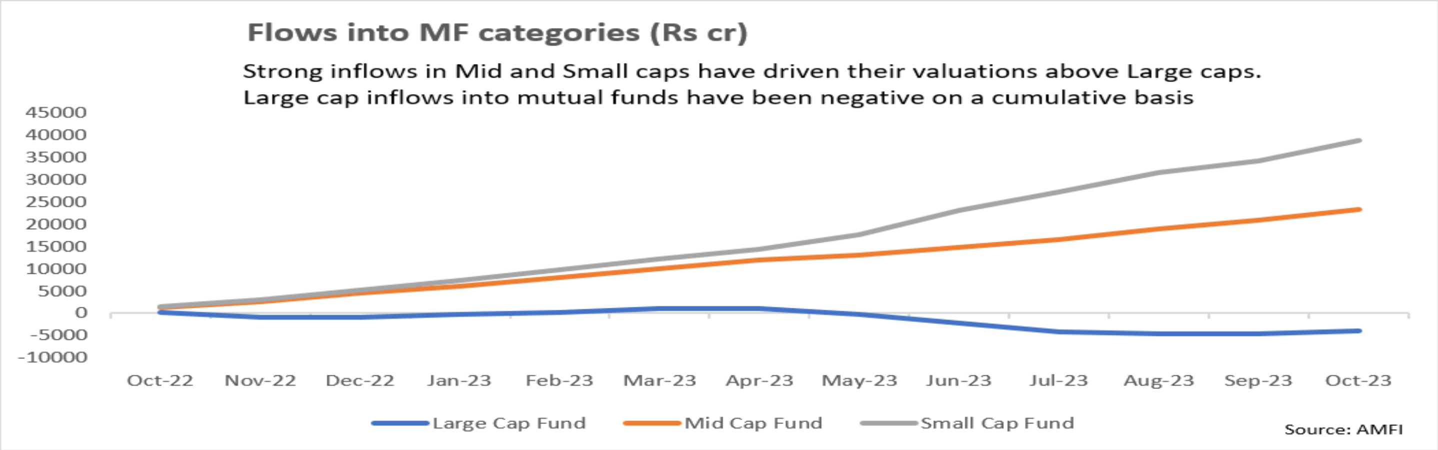




P/E (x) Comparison By Market Cap

Index	TTM (Actual)	FY24 (Est)	FY25 (Est)
Nifty 50	20.96	21.80	18.87
Nifty Midcap 100	30.79	31.82	25.20
Nifty Smallcap 100	17.55	22.16	18.51

Source: Bloomberg

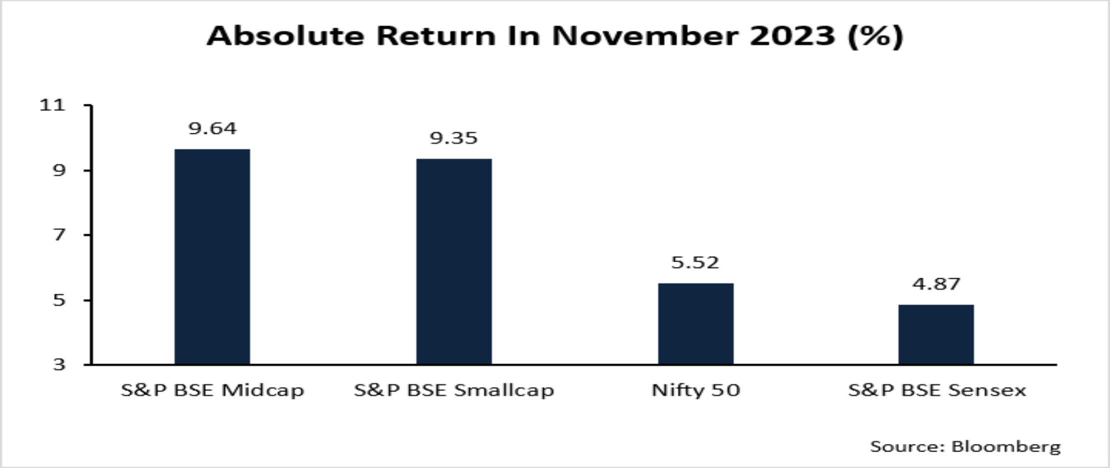


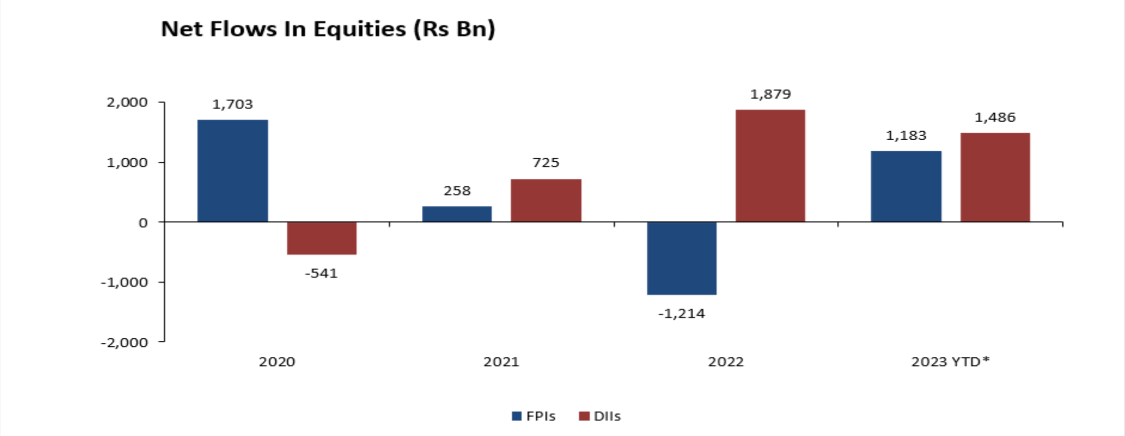
Note: the reference to TTM PE, is as of the valuations on 31/03/2023 for indices prices also as of 31/3/2023. This is to show how the PE has moved.

Classification - Public

Market Roundup – November 2023

- Indian equities ended the month on a positive note. S&P BSE Sensex and Nifty 50 ended higher to the tune of 4.9% and 5.5% month-on-month (MoM), respectively.
- The S&P BSE Midcap and Smallcap indices ended higher by 9.6% and 9.4% MoM, respectively.
- In terms of BSE sectoral indices, Realty was the top performer. In contrast, FMCG, Bank Index and Consumer Durables delivered lower returns compared to other sectors.
- Positive domestic macro indicators, favorable global cues, sustained DII buying, intermittent fall in oil prices, and upbeat corporate earnings lent support to the market.





*For 2023, FPI and DII data is up to 30 November, 2023

Classification - Public

Sectoral outlook by fund managers – Part 1

Sector	Particulars
Financials	**View –Positive** • Valuations in most of the Banks are reasonable, especially the Largecap banks. • Waning concerns around Net interest margins. • Credit cost (provisioning) may hold up, while the unsecured book remains a cause of concern for some banks. • NBFC could outperform Banks, focus would move to NBFC lending standards. AMCs and PSU Banks are also finding favour.
IT	**View – Negative to Neutral** • Valuations have corrected, growth guidance is weak, but companies have been able to protect margin. • Lower attrition and pyramid correction to help improve margins going forward. • Weak global growth projections for CY24 remains a key negative. • Some funds took tactical positions and have reduced their exposure post the recent rally, while some funds have reduced their underweight. position
Pharma	**View – Overweight** • Reasonable valuations. • US is seeing abatement of price erosion in the generic space and some shortage of drugs has built up, which should be positive for Indian pharma stocks. • Decline in the raw material prices to drive margins and earnings. • Fund Managers expect the sector to outperform on the back of improved earnings given lower base and relative under ownership.
Auto	**View – Overweight** • Passenger vehicle demand remains strong and positions are being added in such stocks, while 2-Wheeler stocks are seeing renewed traction and driving alpha. • EV continues to be a strong emerging theme and players linked to it seem to be getting higher allocation. • Demand in festive season has improved. • Commercial vehicle sales seems to be topping out. • Auto ancillaries stand to gain due to China+1, Europe+1, PLI.

Classification - Public

Sectoral outlook by fund managers – Part 2

Sector	Particulars
Construction & real estate	**View – Positive** • Favourable demand scenario for housing in terms of volume growth. • Government's focus on infrastructure and investment cycle. • Real estate stocks are also finding space in the Fund Portfolios, as growth in the sector quite strong. **Approach followed by most AMCs -** Prefer investing in this space through proxy sectors such as housing finance companies, cement, steel, pipes, and building materials, among others.
Consumption	**View – Gradually reducing underweights- Neutral** • Staples - Rural India demand patchy. Declining input costs to support margin in the upcoming quarters. Valuations high. Funds generally underweight. • Hotels/Travel – Valuations rich, funds not looking to raise weights. Earnings visibility is strong. • Consumer Durables – Funds are looking to bottom fish, as they expect turnaround of demand. • Retail and Quick Service Restaurant: Retail demand expected to improve, while QSR seem to be finding favour in portfolios due to expectations of change in consumer behaviour. **Long-term positives** • Rising per capita income. • Premiumization across categories.
Capital goods, industrials, utilities	**View – Neutral** • Capex cycle uptick implies that domestic cyclicals are gaining traction. • Reduction in commodity prices adding to margin tailwinds. • Export prospects appear promising, albeit on a bottom-up basis. • Order book is robust, and earnings remain very. • New ideas also emerging as the sectoral tailwinds broaden. • **Valuations are steep, while earnings momentum holding up. Funds with high exposure not keen on raising further weights, trimming at margin.**
Metals	**View – Neutral** • China stimulus leading to improved outlook. Most fund managers expect the stocks to gradually bottom out, but are running underweight positions. Some fund manager have reduced their underweight positions.

Classification - Public

Monthly Sectoral Movement

Absolute Monthly Return By Sector (%)

Index	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23
S&P BSE 500	**3.32**	**-3.15**	**-3.36**	**-2.55**	**0.33**	**7.08**	**3.51**	**3.86**	**3.80**	**-0.81**	**2.04**	**-2.93**	**6.75**
Auto	-1.12	-4.78	5.29	-2.32	-3.35	10.29	7.94	6.76	3.14	-1.40	3.65	-1.25	10.08
Bankex	4.11	-0.90	-5.78	-0.32	0.93	9.18	2.11	0.12	1.85	-4.01	0.35	-3.44	3.47
Basic Material	4.93	-1.05	-5.30	-7.07	2.54	7.83	1.70	2.39	3.19	1.06	1.70	-3.70	7.25
Capital Goods	1.74	-1.49	1.39	0.54	1.50	9.71	1.31	9.79	8.15	2.66	6.20	-4.07	8.88
Consumer Discretionary	-0.66	-4.28	-2.15	-1.13	-1.74	9.25	7.18	5.94	4.46	2.10	2.40	-1.38	9.36
Consumer Durables	-2.75	-4.28	-5.01	1.30	0.45	2.91	6.47	5.67	-0.25	4.24	3.18	-2.32	7.42
Energy	4.65	-2.17	-9.46	-12.14	1.95	7.19	-0.07	-0.24	6.89	-4.38	3.20	-2.17	9.17
FMCG	2.45	-2.73	0.20	0.34	2.01	6.81	5.89	2.47	1.58	-2.75	0.97	-0.86	3.58
Finance	4.57	-1.20	-4.50	-0.60	-0.08	9.05	2.13	1.97	3.16	-2.64	1.08	-3.09	4.82
Healthcare	0.09	-3.81	-2.35	-4.66	1.31	6.33	2.81	9.71	7.45	0.57	2.45	-4.30	10.92
IT	5.46	-6.03	3.43	-0.57	-3.15	-0.13	6.70	2.16	1.34	4.13	2.62	-3.13	6.77
Metal	6.48	2.95	1.43	-10.40	1.04	7.21	-2.94	3.99	7.88	-1.64	7.45	-4.17	8.74
Oil & Gas	5.76	-0.97	-9.25	-13.17	2.77	6.39	-1.64	0.27	6.67	-5.03	1.23	-4.17	12.51
Power	-3.45	-6.76	-10.84	-18.60	9.39	5.37	2.01	4.33	9.20	-0.63	5.96	-4.90	11.16
Realty	2.69	-3.90	-4.85	-3.09	-1.60	19.64	7.67	9.35	9.01	-1.50	5.21	3.70	19.99
Telecom	2.54	-5.20	-7.13	-0.47	-3.65	8.44	4.12	9.08	5.61	3.20	10.55	-5.69	7.21
Utilities	-2.83	-6.92	-12.89	-21.37	10.02	6.22	-0.59	5.02	10.36	-0.64	7.20	-3.98	11.85

The abovementioned sectoral indices pertain to the S&P BSE universe

Colour scales assigned vertically

Source: Ace MF, HDFC Bank Research

Classification - Public

Key concerns for Indian equities

- Tepid management commentary
- Volatility in commodity prices, especially Crude Oil
- Rising tensions in Middle East
- Upward pressure on food inflation (El Nino, export restrictions by some nations)
- Impact of deficient monsoon on India's rural economy in particular
- Movement of global liquidity
- The impact of Dollar Index and US Bond Yields on FPI flows in emerging markets
- Economic slowdown fears in developed markets

Classification - Public

Fixed Income Market

Classification - Public

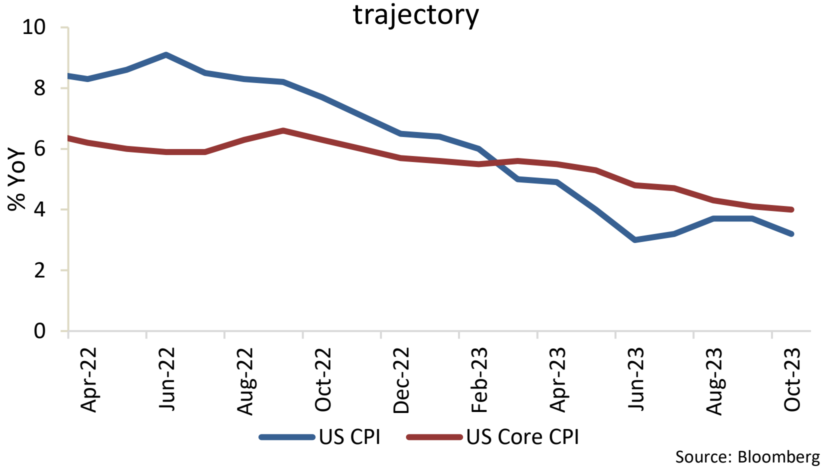
Fixed Income Outlook

- Liquidity is expected to stay in the neutral to tight zone in the near term for the RBI to keep the effective policy rate higher than the repo rate without the need for further rate hikes and to also rein in demand-side inflationary pressure. The banking system liquidity is likely to ease due to government spending moving into the system as we approach the general elections, and the redemption of bonds. Given this context, the market participants believe the RBI may conduct OMO sales to mop up the excess liquidity. Thus, while the RBI may remain nimble in liquidity management, it may move away from temporary liquidity management to permanent liquidity management.
- Headline inflation further cooled off in October 2023 due to deceleration in clothing, housing, fuel and lighting and a weakening of price momentum across broad categories. However, food prices remain an upside risk to inflation as cereals and pulses inflation continue to remain in double digits. Going forward, more upside risks are emerging on food prices as Rabi sowing may fall short of the target due to low reservoir levels, patchy rains and a low base. Furthermore, volatility in crude oil prices amidst supply cuts, Middle East turmoil and upward revision in demand forecast pose upside risks to inflation. In this context, the government has taken measures to ease the supply-side issues and this needs to be keenly monitored. While headline inflation print in the upcoming months may witness a slight uptick on the back of higher food prices and low base, over the course of the year, inflation is expected to be contained within the tolerance band (2%-6%) of the RBI.
- India's trade deficit widened in October 2023 due to a sharp rise in gold imports. Going forward, the outlook of trade deficit is likely to depend on the ability of the manufacturing sector (engineering goods manufacturer) to drive higher exports. If the current increase in crude oil prices, weakness in INR and the falling trend of exports are sustained, then CAD may be adversely impacted in the future. However, the bounce back in services trade surplus in Q2 FY24 may relieve some pressure over CAD.
- Net FDI inflows declined in the current fiscal year on the back of moderation in gross FDI and an increase in repatriation. Further, ECB and FPI inflows are providing support to the INR. In the long-term, inclusion of Indian G-secs in global bond indices are likely to have positive implication for INR. The Balance of Payments' situation is likely to be impacted by movements in FDI, FPI, and net inward remittances.
- The declining core inflation, strong domestic economy and global backdrop turning positive provide relief to the RBI's MPC. However, market participants expect the MPC to maintain the status quo as volatility in food prices poses a risk to its inflation target of 4%. The RBI may continue to use liquidity management tools to align inflation to rein in the inflation. Additionally, the tight liquidity conditions are keeping the RBI away from conducting the OMO sales announced in the previous policy meeting. Going forward, crop sowing data and food prices remains important as they are likely among the factors which would guide the RBI on its policy stance in future meetings.
- India's fiscal deficit till the seventh month of the current fiscal year has reached around 45% of the budget estimate and is marginally lower than the 45.6% reported in the previous year. The fiscal deficit is being supported by robust tax and non-tax revenue collections. These tailwinds seem to have given the confidence to the government for meeting its fiscal deficit target of 5.9% of GDP in FY24, while taking measures on macroeconomic stability amidst global uncertainty. If fiscal deficit remains within the target, it is likely to weigh down on yields in the medium term.
- In the US, there seems to be a significant shift in the Fed's policy dialogue in the recent policy meeting, the Fed focused more on how long the policy rate may need to be maintained rather than on further rate hikes. With the economy slowing down in the US due to the declining trajectory of household savings and a slowdown in the jobs market, the market participants believe that the Fed may begin rate cuts by Q2 CY24.
- In China, the mounting debt crisis is likely to further slowdown the economic recovery post and is likely to weigh on the commodity prices, which is a positive for inflation in India. Globally, the major central banks remain inclined to bring down inflation close to their threshold values. For this reason, future rate hikes are likely to be data-dependent
- Domestically, with the possibility of OMO sales and inflation remaining higher than the RBI's target rate of 4%, yields are likely to remain range-bound in the near term. With this backdrop, and a relatively flat yield curve, staying invested at the short end could be better from a risk-reward perspective currently. Furthermore, if the yields spike up again, it will give investors a tactical opportunity to invest at the longer end.
- Corporate Bond Funds, which typically have a higher yield to maturities, look a safe bet at the current juncture. Additionally, corporate bond spreads and SDL spreads have widened recently, making the case for Corporate Bond Funds and SDL funds, from an accrual perspective. Thus, investors can look at Corporate Bond Funds for a horizon of 15 months and above.
- Investors who are comfortable with volatility and have a longer horizon of 24 months and above can take exposure in a staggered manner to Dynamic Bond Funds and SDL Index Funds.
- For lower volatility and horizon of 3 months and above, investors can consider Ultra Short Duration Funds, Low Duration Fund, Money Market Funds and Arbitrage Funds. Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds.
- Investors can also look at Multi asset allocation funds for a horizon of 36 months and above. Investors should invest in line with their risk profile and product suitability.

Classification - Public

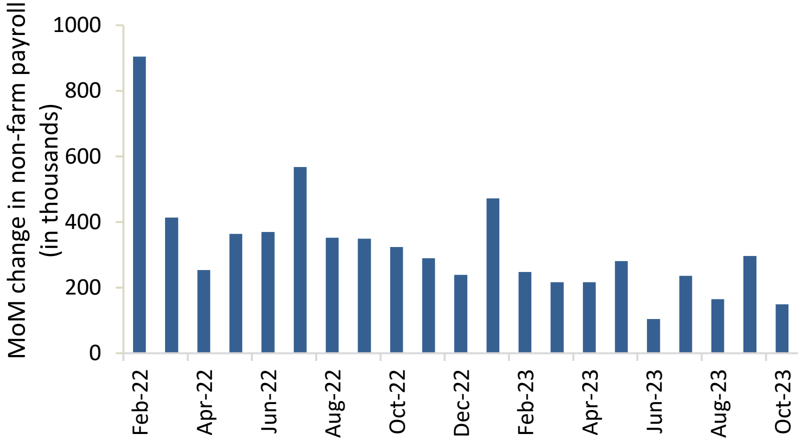
US inflation dipped, yields dropped and Fed remained steadfast

Inflation in the US continues its downward trajectory



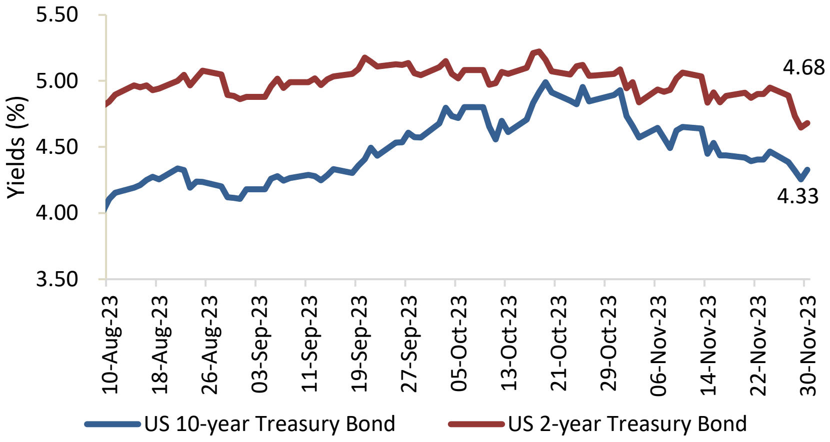
Source: Bloomberg

Employment data in the US started to decelerate



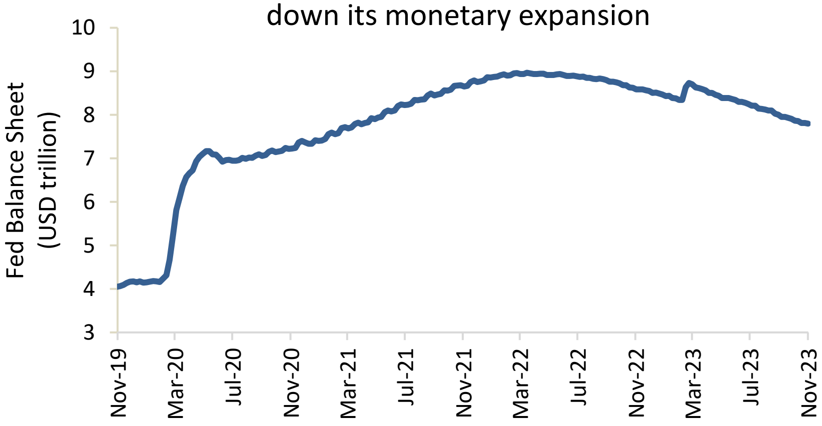
Source: Bloomberg

Yields fell after reaching 16 year high in October



Source: Bloomberg

Fed continues with quantitative tightening to cut down its monetary expansion



Source: Bloomberg

"Tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation…. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals."

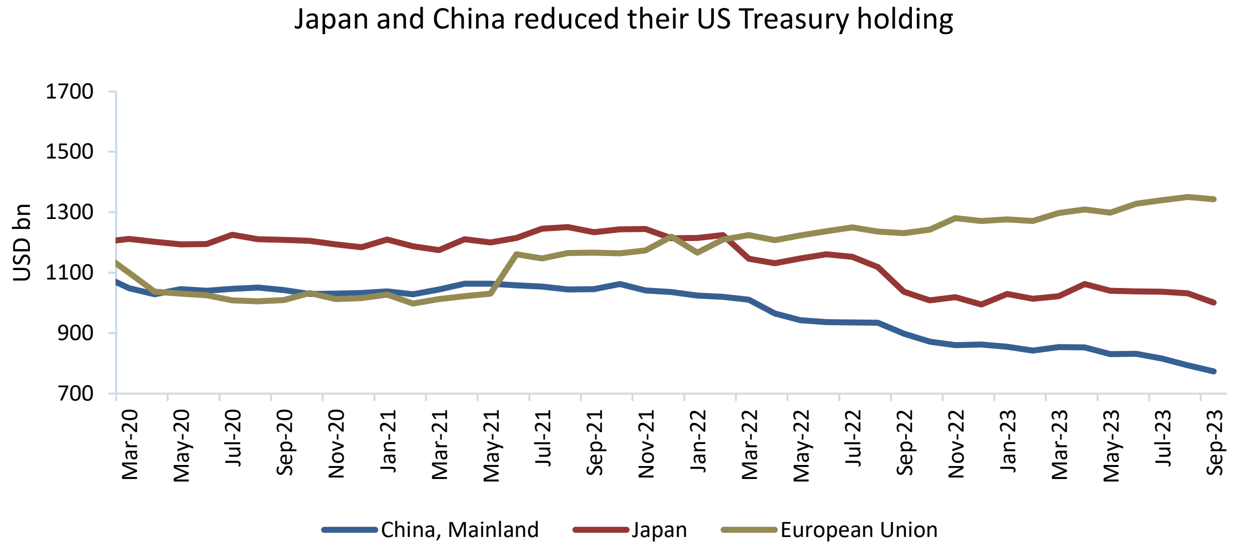
- FOMC Meeting Outcome (Oct 31 – Nov 1, 2023)

"We will continue to move carefully, however, allowing us to address both the risk of being misled by a few good months of data, and the risk of over-tightening."

- Fed Chairman, Jerome Powell at IMF Research Conference

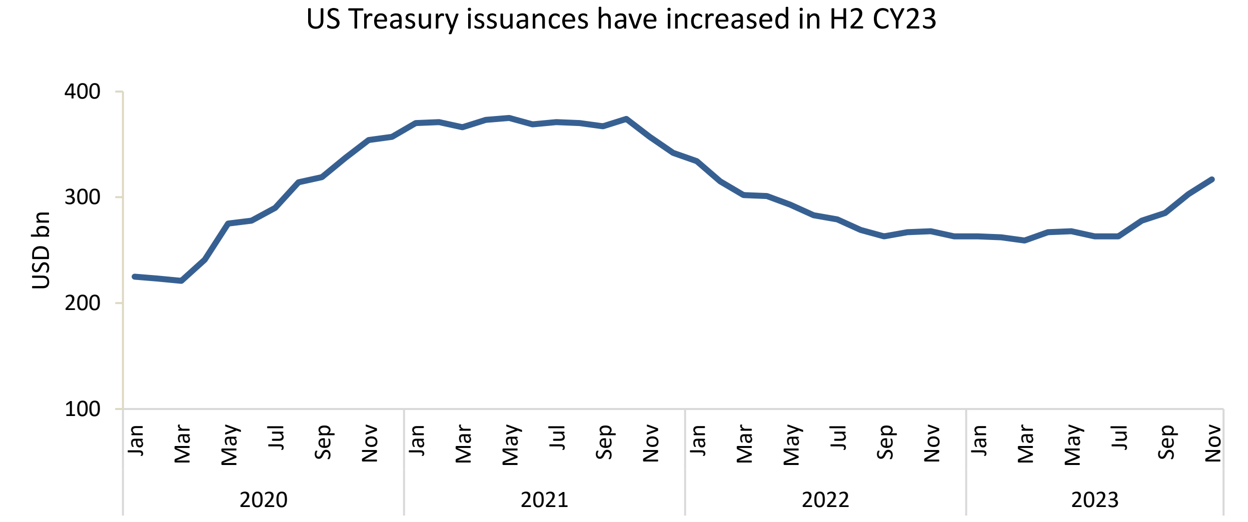
Classification - Public

Higher supply and falling demand of US Treasuries from large global economies remains a key worry for the US bond market



Note: Long Term US Treasuries Foreign Holding

Source: US Department of Treasury



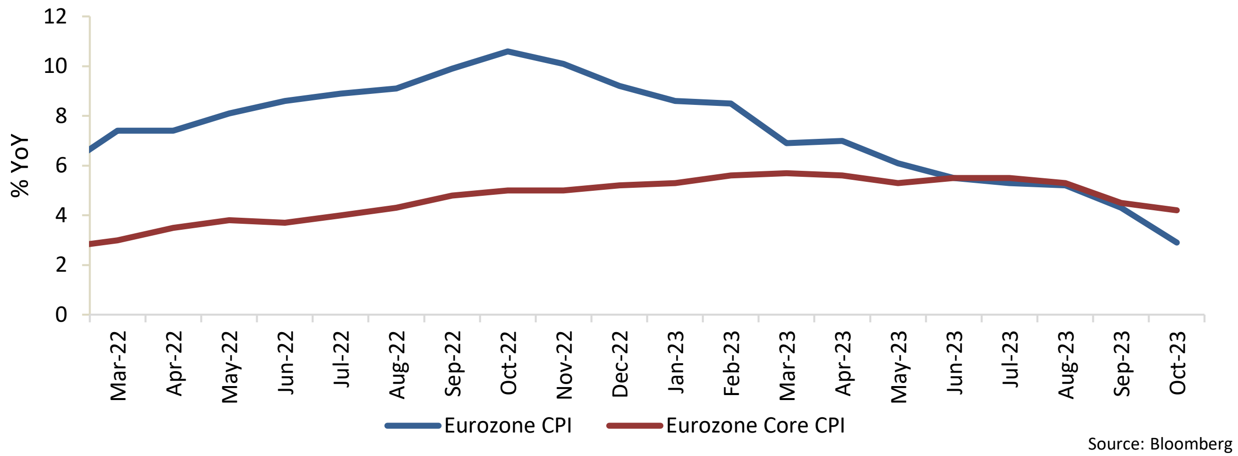
Note: Data consists of Offering Amount for auction of Bonds and Notes

Source: FiscalData.treasury.gov

Classification - Public

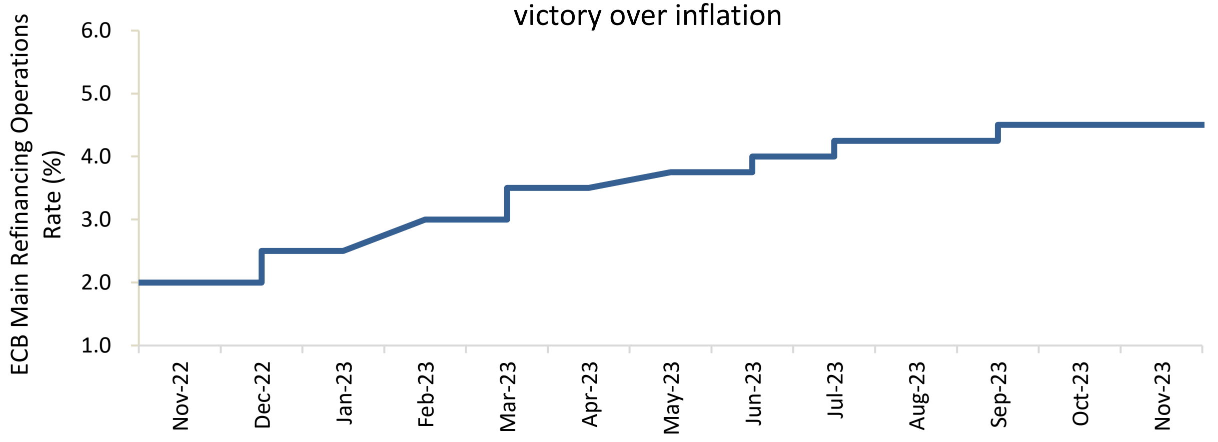
Declining inflation and weak macro conditions ensure the pause from ECB

Headline inflation cooled off significantly



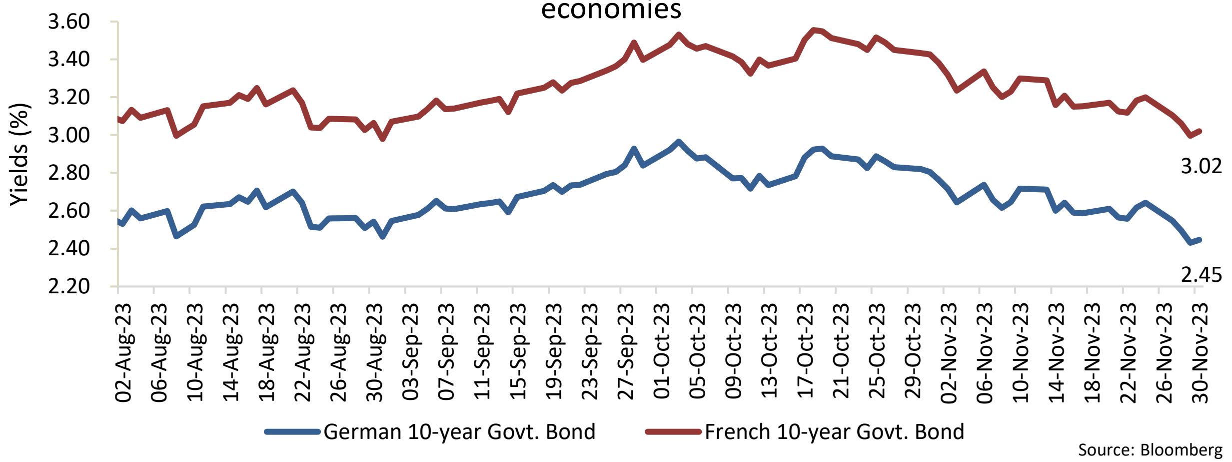
Source: Bloomberg

ECB maintained status quo, but highlighted that it's too early to declare victory over inflation



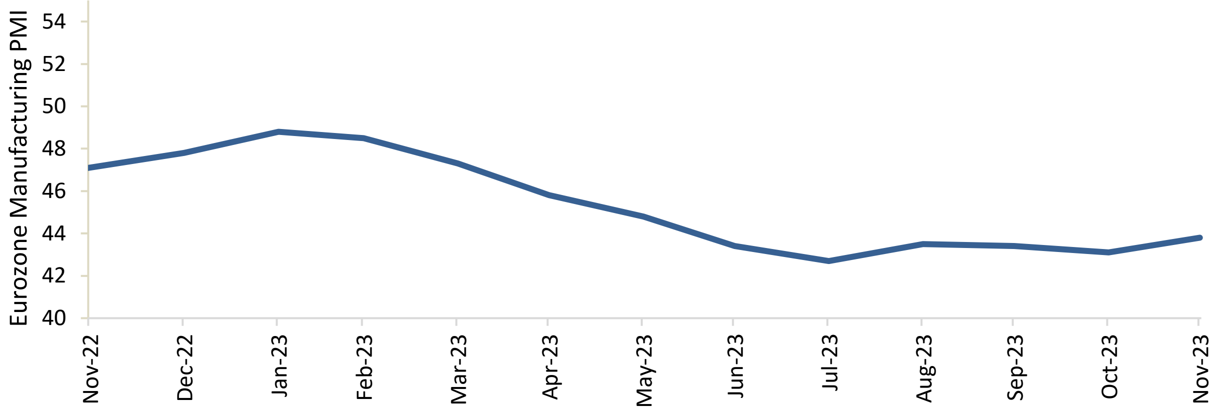
Source: Bloomberg

Bond yields fell, tracking the fall in US yields and slowdown in the economies



Source: Bloomberg

While manufacturing PMI improves marginally, it continues to remain in contraction zone

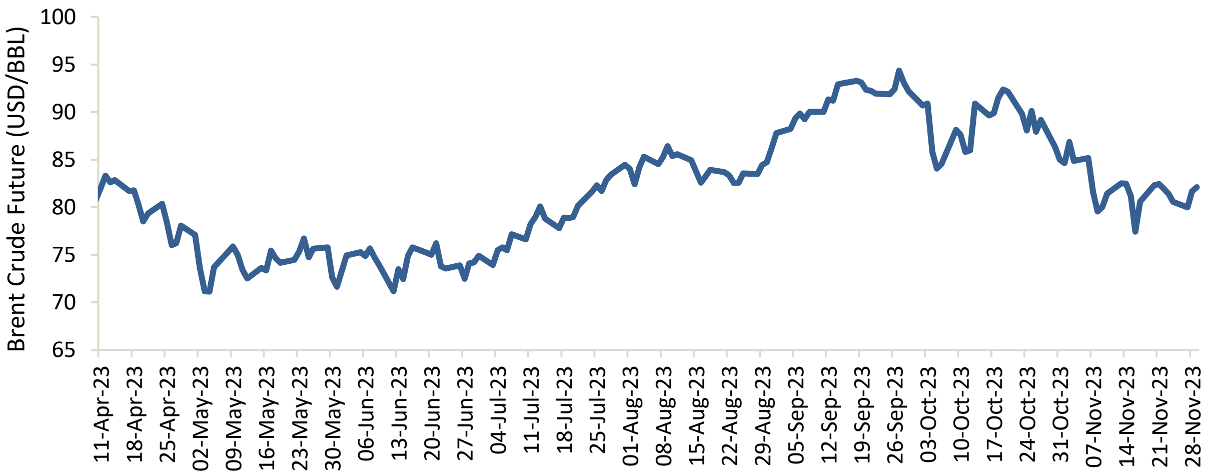


Source: Bloomberg

Classification - Public

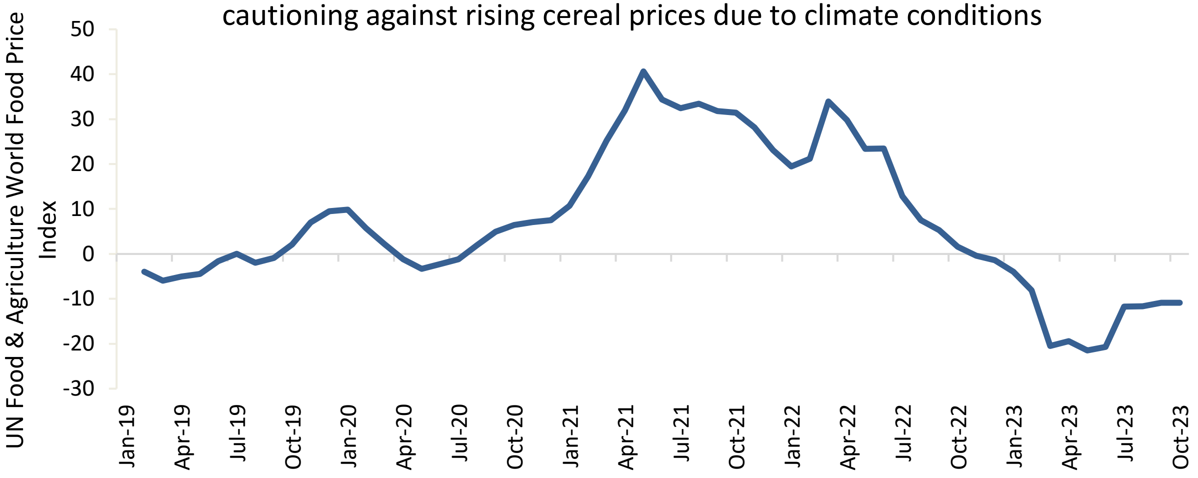
Crude settles down after spike, OPEC+ supply response awaited

While crude oil prices edged downward, OPEC+ response remains critical



Source: Bloomberg

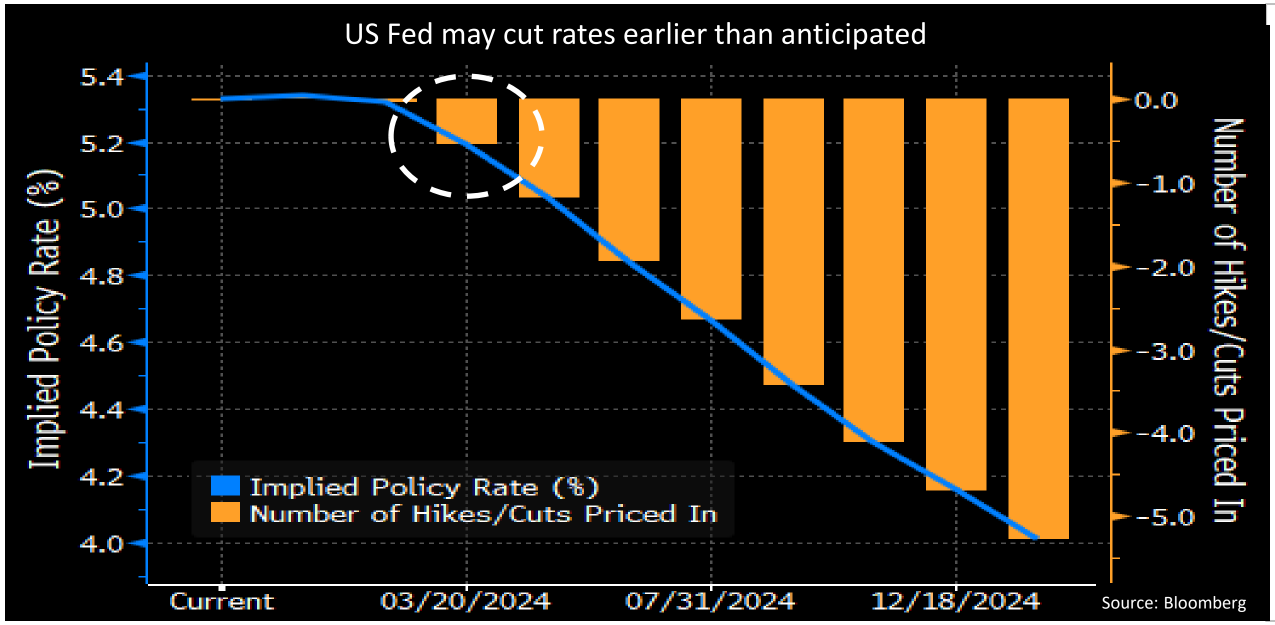
While food prices have remained benign, some multi-lateral agencies are cautioning against rising cereal prices due to climate conditions

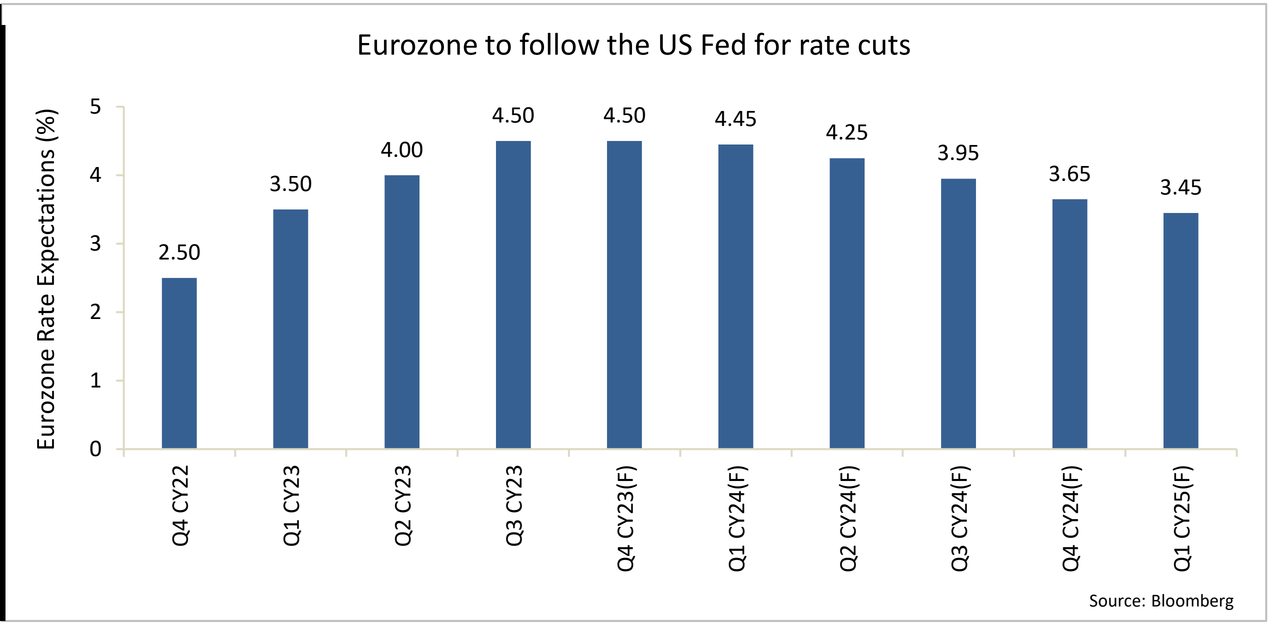


Source: Bloomberg

Classification - Public

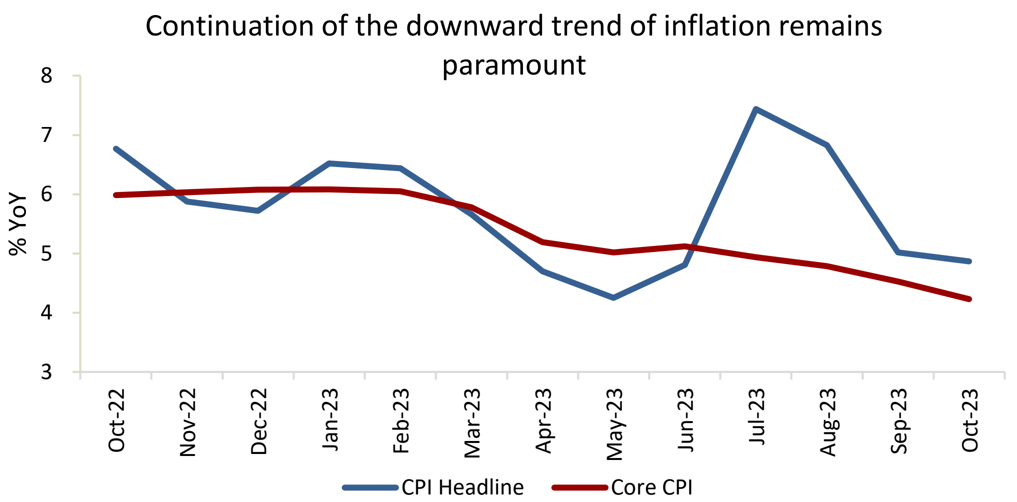
With weakening inflation, market expects US rate cuts to start by Q2 CY24



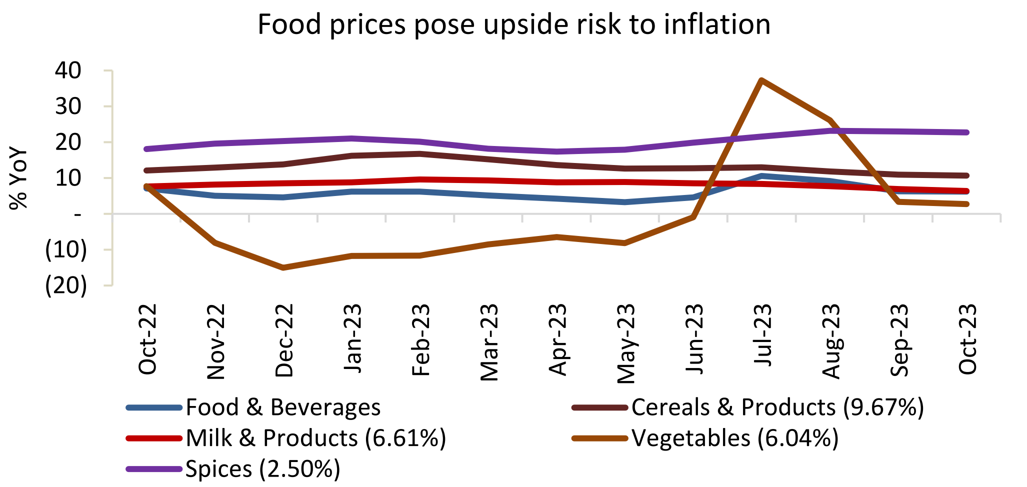


Classification - Public

While inflation has moderated in India, continuation of the trend would be important



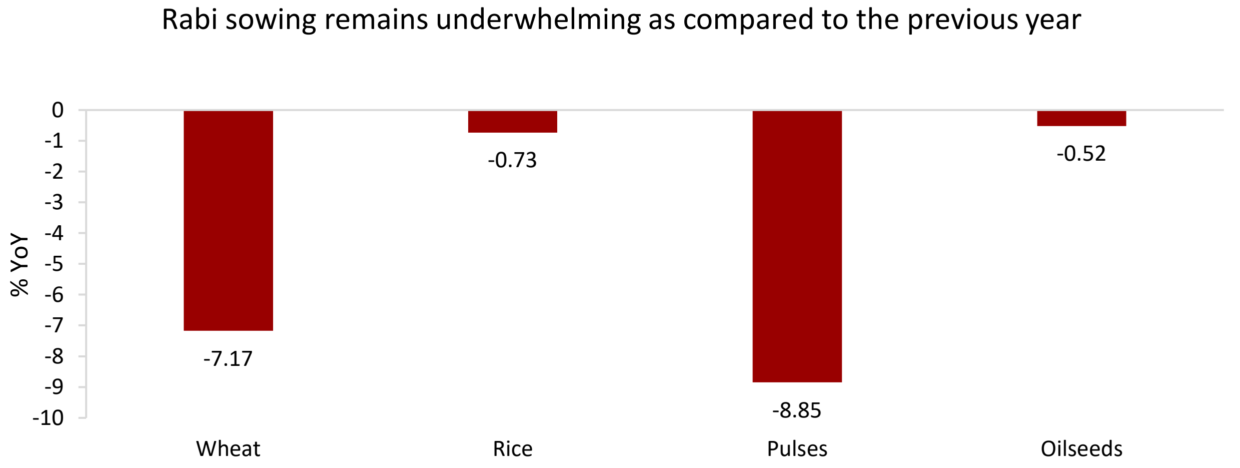
Source: RBI



Note: Data in parenthesis denotes weight of category in CPI basket

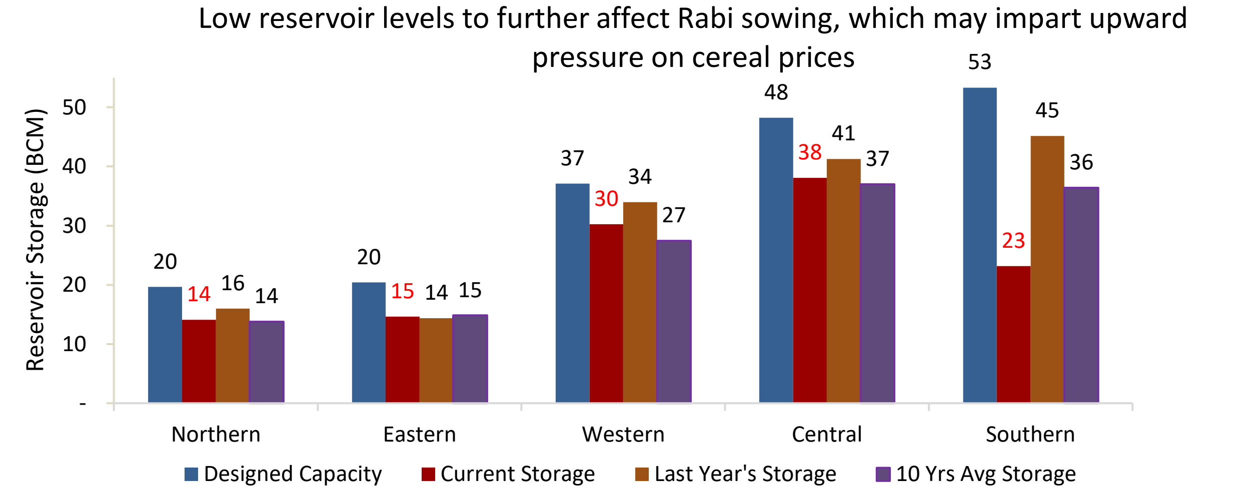
Source: RBI

Agri-industry's GDP growth of 1.2% in Q2 FY24 remains weak, suggesting the impact of El-Nino.



Note: Weekly area coverage under Rabi crops as on Nov 24, 2023

Source: Department of Agriculture & Farmers Welfare

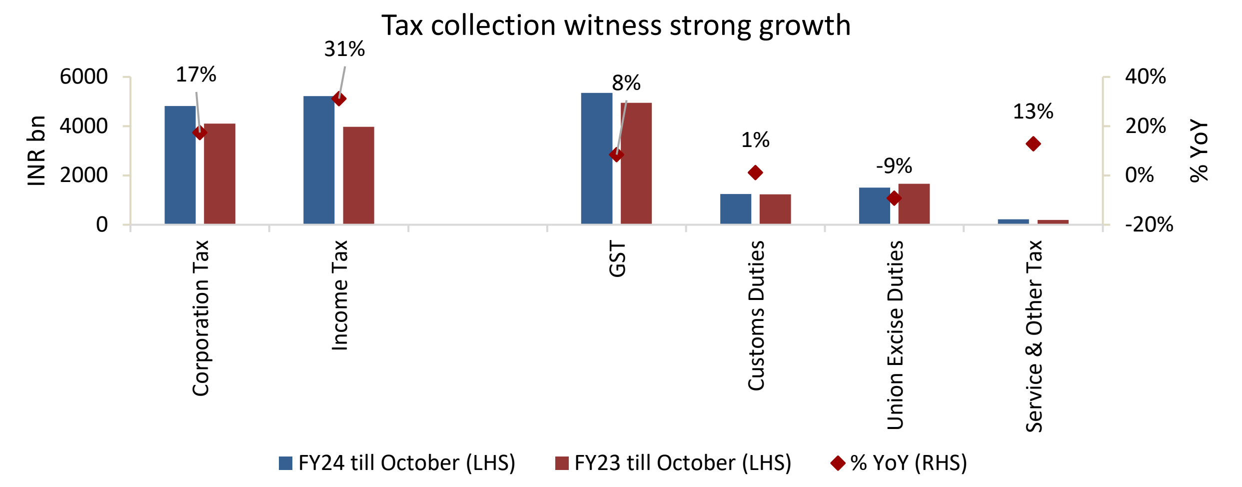


Note: Region wise storage position as on Nov 23. 2023

Source: Central Water Commission

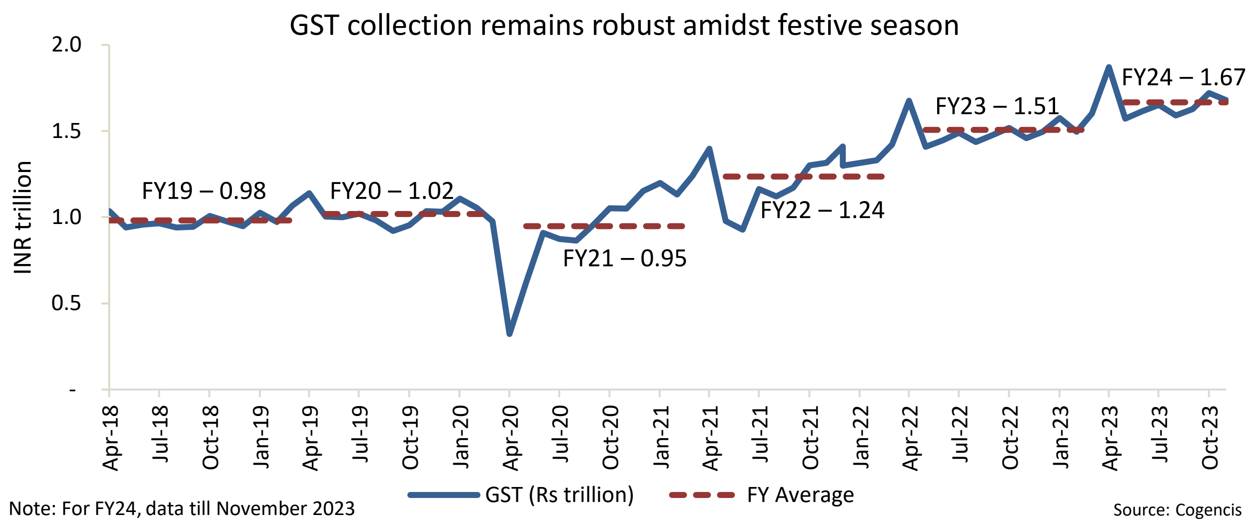
Classification - Public

Fiscal deficit relatively higher, tax collection strong; government expects deficit to remain within target



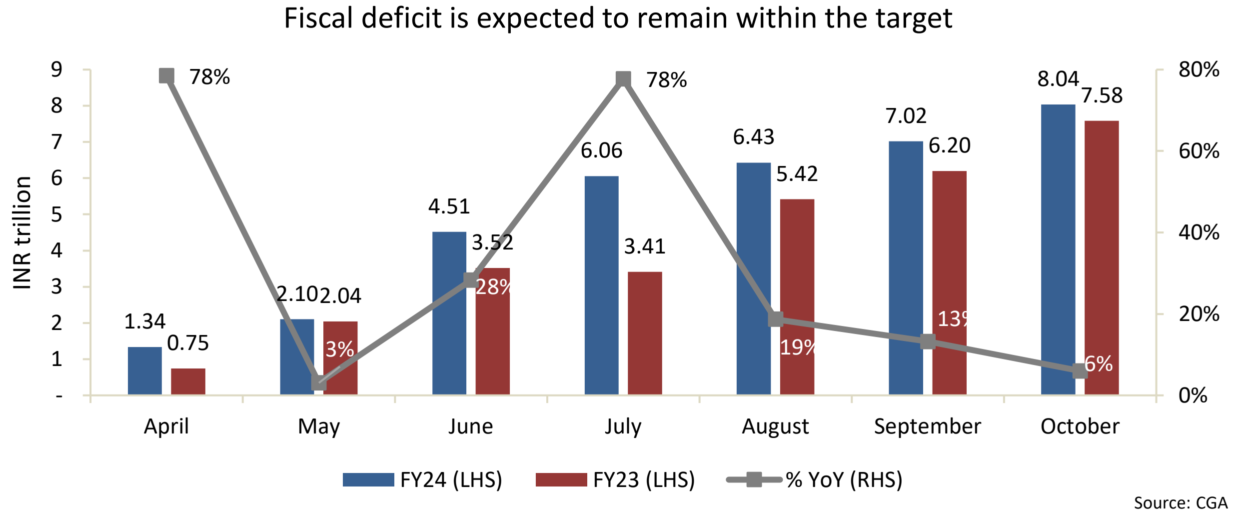
Note: Till October month of both the fiscal years

Source: CGA



Note: For FY24, data till November 2023

Source: Cogencis



Source: CGA

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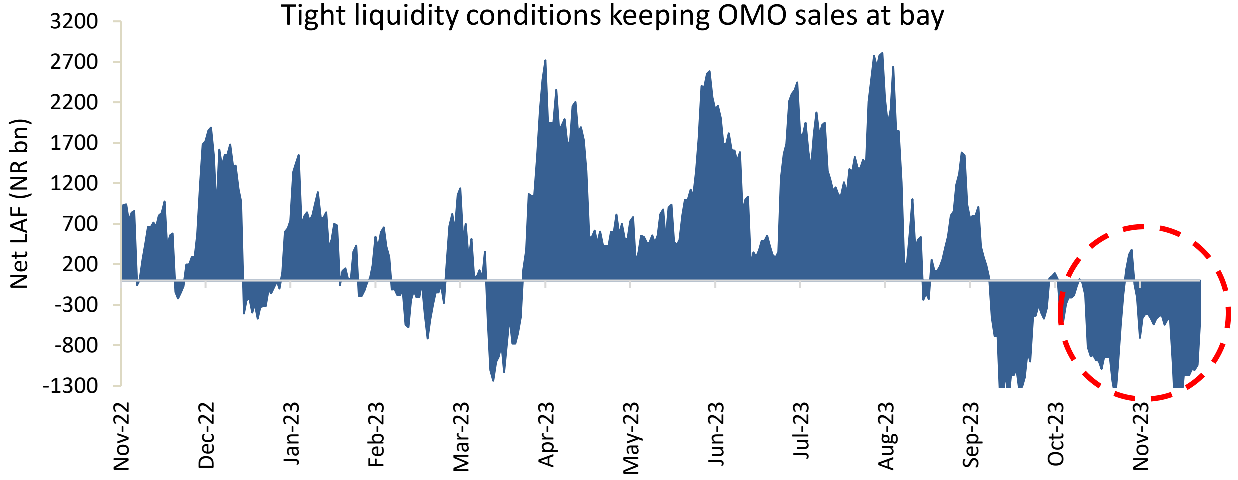
Classification - Public

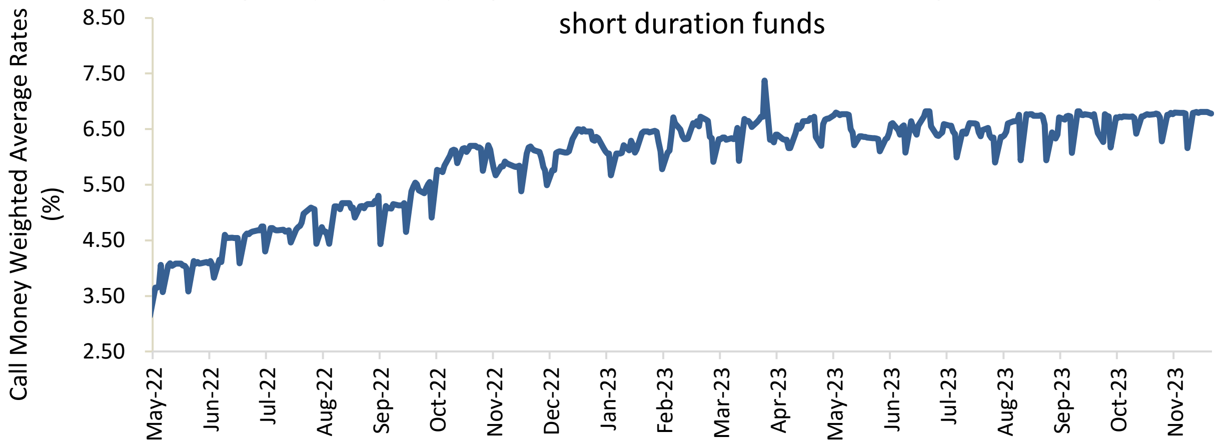
While inflation drops, tight liquidity ensures short term rates are elevated

Tight liquidity conditions keeping OMO sales at bay



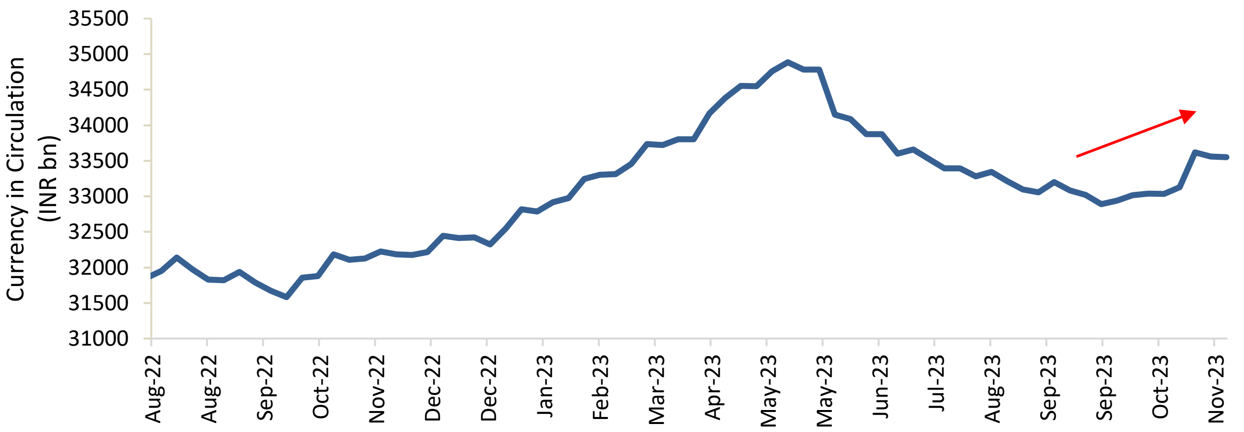
Source: Bloomberg

Tight liquidity keeping short term rates elevated, making the case for very short duration funds



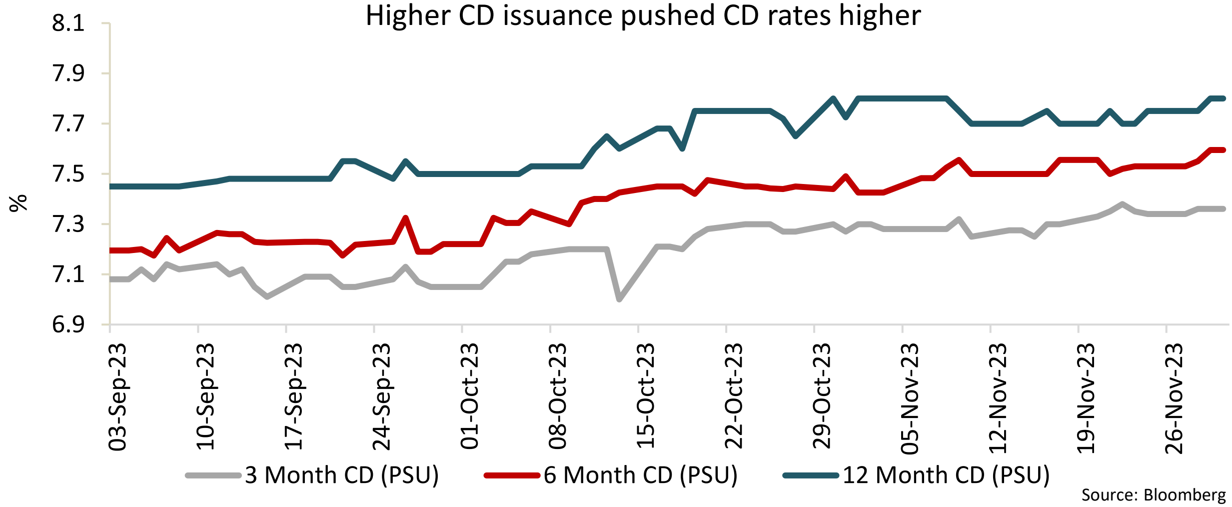
Source: Bloomberg

Festive season and election led to an increase in currency in circulation



Source: Bloomberg

Higher CD issuance pushed CD rates higher

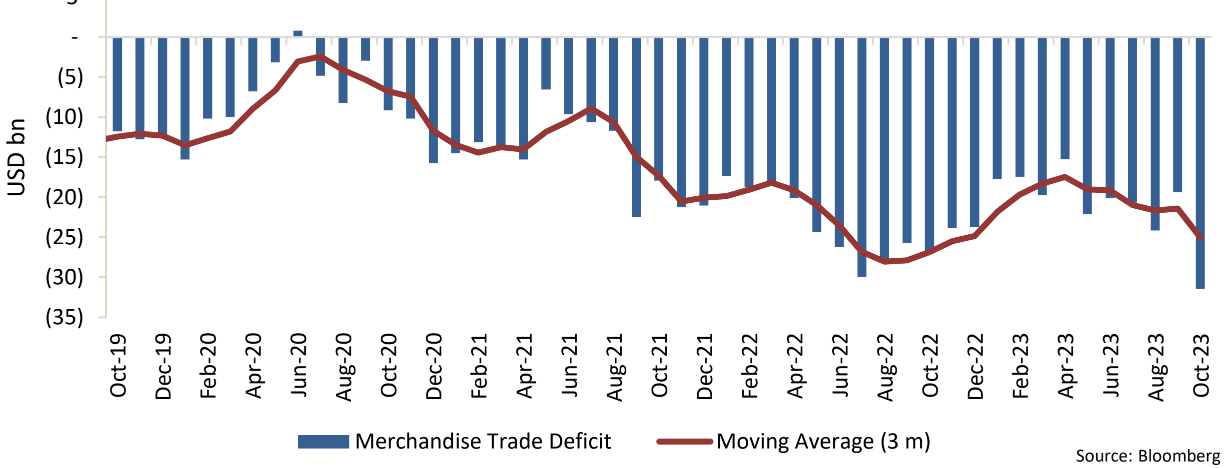


Source: Bloomberg

Classification - Public

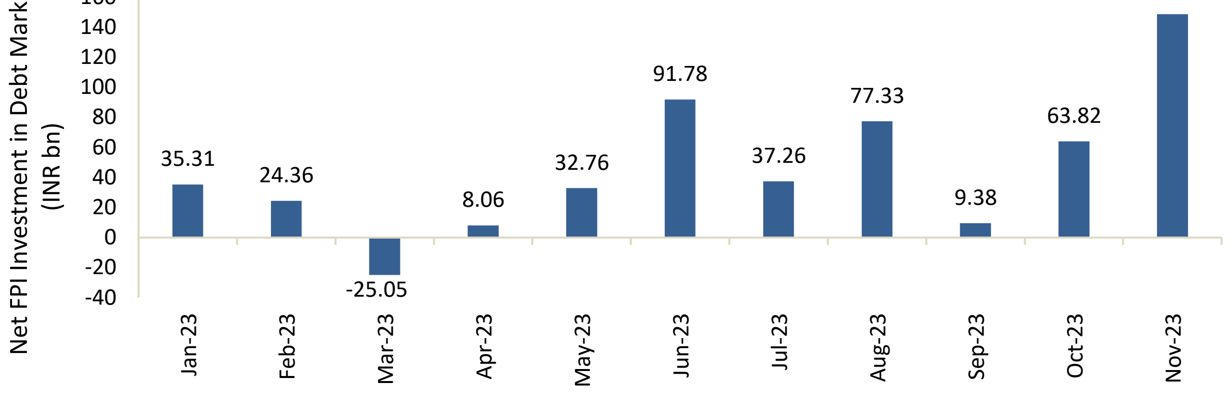
Rupee depreciates further, breaches previous low led by sharp jump in trade deficit, while forex remains stable

Trade deficit widened due to higher imports amidst festive buying



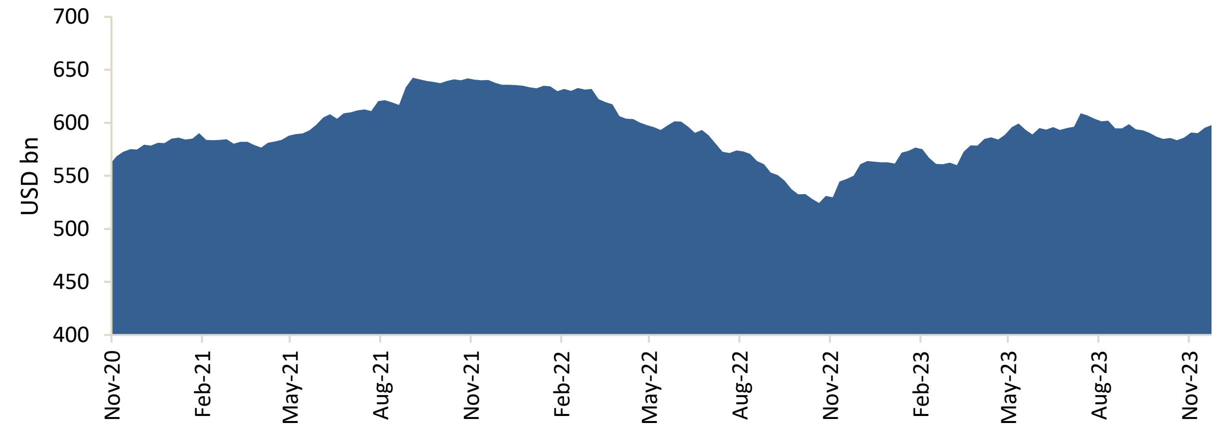
Source: Bloomberg

Net monthly FPI investments in debt market surged to the highest in CY23, likely pre-empting the JPMorgan's index inclusion flows



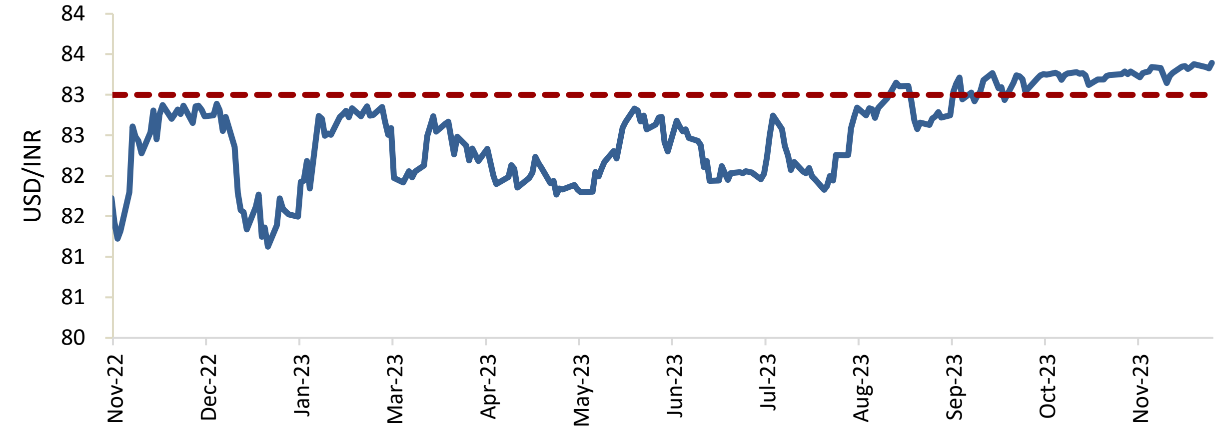
Source: NSDL

Despite RBI's interventions, forex reserves remains stable



Source: Cogencis

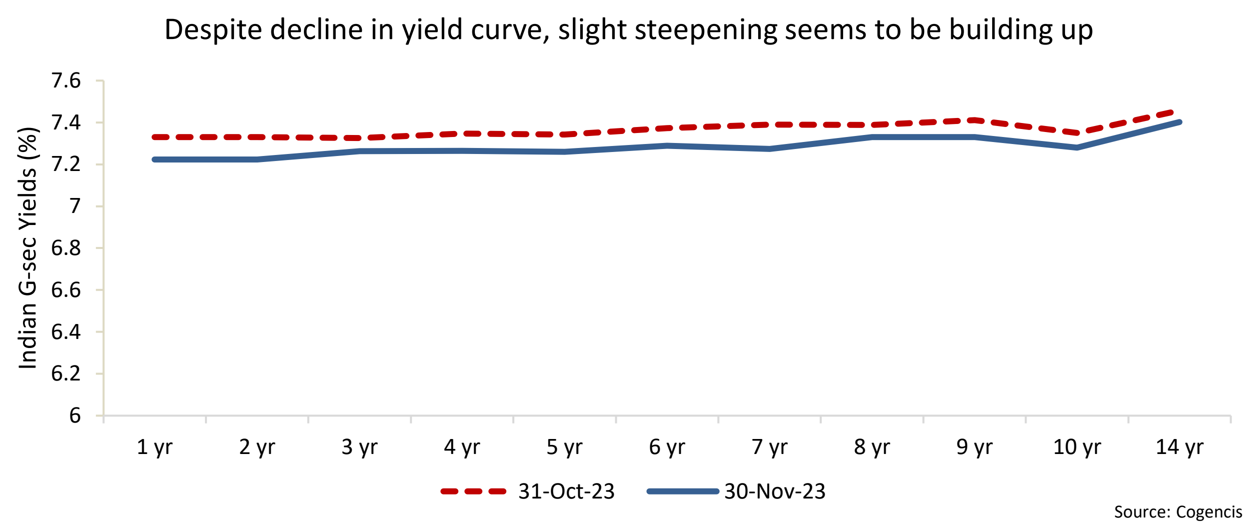
Rupee depreciated and breached previous low

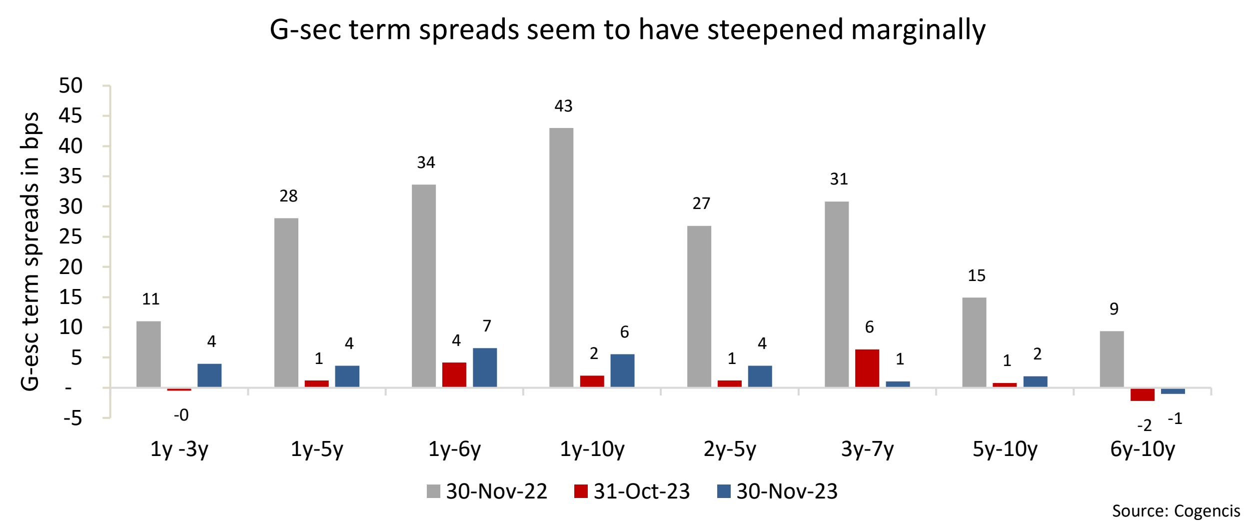


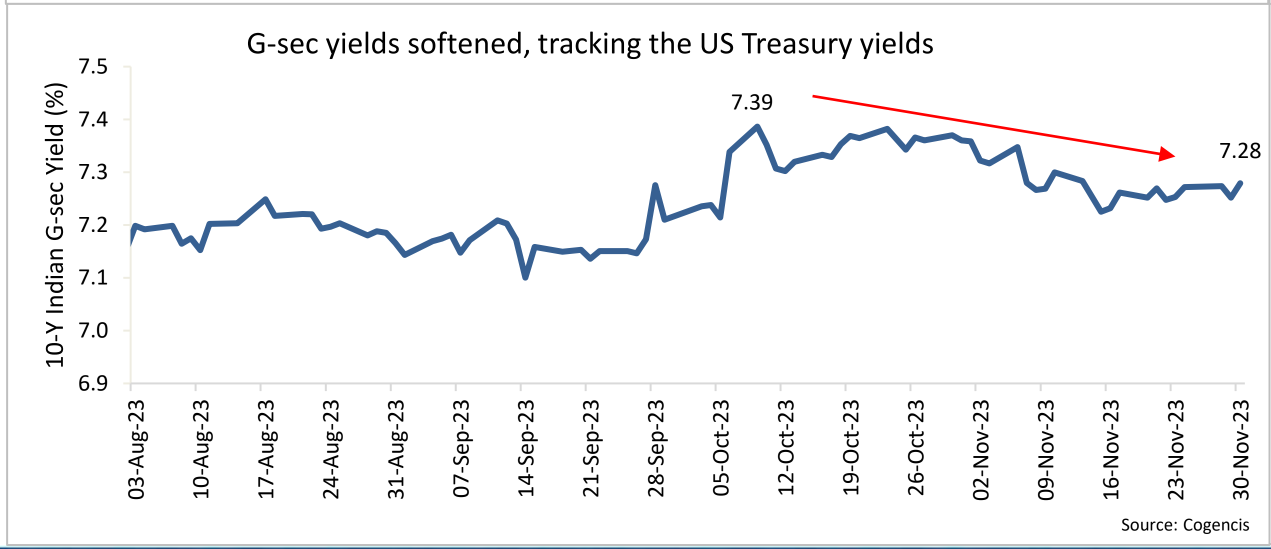
Source: Bloomberg

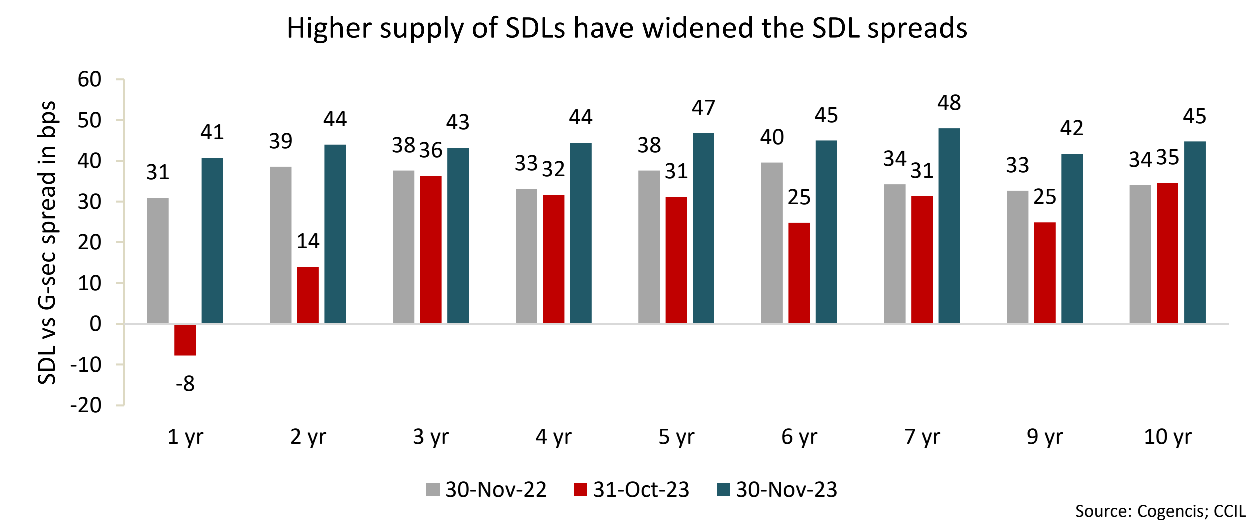
Classification - Public

Declining inflation in India and a sharp drop in US yields lead to rally in the Indian bond yields





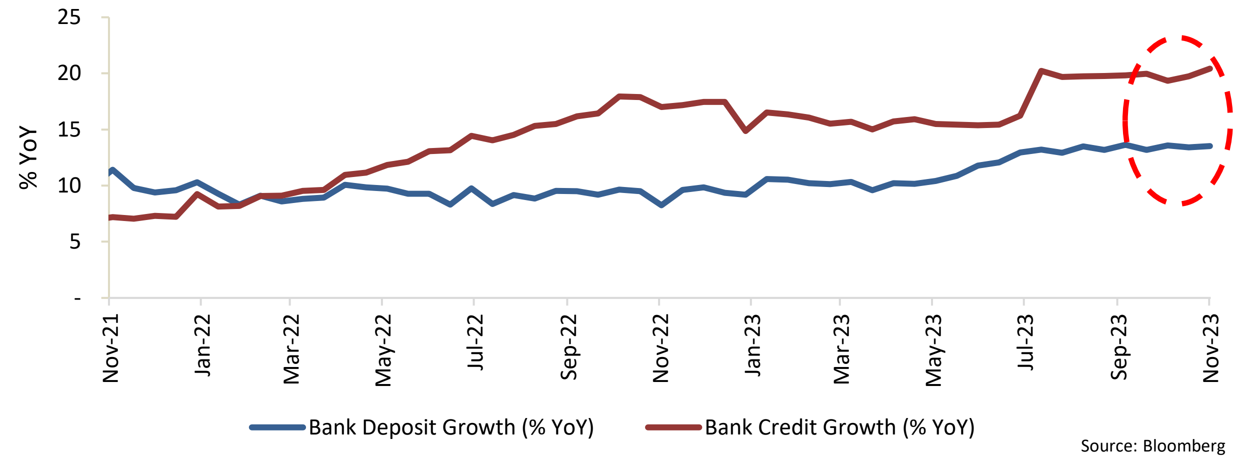




Classification - Public

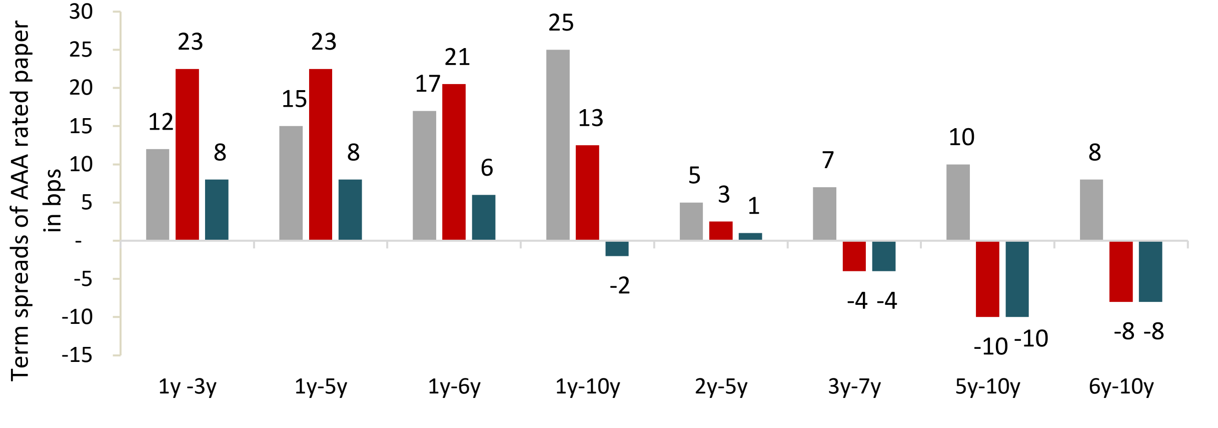
Tight liquidity conditions have led to rise in corporate bond spreads, improving the attractiveness of Corporate Bond Funds

Credit growth rate continues to outpace deposit growth rate



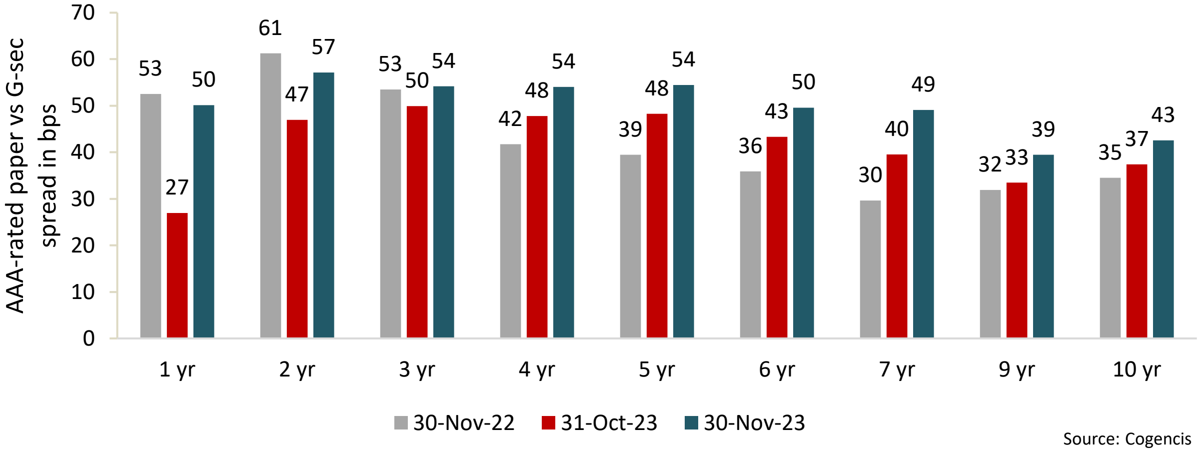
Source: Bloomberg

PSU term spreads have compressed due to rising short term rates



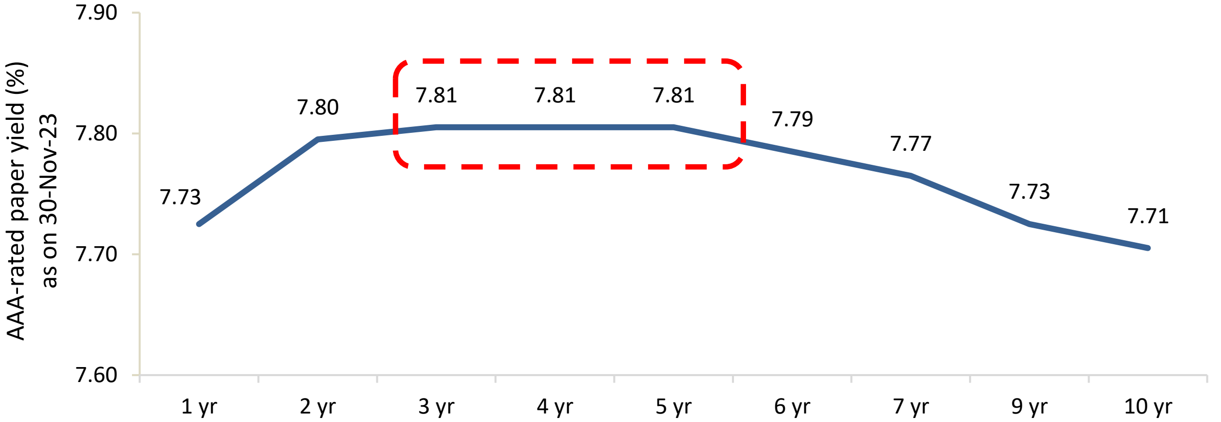
Source: Cogencis

Tight liquidity and onset of busy season have pulled the spreads higher



Source: Cogencis

3-5-year segment of the curve remains attractive



Source: Cogencis

Classification - Public

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