

# MONTHLY UPDATE

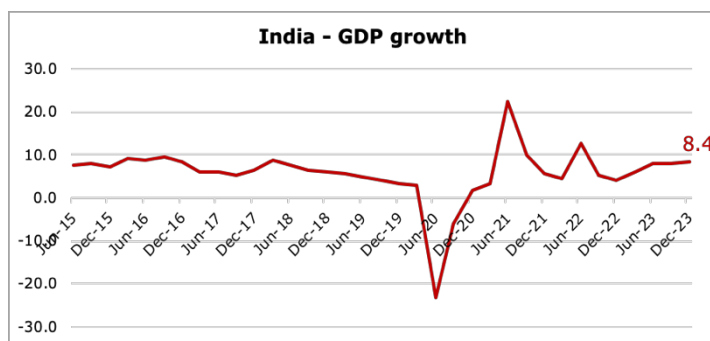
## MARCH 2024



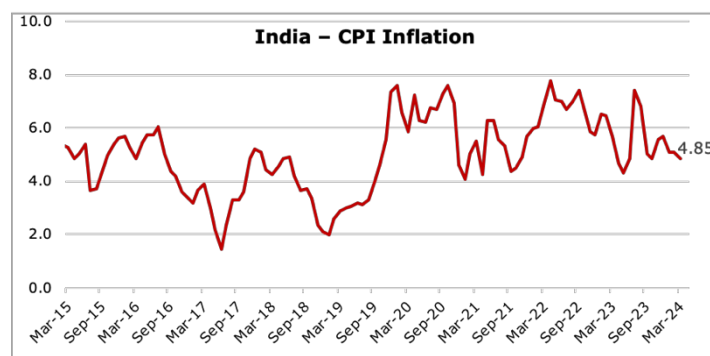
### Economic Update

The Indian economy saw strong gains during financial year 2023 – 24 as the boost in activity in the post-Covid period continued during this year as well. Global growth, too, stabilized during the year after a period of sharp rate hikes across most large economies. However, despite the sharp rate hikes, global growth trends were resilient and the initial fears, of an eventual recession in large economies, a ‘hard-landing’ scenario, gave way to a more gradual economic slowing outlook, a ‘soft-landing’ scenario.

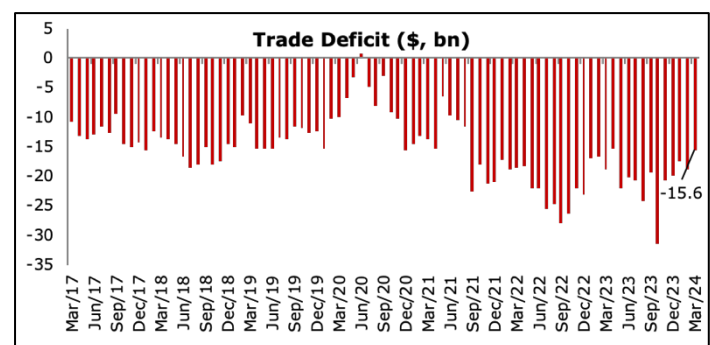
India’s GDP growth surprised positively through the year, as the eventual pick-up in activity was higher than the initial forecasts. RBI had forecast a 6.5% growth for the FY24 at the beginning of the year, which itself was seen as an ‘aggressive’ forecast by most economists. However, a sustained improvement in growth indicators led to a revised estimate of 7.3% for the year. The RBI also forecasts real GDP growth at 7.0% for FY25.



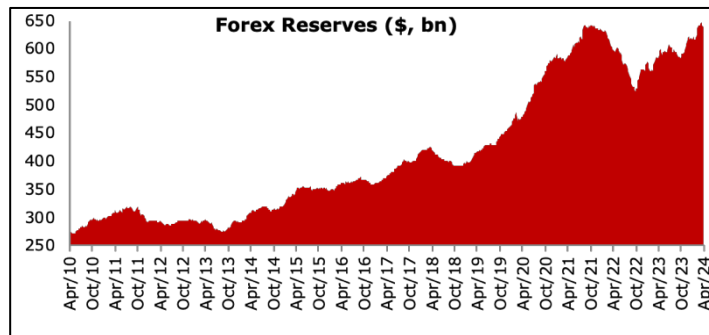
However, despite the robust growth, CPI inflation remained largely benign, staying within the RBI’s target range. Core inflation (excluding food and energy) trended lower through the year and eased to 3.3% by the end of the year, its lowest level since 2012. The headline CPI index ended the year at 4.85%, with average inflation through the year coming at 5.4%, well within the 2.0% - 6.0% target range for RBI. The benign trend in inflation helped RBI maintain a steady level of policy rates through the year.



India’s external sector, continued to see robust improvement through the year. Goods trade deficit for the year narrowed to about USD 241 bn vs USD 265 bn in FY23. However, a surplus in the services trade balance as well as a pick-up in remittances, is expected to narrow the Current Account Deficit to about USD 28 bn, which is about 0.8% of the GDP, versus a deficit of 2% of the GDP in FY23. The Capital Account



surplus is estimated to be around USD 81 bn, leaving a positive Balance of Payments of about USD 52 bn, significantly higher than the BoP deficit of USD 9 bn last year. The positive BoP is reflected in RBI's foreign currency reserves, which saw steady accretion through the year. Total forex reserves stood around USD 648 bn at the end of the year, against USD 578 bn at the end of last year.



## Market Update

### Equity Markets

After a largely flat year in FY23, equity markets delivered double-digit returns in FY24. The large cap Nifty index delivered returns of about 29% for the full year, while the mid-cap indices gained a massive 60% for the year. The gains in the equity markets were driven largely the resilience of the domestic growth despite the high interest rate environment, domestically as well as in other large economies. Companies and industry segments that are tuned to domestic growth – primarily manufacturing, defence, power, automobiles etc, remained at the forefront of the gains in the markets. On the other hand, sectors leveraged to global growth like IT services, had relatively muted returns for the year.

Fund flows, especially FPI flows, in the markets stayed volatile during the year. The persistence of higher US inflation and resilience in US growth led to a re-assessment of US interest rate cuts, with respect to the timing and extent of cuts. The re-assessment led to a rise in US yields and a correction of risk assets globally. The volatility had led to FPI withdrawals in the middle of the year, though inflows resumed again towards the end of the year. The total FPI inflows added up to about USD 25 bn in the year. Domestic investors, maintained a steady inflow through the year, with total DII inflows for the year also adding up to about USD 25 bn.

### Portfolio positioning and Risk Management

The equity portfolios were positioned cautiously in view of expectations of a moderation in domestic economic activity after the RBI's rate hike cycle took the policy interest rates higher by a cumulative 250 bps. The portfolios were largely over-weight on financials, on expectations of continued improvement in asset quality, while maintaining margins. The portfolios, initially in the year, had an under-weight allocation in the power, defence sectors over concerns of elevated valuations. However, the portfolio allocations are dynamically managed to account for the changes in outlook for the investee companies and the corresponding changes in valuations within the overall risk management framework.

We follow robust risk management policies in our funds. The portfolio deviations with respect to the respective benchmarks is maintained within defined risk limits. We have defined stock and sector level underweight / overweight positions limits vis-a-vis the benchmark and we actively track such deviations.

Deviations are highlighted to portfolio manager and corrective action, if required, is taken in timely manner.

### **Fixed Income Markets**

The fixed income markets had a largely rangebound year, reflecting RBI's stance of maintaining a steady level for policy rates through the year. The culmination of the US rate hike cycle, too provided comfort of 'peak' rates to the markets and bond yields eased gradually through the year. In addition to the policy rate movements, RBI also maintained a tight liquidity stance, which kept short end yields at elevated levels and led to a 'flat' yield curve – short end and long end yields traded at similar levels.

The key development during the year, was the decision by the JP Morgan Emerging Market Bond index to add Indian bonds to the index, over the course of FY25. The inclusion of Indian bonds to the global EM index is expected to lead to FPI inflows of about USD 25 bn over the course of the year. This inflow is expected to strengthen demand for India bonds. Expectations of these inflows led to a steady softening of bond yields during the second half of the year. The 10-year benchmark GSec yield eased to 7.05% by the end of the year, from 7.28% at the end of last year.

Despite the rise in yields, credit spreads for corporate bonds remained steady at very tight levels, as the overall issuance of corporate bonds remained subdued. A number of large government owned issuers, refrained from accessing the bond markets as they received funds through budgetary allocations.

### **Portfolio Positioning: Duration Strategy and Risk Management**

The bond portfolios were dynamically managed with active duration management through the year. Bond portfolios were maintained at an under-weight position at the beginning of the year, over concerns of continued rate hikes from Central banks. Portfolio durations were increased steadily through the year, as the most rate hike cycles had reached 'peak' rate levels. The inclusion of domestic bonds in the JP Morgan EM bond index was a key factor to maintain an over-weight duration in the portfolios during the last quarter of the year, as the expected demand – supply for bonds was seen to be favourable for further easing in yields. The steady easing of CPI inflation also helped in raising expectations of an eventual rate cut cycle in India. We maintained an under-weight position in credit exposures, as the spreads remained narrow.

During the year, investments were maintained as per our investment policy and all prudential limits and regulatory guidelines were adhered to at all points during the year. Credit risks in the portfolios were also monitored closely. Addition of new credit exposures were made after a thorough analysis and due diligence process. Existing credits were monitored regularly for any developments that could be beneficial or detrimental to the companies' financials.