MIRAE ASSET
Mutual Fund

re:VIEW

Annual Outlook

The year that was. The year that will be.

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Insights on Equity Investment

EQUITYDEBTPASSIVE

December 2022

Executive Summary

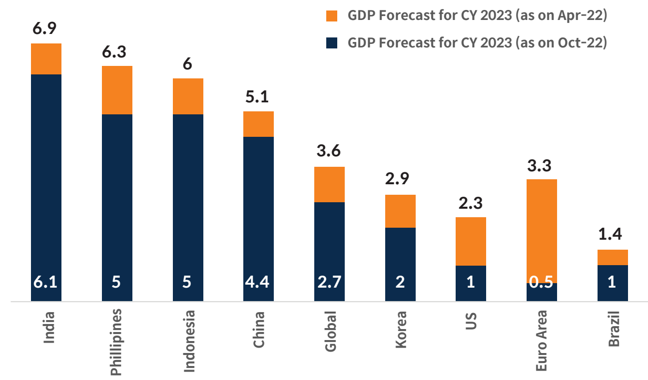
- Global macros have been in a perfect storm of energy led inflation which led to one of the fastest rate hike cycles initiated by central banks. Almost all countries, except for Japan & China, raised interest rates in 2022.
- Geopolitical tensions continue to play out which led to global supply chain disruptions which further fueled the inflation. This led to more hawkish stance from global central banks.
- By the end of 2022, the above have led to significant slowing down of global growth (Global PMI dipping down), global equities have been in a bear phase and US bond markets have had one of its worst years.
- While Covid induced restrictions got lifted across the world, unforeseen risks played out in various geographies. Key events of 2022 were Russia-Ukraine war, China-Taiwan skirmishes, Premier reelection in China, England with the record of the shortest tenure of any Prime Minister, the Democrats holding on to the US Senate in spite of Republicans being tipped to take over.
- In all the above commotion, India looks inward to dilute the impact of global disruptions. The economy continued to grow (RBI's latest GDP growth estimate at 6.8% for FY 22-23 vs estimates of 7.2% growth in Apr-22). This is in sharp contrast of global growth, which, as estimated by the World Bank, will be around 2.9% for 2022, much lower than 4%, as it estimated in January 2022.
- Urban consumption, demand for non-food bank credit, domestic oriented sectors, strong corporate balance sheets, revival of corporate earnings and steady inflows have led to a relatively strong year for Indian equities. Nifty is up 6% in INR terms vs MSCI Emerging Markets falling by ~25% in USD terms, US S&P 500 being down ~20%. (All YTD data till 20-Dec).

Global Macros

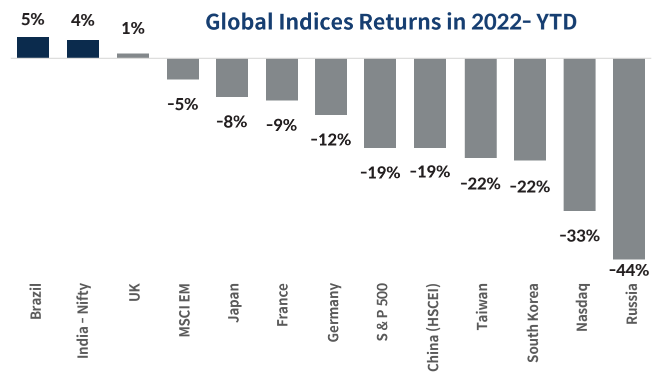
- 2022 has been the year of the fastest rate hikes across the globe. This was led by US Federal Reserve which has hiked rates by at least 425 bps and the ECB has hiked European rates by 250 bps.
- Concerns from China continue to emanate, and it is premature to take a call on how the Covid situation will play out there. This may accelerate the China+1 theme with an intention to diversify across countries. What is the impact of moving away from Zero Covid policy means for China, will be known in 2023.
- Going into the new year, the severity of a European winter which would lead to energy demand in light of price sanctions on Russian energy exports, may impact global sentiments. This will influence the current high interest rates and sticky food inflation which have stoked stagflation / recession fears.
- Markets will also be watchful of the Fed's commentary on its rate hike path into 2023. The Fed continues to be aggressive to its commitment of achieving the inflation target of 2% against the actual 7.1% inflation data as of Nov-22. The Fed is also watchful of the high employment trends of US companies, an indicator of business optimism.
- Entering 2023, the consensus view is that global oil market would remain tight but balanced, with expectations of Brent averaging $90 per barrel for the year. This is expected on lines of resumption of energy demand in spite of lowered global growth projections.
- Inflation and US Fed policy remain the chief determinants of 2023, the impact of which can be seen on corporate earnings. With funding costs being elevated, business models that were reliant on easy money (driven by massive amount of monetary & fiscal stimulus) appear to be compromised. This may lead to a tough time ahead for US corporate earnings if interest rates were to remain elevated.
- Overall, we believe that headline inflation may have peaked for this cycle though some risks continue in 2023, keeping the market's volatile pattern intact. Yet on valuations, global equities may be attractive as

Positive	Negative	Grim
Domestic demand revival	Crude	Global macros
Corporate Earnings	Covid Risks	Reduced growth rate
Reforms	Inflation	High global interest rates
Govt Capex	CAD	
Tax Collections		

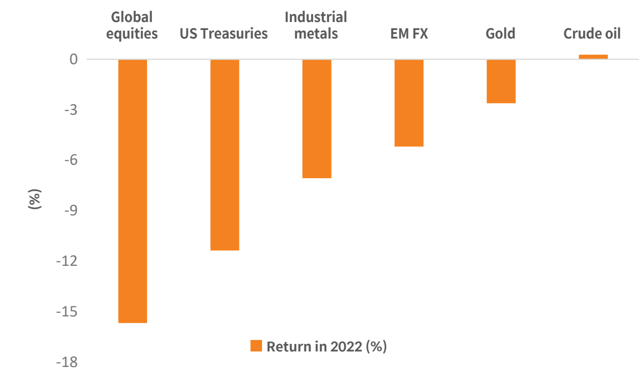
Non exhaustive list for illustrative purposes only.



Source: International Monetary Fund report Oct-2022



Source: Bloomberg as on 25-Dec-22, MOSL



Source: Bloomberg, MOSL

consumer & corporate balance sheets are in a better position than during the Global Financial Crisis of 2008.

Domestic Macros

- In hindsight, Indian equities for 2022 will be seen in relative to global macros. The Nifty 50 being up 6% (YTD as on 20-Dec-22) vs MSCI Emerging Market down ~22% in local currency terms. 2022 data was a continuation of the recovery of 2021, the results being driven by domestic policies, improvement in corporate earnings and improving domestic demand across categories.
- 2022 Indian equity markets should be seen in line of capital market flows. Foreign Portfolio Investors (FPIs) were net sellers in 2022 at approx. INR1.38 lac crores ($16.8bn as on Nov-22), Domestic Institutional Investors (DIIs) were net buyers at INR 2.44lac crores approx. ($29.3bn as of Nov-22). These flows were seen from –INR1.36 lac crores through mutual fund SIP route, INR 0.48 lac crores through EPFO and INR0.56 lac crores though the insurance route. The local inflows were a key bulwark to the foreign outflows during 2022. It is to be seen if the domestic flows were to sustain or change going into 2023.

The key macros for India in 2022 which may flow into 2023

- **India's GDP:** With RBI's GDP growth estimate of 6.8% for FY 22-23 & IMF consensus estimates for FY23-27 at 6.5% year on year growth, India is expected to be the fastest growing economy.
- **Reforms:** Controlled inflation, India Stack reforms, Impact of marquee legislation (GST, RERA, IBC, PLI) with stable foreign exchange reserves will aid recovery as we move away from 2020 Covid impact.
- **Govt. spending:** The govt. is trying to provide the capital expenditure boost to the economy and simultaneously comply with the current account deficit (CAD) target of 6.4% for FY 22-23. The spending in infrastructure, bottleneck removals, logistics is encouraging which is indicates better GST collections & improved pace of total receipts collections.
- **Corporate Revival:** A tepid decade of corporate earnings 2010-2020 has started to turn around. Corporate profits as a % of GDP reached 1.9% in FY20 which has improved to 5.3% in FY22 and likely to improve further.

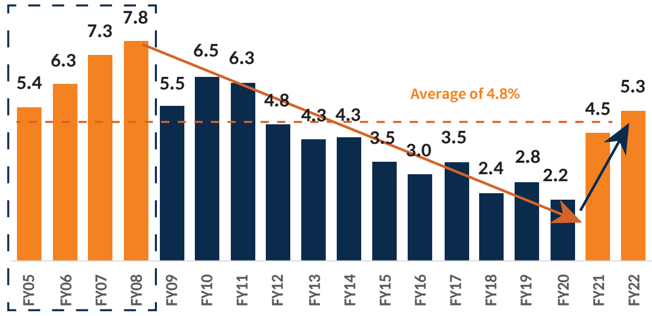
Outlook for 2023

- We continue to be constructive on equities going into 2023. We see the economy being supported by broad domestic macros of domestic consumption revival, particularly rural consumption to revive going ahead. There will be equal headwinds of global uncertainties and elevated interest rate regime across the world and therefore its impact in India.
- We will watch out for corporate earnings which drove India's relative outperformance in the last couple of years. Consensus estimates put Nifty earnings to grow by approx. 15% on average in FY 22-24.
- Data indicates demand for non-food bank credit has led to growth revival in banking and financial services. Bank deposit growth at 10% and credit growth at 15% YOY as of Sep-22 indicates expansion and consumption growth driven by corporate & personal credit.
- As consumption were to improve in 2023, withstanding pressure on margins due to commodity inflation, we continue to look at consumer companies in staples and discretionary based on valuations. This can be seen in varying data in auto sales, retail, electronic sales, card spends, travel & hospitality etc.
- 2023 will be the penultimate year before general elections in India in 2024. We expect the government to focus on rural spending during the year and the Union Budget to spell out the same.
- We may continue to see Indian corporates moving from chasing only growth to chasing profitable growth. This could be led by consolidation in sectors, formalization, revival of growth, government capital expenditure or demand revival. The triggers could be different, but the end result could be lower volatility in corporate earnings.
- The global sentiment & outlook will have an impact on Indian equity outcomes. We will continue to expect low teens returns from equities over the next 3-5 years with using volatility as a lowered entry point. While the long-term outlook is solid, markets from near term lens, seem to be fairly priced. In this context, investors looking to add fresh investment could invest in Equity oriented hybrid funds, or allocate via SIPs, or keep aside say 20-30% while making lump sum commitments, for any plausible correction.

Positive	Negative	Grim
Bank credit growth	Bank deposit growth	Exports
Goods movement - E-Way bills	Decrease in Liquidity	Trade Balance
Property registrations	Rail freight	Global interest rates & capital flows
Air traffic		
Energy demand		

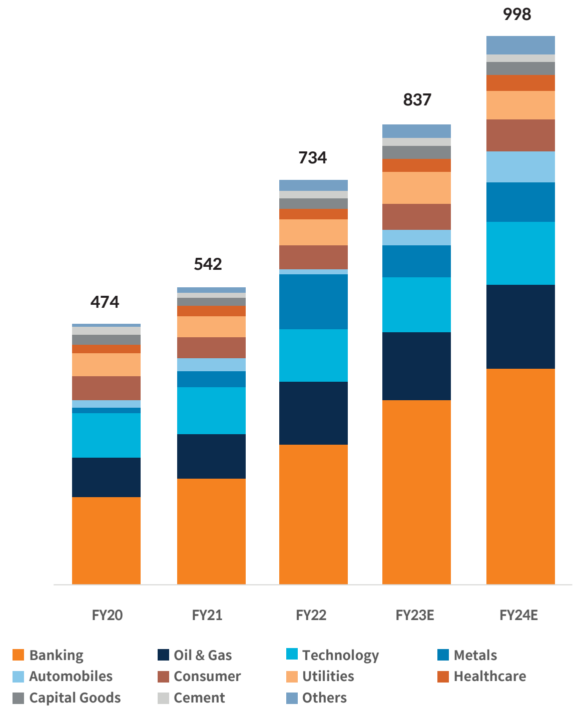
Non-Exhaustive list for illustration purposes only.

Corporate profit as a % of GDP saw strong revival since FY21



Source: Bloomberg, MOSL

Consensus estimates indicate broad based earnings growth for Nifty companies, led by banking sector



Source: MOSL estimates; Past estimates may or may not sustain in Future

Source: Consensus reports of Jeffries, MOSL, Bloomberg as on 15-Dec-22. Past Performance may or may not sustain in future. CAD – Current Account Deficit, GDP- Gross Domestic Product, SIPs- Systematic Investment Plans, IT- Information Technology, FY-Financial Year, GST-Goods & Services Tax, RERA- Real Estate Regulatory Authority, IBC - Insolvency and Bankruptcy Code, PLI- Production Linked Incentives, MSCI - Morgan Stanley Capital International PMI - Purchasing Managers Index, EPFO – Employee Provident Fund Office

MIRAE ASSET
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Insights on Debt Investment

DEBT EQUITY PASSIVE

December 2022

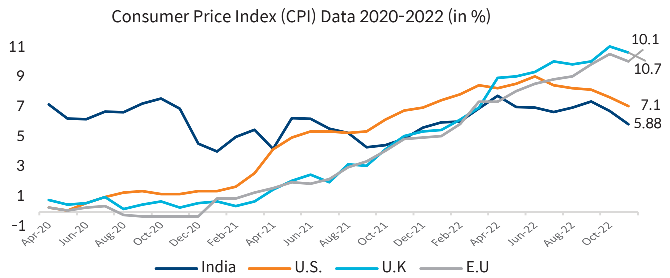
2022 Recap – A Year of Heightened Uncertainties -Global Backdrop

2022 - A year with inflation outweighing global macro dynamics

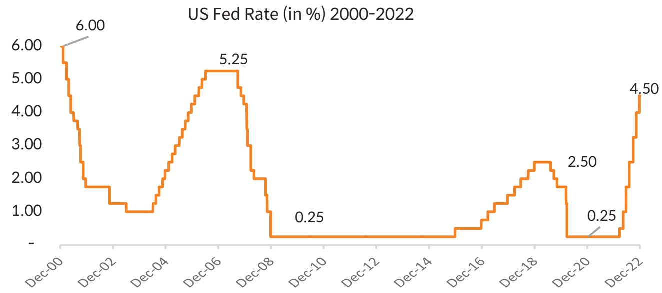
- Global inflation had witnessed a sharp fall at the onset of the pandemic, with subdued consumer spending and fuel demand. As Central Banks (CBs) and governments synchronized policy actions to support growth, inflation started witnessing an uptick in 2021 with policymakers' expectations of inflation remaining transitory.
- As inflation continued forming new peaks in 2022, most CBs remained behind the curve as growth remained strong. With Russia's invasion of Ukraine in February 2022, market volatility increased significantly with soaring energy prices and supply chain bottlenecks adding to inflation pressure. In the United States, 75bps hike in interest rates became the new normal with the US Fed resorting to a tightening cycle at record pace with rate hikes aggregating 425 basis points between March and December 2022. By mid-2022, markets witnessed an inverted yield curve with expectations of recession. While the yield curve remains in deep inversion, the US Fed has remained hopeful for a soft landing.
- While US Fed has increased its headline inflation projections for 2022 in each meeting throughout 2022, inflation seems to have peaked at 9.1% in June and has been on a declining trend ever since with the last print for November 2022 at 7.1%. As US Fed expects inflation to remain high vis-à-vis targets throughout 2023, markets are realigning to higher for longer expectations.
- The story is similar for other CBs as well especially in advanced economies (AEs) as CBs turned increasingly hawkish in 2022 vis-à-vis 2021. Faced with significantly higher inflation forecasts and fears of entrenched inflation expectations, CBs have increased focus on restrictive monetary policies with one of the most aggressive and synchronized tightening in decades. While global inflation seems to have peaked, it remains significantly higher vis-à-vis targets.

A year of uneven recovery

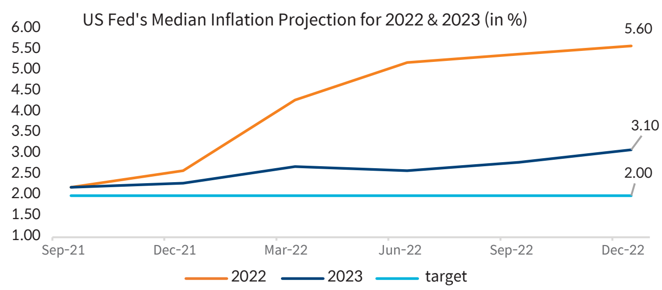
- As per the World Bank, the global economy is now in its steepest slowdown following a post-recession recovery since 1970 - with global consumer confidence already suffering a much sharper decline than during the run-up to previous global recessions.
- While global vaccination efforts helped countries begin emerging out from the pandemic, lasting impacts may resonate for years. Food inflation and food insecurity rose significantly throughout 2022, exacerbated by Russia's invasion of Ukraine - contributing to higher food, fuel, and fertilizer prices.
- Advanced economies have witnessed significant resilience in job markets with unemployment rates in the US at close to all-time lows in a narrow range of 3.5% to 3.7% since March 2022 despite a significant hawkish shift in monetary policy stance. Total nonfarm payroll employment increased by 263k in November 2022, with YTD average 392k still robust vis-à-vis 164k in the pre-pandemic year of 2019. While energy prices remained elevated during most of 2022, prices have retraced most of its gains in view of subdued global economic activity as well as fears around a renewed COVID-19 surge. Markets remain on tenterhooks with oil price cap on Russia and limited supply adjustments from OPEC+.
- While 2022 began with markets remaining ahead of policymakers, the year seems to be ending with a hawkish shift by CBs and markets pricing a recession ahead.



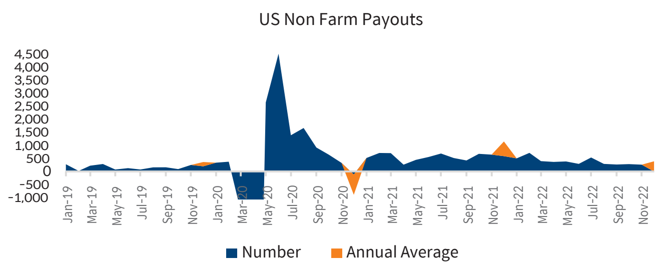
Source: Bloomberg as of Dec 2022.



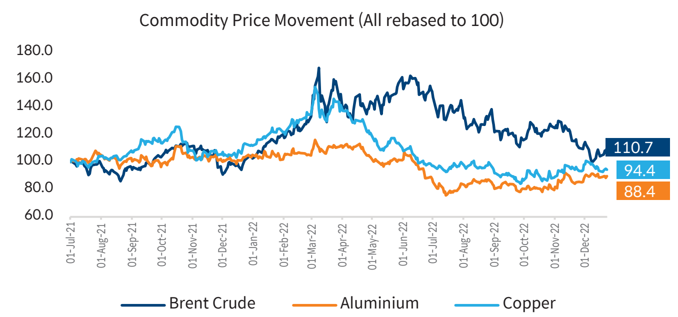
Source: Bloomberg as on 23-Dec-22.



Source: Bloomberg as on 23-Dec-22.



Source: Bloomberg as on 23-Dec-22.



Source: Bloomberg as on 23-Dec-22. Past Performance may or may not sustain in future.

India Macro

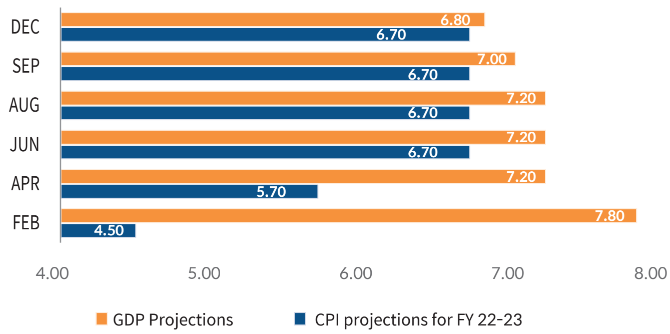
The Inflation Seesaw

- 2022 began with an overhang of continued spread of COVID-19 infections with the emergence of the Omicron variant. After remaining within the RBI tolerance band for a large part of 2021, inflation breached the tolerance band in January 2022 and remained above the tolerance band throughout 2022. While RBI initially expected inflation to remain transient as against market expectations, the central bank swiftly readjusted its inflation expectations for FY 2022-23 in the background of the Russia-Ukraine war and disrupted supply chain dynamics, with upward revisions aggregating 220 basis points between February and May 2022.
- Consequently, RBI initiated rate hikes and commenced withdrawing accommodation instituted during the pandemic with overall market liquidity declining from ₹7.6 lakh crore in January 2022 to deficit levels in December 2022, complemented by robust credit growth and forex interventions. Inflation has continued to ease from a peak of 7.8% in April 2022 to within RBI's tolerance band in December 2022 with expectations of further moderation.

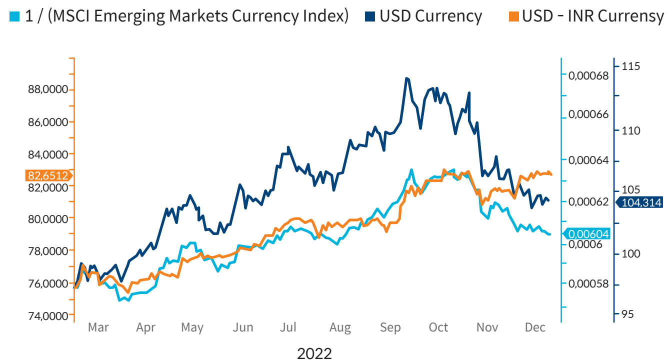
Maintaining Robust Growth

- Economic activity continued exhibiting resilience throughout the year with aggregate demand supported by pent-up spending and discretionary expenditures coupled with a modest expansion in investment activity. Supported by soaring tax and cess collections, the government is expected to remain on course to achieve its fiscal deficit target of 6.4% of GDP for FY 2022-23 without any additional borrowings vis-à-vis budget estimates.
- As Emerging market economies (EMEs) have remained vulnerable to flows and currency in view of aggressive tightening by US Fed as the US Dollar strengthened and reached two-decadal highs, India has been no exception with the Rupee touching all-time lows during the year with RBI actively intervening in spot as well as forward markets to curb excessive volatility in the Indian Rupee. While FDI flows have remained robust, net portfolio investments witnessed significant outflows during the first half of FY 2022-23. Although debt flows remained subdued, equity flows have started witnessing green shoots during Q3 FY 2022-23. While foreign exchange reserves have fallen from its peak of USD 642 billion in October 2021, it remains at comfortable levels considering import cover, short-term debt to reserves and volatile capital flows.

RBI's Projections during MPC meets in various months of 2022 (in %)



Source: RBI Monetary Policy Committee data releases in 2022.

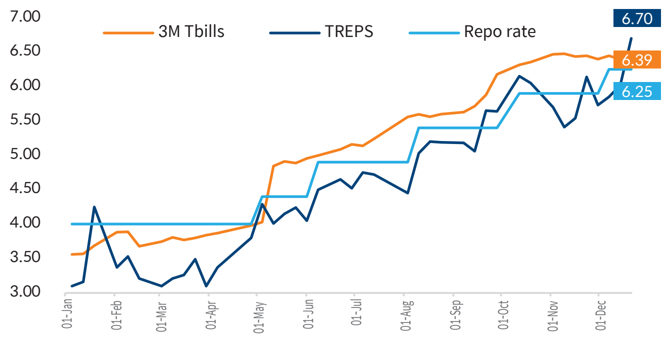


USD-INR Currency (LHS), MSCI Emerging Markets Currency Index (RHS- 1st scale)-inverted scale denotes depreciation of emerging markets currencies vs USD. USD Currency – denotes DXY – US Dollar Index (RHS-2nd scale). Source: Bloomberg as on 23-Dec-22. Past performance may or may not sustain in future.

Domestic Debt Markets & Policy Actions

- With a view to ensure that inflation returns within tolerance bands, RBI has hiked policy rates by 225 basis points since its surprise policy meeting in May 2022. However, effective tightening aggregated to 290 basis points considering the effective rate of 3.35% p.a. (Reverse Repo) at the peak of the pandemic.
- With credit growth remaining robust, markets witnessed a significant increase in fund raising activity by banks as deposit growth played catch-up. As market liquidity remains volatile, RBI has clearly outlined its intention to manage market liquidity by dynamically undertaking fine tuning operations in line with market requirements.
- In the background of the supply overhang of FY 2020-21 and FY 2021-22 along with a fiscal deficit target of 6.4% for FY 2022-23, yields were expected to remain under pressure in the absence of Government Securities Acquisition Program (GSAP) or Bond Index Inclusion. With no such announcements materializing, the 10-year benchmark yield swiftly rose from around 6.8% in March 2022 and breached 7.6% in June 2022. However, as inflation expectations remained largely anchored along with terminal policy rate of 6.5% priced-in, benchmark 10Y G-Sec yields have largely remained rangebound between 7.25% to 7.50% thereafter. While FPI activity in the domestic debt markets continue to remain muted, strong demand from insurance companies and provident funds continue to anchor the long end of the curve as the overall curve has flattened owing to policy actions.

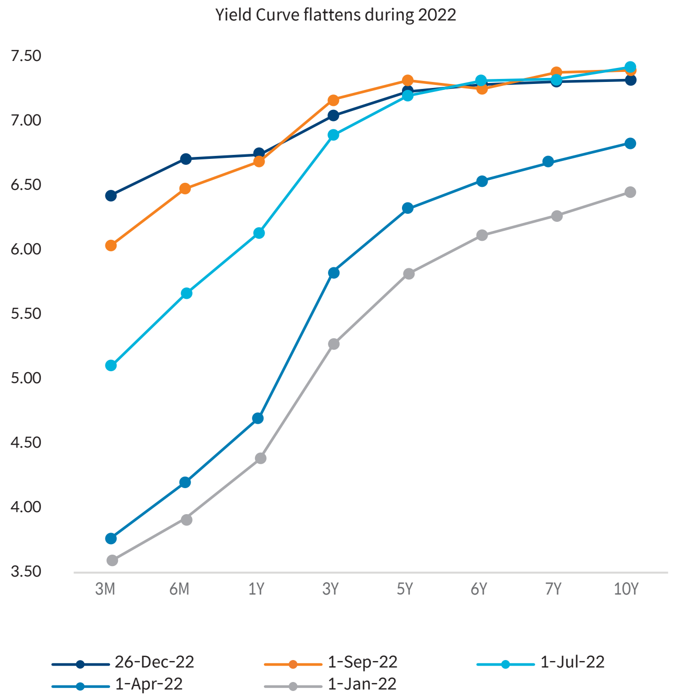
Yield (in %) of different tenure debt papers and Repo rate in 2022



Source: Bloomberg as on 23-Dec-22. Past performance may or may not sustain in future.

Outlook for 2023

- Year 2022 started with markets pricing in incoming inflation and long-term rates already moving higher in anticipation thereof even as central banks were mostly in denial and then having to play a fast catch-up. Quite in contrast, 2023 is starting at a point where markets are factoring in an impending recession (indicated by an inverted yield curve) and inflation having peaked but central banks are guiding for continued hawkish stance with "higher for longer" rates outlook.
- Economic data available so far does not suggest any major recession, (for example the US GDP growth estimates for Q3CY22 has been revised upward to 3.2% in December 2022 from initial estimates of 2.6% in October 2022) but one needs to monitor incoming data very closely to analyze if the scenario depicted by market pricing of rates comes alive, as the lagged impact of recent tightening and tapering out of post-covid demand spike may start reflecting in coming quarters.
- Major part of the tightening by central banks during 2022 reflected in flattening of yield curves in most markets. In developed world, for example in US, the curve stands deeply inverted. This, as long-term rates had already moved, well in advance of CB action in anticipation. In markets like US, where inflation still remains much higher than target and the US Fed continues to provide hawkish guidance, long term rates have refused to inch higher with successive rate hikes and now the near-term rates are also just tracking the revised policy rate. In Indian markets also, similar story played out with benchmark 10Y G-Sec yield remaining largely range bound in 7.25-7.50% band since commencement of rate hike cycle and short terms rates having moved up sharply during this phase.
- With major commodity prices well off their recent highs, leading to expectation of inflation continuing to ease in 2023, expected slow-down in growth momentum and with major central banks already slowing down the pace of rate hikes, the expectations remain for a pause in tightening cycle starting Q2CY23. Equally important, it's only fair to assume that being explicitly telegraphed, next few rate hikes are already factored in by markets.



G-Sec yield (in % on x axis) of different tenure papers (3months – 10 years on y axis) during different dates in 2022. Since 1-Jan-22 (YTD) / 1-Apr-22 (approx. 9 months back) / 1-Jul-22 (approx. 6 months back) / 1-Sep-22 (approx. 3 months back) / As on date 26-Dec-22 (current yield as on date).
Source: Bloomberg as on 26-Dec-22. Past Performance may or may not sustain in future.

- That provides the backdrop for an optimistic outlook for 2023. Long term rates may have already peaked in current cycle. While presently there is no visibility of any trigger for any meaningful easing in these rates, later in year, environment may turn more favorable if inflation indeed eases or economic slowdown deepens further. While central banks may seek more evidence, markets are likely to move much in advance. Yield curves may get flatter in emerging markets and remain inverted in developed markets. The environment being volatile and uncertain, one should be ready to reassess outlook if incoming data indicates otherwise.

CPI – Consumer Price Inflation CBs- Central Banks, AEs- Advanced Economies, EMEs- Emerging Market Economies, RBI – Reserve Bank of India, US Fed – US Federal Reserve, GDP – Gross Domestic Product, CY- Calendar Year, FY- Financial Year, FPI – Foreign Portfolio Investors, FDI- Foreign Direct Investments, PFs – Provident Funds.

MIRAE ASSET
Mutual Fund

2022
2023

re:VIEW

Insights on Passive Investment

PASSIVE DEBT EQUITY

December 2022

Introduction:

By the end of 2021, the uproar of equity specially tech stocks post pandemic was unfathomable. NASDAQ-100 Index touched its all-time high on 19th Nov 2021. S&P 500 Index reached its all-time high value on 03rd Jan 2022. For Calendar Year 2021, S&P 500 Index generated return of 26.9% whereas NASDAQ-100 Index generated return of 26.6%. This higher than normal return was not unwarranted if one looks at the underlying factors which resulted in this euphoria. In Calendar Year 2021, the EPS (Earning Per Share) for S&P 500 Index grew by 56% whereas for NASDAQ-100 Index it grew by 28%. High growth in EPS was largely due to low base effect of 2020 that was hit hard by COVID-19. This growth was one of the best numbers to come out in last decade. The underlying factors that contributed to quick turnaround was excess saving due to pandemic, low inflation, ultra-low interest rate regime which helped prioritizing consumption over saving and lifting of COVID restrictions across region leading to pent up demand. Financial market specially US equity entered 2022 with hope and greed that broad underlying factors that contributed positively in 2021 will continue to exist in the coming foreseeable future.

However, one issue which was already becoming visible due to pandemic restrictions was supply chain bottlenecks across the globe. Supply shock combined with excess consumption/demand along with strong job/labor created spiral inflationary environment. Spiral inflationary environment got further elevated with rise in energy prices due to Russia-Ukraine war which lead to US inflation climbing in excess of 9% for the first time in last four decade. Persistent high inflation brought FED into the action in much quicker and stronger way, disorienting the market and their anticipation of 2022. Much of 2022 has gone by playing triangular game between monetary policy, inflation and job market.

As we step into 2023, while lot of uncertainties clouding 2022 still exist, new challenges are emerging. The center stage is whether the fed will be able to balance out the act of finding the right spot between tightening of economy and avoiding deep recession or a recession altogether, how will the consumer react and what will be the impact on corporate profitability? Not only the United States, investor will be keenly observing Europe and China and their policy action. The market currently is hoping that Zero COVID Policy (ZCP) in China is on the brink of retrenchment but are also contemplating the implications if this scenario doesn't play out. Several such possibilities have been explored in the international outlook segment covering United States and China specifically. We continue to believe that in such time, investors are best left at focusing on asset allocation and staggered investments, keeping in mind the long-term investment objective.

Indian Passive Market Update

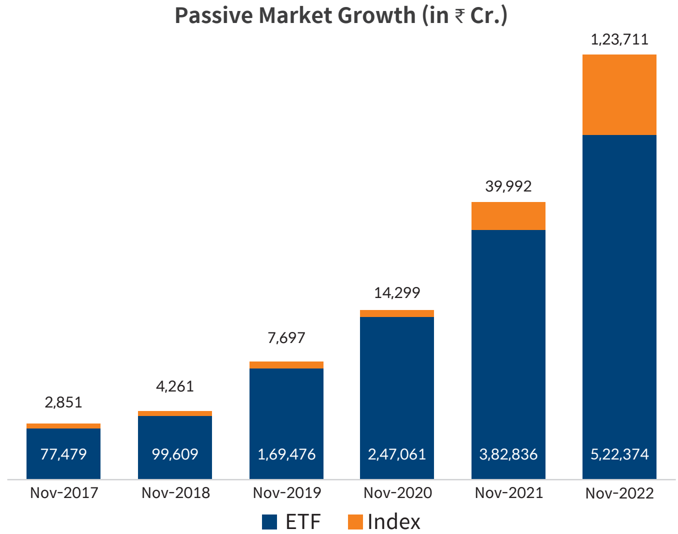
AUM Update:

- The passive investment market in India has built up phenomenal momentum over the past five years. The AUM of passive funds in India now stands at ₹ 6.46 Lakh Crores, witnessing more than 7 times increase over the past five years.
- The total number of passive schemes in India now stand at 294, with 157 ETFs managing assets worth ₹ 5.22 Lakh Crore and 137 index funds grossing total assets worth ₹ 1.24 Lakh Crore.

Inflow Update:

- In light of the above, it is perhaps unsurprising that passive market in India has seen inflows worth ₹ 1.7 Lakh Crores in the past one year and passive AUM has almost increased 53% from ₹ 4.22 Lakh Crore in Nov 2021 to over ₹ 6.46 Lakh Crore in Nov 2022.
- 79 new index funds and 41 new ETFs were launched in the past 12 months grossing a total of ₹ 17,841 Cr. in new collections.
- Apart from the usual names like Nifty 50 and Sensex based funds which saw an inflow of ₹ 45,682 Cr. and ₹ 26,663 Cr. respectively during the year (as on Nov 30, 2022), target maturity funds amassed maximum inflows worth ₹ 80,042 Cr. during the same period. Commodity funds on the other hand gathered inflows worth ₹ 2,548 Cr. in the past one year.
- A staggering 66 lakh net new investor folios were added in passive funds in the past one year.
- With the increased influence of passive investments in Indian market and growing investor interest, we can safely conclude that it is a trend which is on the rise and is here to stay.

Passive Market Growth (in ₹ Cr.)



Source: ACE MF, Data as on Nov 30, 2022

How Active schemes fared vs Index

Index Type	% of Large / Mid Cap MF Schemes outperformed by Index (Regular Plan)					Excess Return of Index over average returns of MF				
	1 Year	3 Years	5 Years	7 Years	10 Years	1 Year	3 Years	5 Years	7 Years	10 Years
Nifty 50	86%	85%	96%	100%	58%	3.8	1.8	2.8	2.2	0.5
Midcap 150	72%	83%	62%	90%	61%	1.1	2.5	0.8	2.2	0.3

Index Type	% of Large / Mid Cap MF Schemes outperformed by Index (Direct Plan)				Excess Return of Index over average returns of MF			
	1 Year	3 Years	5 Years	7 Years	1 Year	3 Years	5 Years	7 Years
Nifty 50	86%	58%	92%	79%	2.6	0.6	1.6	1.0
Midcap 150	56%	57%	48%	60%	-0.1	1.0	-0.5	1.0

Source: ACE MF; Data as on Dec 15, 2022. Based on 29 Large cap, funds (Regular: Growth). *Large Cap Mutual funds based on the SEBI circular on categorization and rationalization of Mutual Fund Scheme. Large cap funds are defined as minimum investment in equity & equity related instruments of large cap companies-80% of total assets Past performance may or may not sustain in future. The above is performance of the category and does not in any manner indicate the performance of any individual scheme of Mutual Fund.

As on Dec 15, 2022, in last 1 year in Direct plan category, 86% of large cap funds underperformed Nifty 50 Index by an average of 2.6%. In last 5 years, this figure rose to 92% by a margin of 1.6%. Even in midcap category, 56% of midcap funds underperformed the Nifty Midcap 150 Index. This figure becomes obviously higher when index is compared against regular plan of active funds which are at much higher TER.

Domestic Market Update

It's been an interesting year for the Indian stock market with key indices, i.e. both the Nifty 50 and BSE Sensex clocking their all-time highs early December.

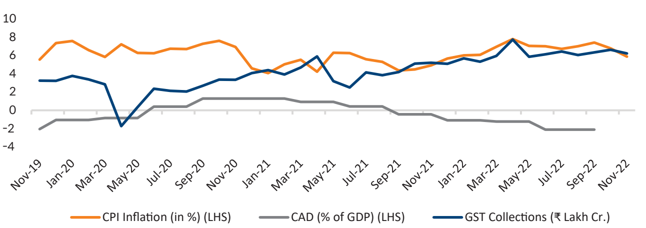
While global markets have bled due to the war between Russia and Ukraine leading to rise in energy prices, pandemic-induced global supply chain challenges and decadal high inflation, India has weathered the storm till now.

While concerns on inflation, made RBI tighten the policy with reasonable speed, the inflation in India was not as out of range of central bank target as it was in case of US, UK or Europe, which while made RBI cautious but didn't create panic.

Though, weakening in Rupee, volatility in energy prices, impact on exports etc. created concerns on Current Account Deficit (CAD).

But over the course of the year, robust GST collection, reasonable corporate profitability, improvement in balance sheet, healthy domestic consumption (where we think rural consumption will pick up) and focused policy effort to manage currency, inflation and deficit without impeding growth, has made India standout in Year 2022.

Indian Economic Data



*Source: Bloomberg and ACE MF Data. Data as on November 30, 2022 unless otherwise specified

As on Dec 15, 2022, in YTD (Year to date) 2022, Nifty 50 Index rose 6.1% to settle at 18,414.90, Nifty Next 50 climbed 3.1% to settle at 43,544,10. NSE Midcap 150 Index rose by 6.0% and Nifty Small-cap 250 Index declined by 0.3%.

Performance comparison of Broad and Sectoral Indices as on Dec 15, 2022

Index	P/E (12 M Forward)*	10 Years	5 Years	3 Years	1 Years	YTD 2022	6 Months	3 Months
Nifty 50	21.7x (-1%)	13.5%	13.7%	16.4%	8.4%	7.5%	18.0%	3.2%
Nifty Next 50	28.3x (6%)	15.1%	9.0%	16.8%	3.6%	4.2%	18.1%	-4.0%
Nifty Midcap 150	30.3x (1%)	17.9%	13.0%	26.3%	6.2%	7.0%	21.7%	0.0%
Nifty Auto Index	32.5x (1%)	11.8%	3.7%	18.4%	18.4%	19.4%	16.3%	-3.0%
Nifty Bank Index	16.8x (-11%)	14.1%	11.8%	11.2%	19.2%	23.6%	30.9%	5.6%
Nifty Financial Services Index	20.1x (-8%)	15.1%	13.7%	10.7%	9.0%	11.8%	25.6%	3.0%
Nifty FMCG Index	40.3x (16%)	13.1%	13.4%	16.4%	24.3%	23.8%	24.2%	3.7%
Nifty IT Index	25.7x (1%)	19.5%	23.3%	26.5%	-16.9%	-23.2%	5.9%	5.5%
Nifty India Manufacturing Index	23.9x (7%)	13.7%	9.7%	23.2%	8.7%	8.0%	16.1%	-0.8%
Nifty Infrastructure Index	20.0x (7%)	9.4%	11.2%	20.3%	10.0%	10.9%	17.1%	2.2%
Nifty Metals Index	14.2x (49%)	12.0%	15.7%	39.7%	23.7%	25.0%	35.8%	7.1%
Nifty Energy Index	14.7x (27%)	15.4%	16.1%	21.4%	17.1%	19.3%	7.3%	-6.0%
Nifty Pharma Index	25.8x (-2%)	8.7%	7.8%	17.6%	-4.4%	-9.2%	5.0%	2.4%
Nifty Realty Index	38.3x (-4%)	5.6%	7.5%	16.2%	-10.3%	-7.5%	15.3%	-5.4%

Source: Nifty Indices, Data as on Dec 15, 2022 *Above/Below past 3 years average (Red and green colour denotes the said security is expensive or cheap relative to its historical valuation respectively). Source: Above data is obtained from Bloomberg which may or may not come true. Past performance may or may not sustain in future.

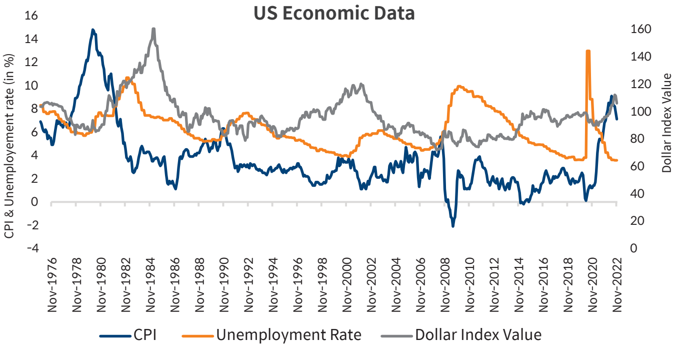
Performance mentioned are based on Total Return Index (TRI) Variant.

Sector-level Commentary

As on December 15th 2022 on a YTD basis, Metals, FMCG, Banks and Auto were among the top four best performing sectors (refer to the table above). The performance was heavily uplifted by strong 2QFY23 corporate earnings shown by Bank and Auto companies. The growth momentum in banks was propelled by healthy loan growth, margin expansions and continued moderation in provisions. With strong festive sales and demand recovery in last few quarters compared to sluggish growth in the previous years, auto companies reported strong numbers in 2QFY23 earnings. FMCG sector saw around 10% revenue growth on 3-year CAGR basis over last couple of quarters (Q2 FY 2022 – 2023 and Q1 FY 2022 – 2023). Overall food companies delivered higher growth CAGR v/s personal care categories, which was impacted because of low rural demand in the wake of high inflation. As economy recovery broadens, sectors like auto, healthcare and rural consumption are expected to benefit in the coming time. At the same time, pharma companies have invested on an average ~7-8% of revenues every year on R&D focusing on complex generics, much of the monetization is expected to happen over the next 3-5 years. Diversification of export profit pool from US by focusing on Rest of the World, is expected to lead to more sustainable growth and less volatility. Growth of sectors like IT and metal remains skeptical, mostly because of supply-side pressures, fall in demand amid macro headwinds in the western countries which include factors like interest rates and fear of recession in the developed markets.

Global Market Update

Year 2022 saw most of the fears which we had at the end of Year 2021 becoming a painful reality. The narrative of "transitional inflation" quickly gave way to fear of long-term sticky inflation. In US, the 2 trillion+ excess saving of households led to a pent-up demand, which when combined with supply chain issues due to pandemic induced lockdowns and frequent disruptions in China paved way for 40-year high inflation in US. UK and Europe also reeled under high inflation which also got further driven by high energy (gas) prices, supply chain disruptions, food inflation due to Russia-Ukraine war. The macro-environment that seemed to be conducive for the growth of riskier asset for almost last decade specially post pandemic became suddenly salutary.



*Source: Bloomberg and ACE MF Data. Data as on November 30, 2022 unless otherwise specified

In order to rein the inflation in US which was not being helped by very tight job market where unemployment remained around 3.7% and wage growth remained high, the US fed started increasing the Fed rate aggressively and other central banks followed suit. In 2022, US has raised rates by 4.25%, UK by 3.25% and Europe by 2.5%. The phenomenon of quantitative tightening in order to tackle the inflation led to downfall in the equity which further got entrenched by downward revision of earning estimates excluding energy.

As of 16th December 2022, S&P 500 Index is down by 19.2%. Tech stocks as represented by NASDAQ-100 Index, which had phenomenal run in 2021 were down by 31.1%. 12 Month Forward Price to Earnings Ratio of S&P 500 Index has corrected from 22.72x (31st Dec 21) to 17.55x (16th Dec 22). 12 Month Forward Price to Earnings Ratio of NASDAQ-100 Index has corrected from 30.22x (31st Dec 21) to 21.76x (16th Dec 22). The performance of the emerging markets was also poor led by downfall in Chinese equities on account of disruption in consumption and supply chain due to Zero COVID Policy (ZCP), fragile property sector and slowdown in export. However, India became one of the best performing market for 2022 as Nifty 50 was the only index to be in positive territory (refer Table below). Strong positive economic growth momentum, controlled inflation narrative and well guided monetary policy led to strong performance in the Indian equities. The volatility in currency market also played a role in global markets ex US. In YTD 2022, Dollar index is up by 9.4%. It was once up by 19.27% in the last week of September 2022, causing deep concerns especially in emerging markets. Following is the broad performance of equity markets across the globe.

Particular	YTD 2022 (in INR)	12M Forward P/E	3 Yr. Average	Premium/ (Discount)
MSCI World Index (Developed Market)	-10.4%	15.5x	19.5x	-20.3%
MSCI Emerging Index	-13.7%	11.5x	14.0x	-17.9%
MSCI China Index	-15.4%	12.0x	14.2x	-15.6%
MSCI Europe Index	-8.8%	12.0x	16.1x	-25.8%
MSCI Japan Index	-9.2%	12.6x	16.0x	-21.4%
S&P 500 Index	-10.2%	17.5x	21.3x	-17.7%
NASDAQ-100 Index	-23.4%	21.8x	27.1x	-19.8%
NYSE FANG+ Index	-30.6%	20.2x	32.0x	-36.9%
Hang Seng TECH Index	-18.5%	33.2x	36.3x	-8.5%
S&P 500 Top 50 Index	-16.0%	18.5x	22.4x	-17.7%
Nifty 50 Index	5.3%	21.6x	21.9x	-1.7%

Source: Above data is obtained from Bloomberg. Data as on December 16, 2022. Past performance may or may not sustain in future. The data shown above pertains to the indices and does not in manner indicate performance of any scheme of the Fund. Red indicates it is expensive/premium vis-à-vis green indicate it is at discount.

The performance is based on price return index variant.

It is interesting to note that specially in the developed market like US, the year 2022 didn't spare even the bonds which traditionally are defined as hedge against downfall in the equity. As of 16th Dec 2022, Bloomberg US Aggregate Bond Index has also fallen by -11.1%. The traditional 60/40 portfolio gave up 15.9% of its value as on 16th Dec 2022. This highlights that investors in the developed market specially US had no respite.

United States Outlook

With 2022 coming to an end, it also marks the end of an era of quantitative easing that started after 2008-09 financial crises. Loosely this phenomenon has played a pivotal role in keeping ultra-low interest rate regime that also contributed to the elevated prices of risker asset such as equities. The 40-year high inflation alongside tight labor market in 2022 has made the Federal Open Market Committee (FOMC) raise interest rates at the fastest pace in decades. As of this writing (16th Dec 22), the S&P 500 Index is down by 19% so far this year, since 1927, there have only been six calendar years with lower returns than 2022. Despite this gloomy backdrop, investors are heading into 2023, stuck somewhere between hope and fear. We anticipate that the next 12 months will be equally challenging for investors. The soft landing of US economy, if not recession along with elevated inflation will require central bank to strike right balance between too much and too little of monetary tightening.

As 2022 draws to an end, it appears that the consumer price index in the United States may average 8%, which might be the highest annual average rate of CPI inflation since 1982. At the same time, the labor market remains tight, with the unemployment rate below 4% for most of the year. The Federal Open Market Committee (FOMC) is expected to raise the fed fund rate to 5.00% to 5.25% (from its current range of 4.25% to 4.50%). Further, it is likely that the fed fund rates are maintained at this elevated level throughout 2023, with some predicting the rate cuts to start happening at the end of 2023 instead of 2024. A broad consensus that is clearly evident from meeting of Committee Members is that they believe cost of doing too much on inflation is relatively less than cost of doing too little on inflation. Not only does the FOMC appears to be okay to trade lower inflation for somewhat higher unemployment and lower growth, but it also appears to be willing to accept tighter financial conditions and market volatility, a departure from the past cycle. However, as the committee becomes firmly convinced that inflation is declining on sustainable basis towards back to 2% and as the unemployment rate nears 5%, the market anticipates that retrenchment of interest rate might be in sight by early 2024. However, it is unlikely that FOMC will start easing policy at first sign of weakness, a stance that they had adopted in prior cycles.

Gross Domestic Product (GDP) and Consumer Price Inflation (CPI) Table

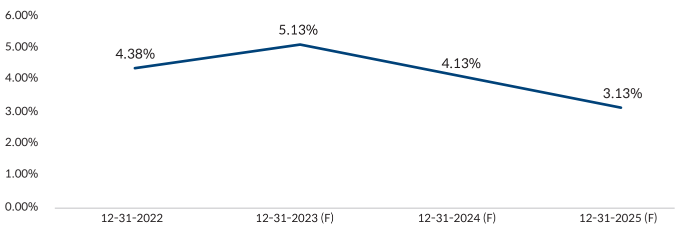
Particular	GDP (in %)			CPI (in %)		
	2021(A)	2022 (F)	2023 (F)	2021(A)	2022 (F)	2023 (F)
Global (PPP)	6.00	3.00	2.20	4.70	7.30	5.10
Developed Economies	5.50	2.60	0.50	3.60	8.60	5.40
Emerging Economies	5.80	3.00	4.00	3.60	6.30	5.70
United States	5.90	1.80	0.40	4.7	8.0	4.0
Eurozone	5.30	3.20	-0.10	2.60	8.50	6.00
United Kingdom	8.50	4.30	-1.00	2.60	9.10	7.10
China	8.10	3.00	4.90	0.90	2.10	2.30
Japan	2.30	1.40	1.30	-0.30	2.40	1.80
Brazil	5.20	3.00	0.80	8.30	9.30	5.00
India	8.70	6.70	5.80	5.50	6.80	4.50
Russia	4.70	-3.30	-3.00	6.70	13.80	5.80

Source: Above data is obtained from Bloomberg which may or may not come true. Data as on December 16, 2022. GDP: Gross Domestic Product and CPI: Consumer Price Inflation. A: Actual F: Forecast. Forecast are nothing but Bloomberg Conesus estimate.

There are increasing signs of price deceleration that leads us to expect inflation will ease slowly over the course of 2023. For instance, upward pressure on goods prices is fading, there has been sharp drop in delivery times, indicating smoothening of supply chain and transportation and warehousing costs have declined for four consecutive months as indicated by producer price index. Additionally, higher than normal inventory of goods should create disinflationary pressure as shops might be forced to aggressively discount the price. Though inflation on the service side is expected to be stickier and may fall only marginally in coming quarters.

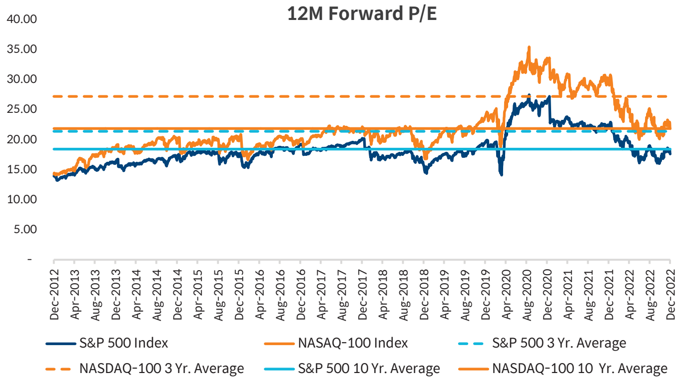
Despite Inflation battering real personal income in the United States, the American households have been able to maintain growth in spending by bringing down saving rates and incurring more credit card debt. These trends could potentially continue in 2023, but we look for consumer spending to begin a period of retrenchment as the financial cushion that households built up over the past two years is thinning. Despite the reduced rate of saving and sharp increase in credit card debt in 2022, the household sector currently stands in solid financial shape. Consumers are still sitting on just over $1T in "excess savings" from the pandemic. At the draw-down rate of the past six months, households would not deplete their excess cash until around the fall of next year (Sep 2023). Overall, households' balance sheet remains strong. However, if the inflation doesn't fall back then it can quickly eat up the consumer's earning and this will be important factor in determining whether this deceleration will end in a "soft landing"- with slower but still positive growth - or in a full-fledged recession that drags down earnings.

FOMC Dot Rate Plot (Estimate)



Source: Above data is obtained from Bloomberg which may or may not come true. Data as on December 16, 2022. A: Actual F: Forecast. FOMC: Federal Open Market Committee (FOMC)

Geopolitical risks will remain potential triggers for downside volatility in 2023. Soaring bond yields largely drove equity bear markets in 2022 by compressing valuation multiples. But in 2023, earnings growth could move to the top of the list of investor concerns. In the 13 recessions since World War II, U.S. gross domestic product (GDP) suffered a median decline of 2.6% and the unemployment rate rose by 3.6% points. It is reasonable to assume that next recession will be relatively mild. Household and corporate balance sheets are in good shape. Aside from inflation, there are no significant obvious economic imbalances. The risk with a soft landing that avoids recession is that the unemployment rate doesn't rise by enough to reduce inflation. In this scenario, the Fed funds rate could then rise towards 6% and set the scene for a more significant recession and market reaction. The strength of labor market, consumer continuing with their spending and inflation trajectory will play key role in determining how much the economy slows in 2023.However, the risk of deep recession similar to that of 2008 is low.



Source: Above data is obtained from Bloomberg. Data as on December 16, 2022. Past performance may or may not sustain in future. The data shown above pertains to the indices and does not in manner indicate performance of any scheme of the Fund. P/E Stands for Price to Earnings Ratio.

As of the end of November 2022, forward consensus estimates predicted mid-single-digit growth in Earnings Per Share (EPS) for the U.S. over the following 12 months. Past U.S. recessions typically have resulted in 15% to 20% earnings declines for S&P 500 Index. There are three possible U.S. earnings scenarios, the first, reflecting a soft landing, the second, a "normal" recession, and the third, a recession plus a reversal of a 25-year upward trend in U.S. profit margins. In a soft-landing scenario, recent EPS assumptions for the S&P 500 Index appears reasonable but is expected to be revised downwards. A "normal" recession, based on the last four U.S. recessions (not including the 2008–2009 global financial crisis), could see EPS decline by an estimated 15% - 20% over the next 18 months.

The market is at a point of inflection where there are a range of possible outcomes. In an upside scenario, inflation cools quickly, the Fed does not need to raise rates much more (if at all), and US economic growth surprises to the upside which leads to S&P 500 EPS growth of 5–6% in 2023. This can lead to potentially double-digit growth in the price of S&P 500 Index. In a downward scenario, where inflation doesn't fall or lagging effect of fed on the US economy is too much to bear, S&P 500 EPS are expected to fall below to normal recession level, resulting in further decline in S&P 500. As far as the question that whether the US market has bottomed out or not is concerned, then while the same is certainly possible, but investors might have to be prepared for another correction in this bear market, potentially driven by weaker corporate profits and deeper economic slowdown. The earnings of technology and consumer discretionary stocks in Q4 2022, will be a barometer as "Q4" historically tends to be one of the best quarters from earning and profitability perspective. A grim picture in Q4 2022 will point out towards relatively more pain for tech companies in coming times coupled with increasing interest rate and downsize in appetite for growth stock.

Reaction	Worst Case	Moderate case	Upside Case
Policy Action	The Fed and ECB increases rate more than the level discussed in moderate case	The Fed increases the rate to 5.00% - 5.25% and stops any further rate hike. The ECB stops at 3.00%	The Fed and ECB stops and potentially pivots before the scenario presented in the moderate case
Equity Market	Earnings will see significant downward revision leading to significant decline in equity from current level	Positive returns can be potentially expected from the market	Potentially higher than normal return across segment
Currency Market	US Dollar can potentially strengthen	US Dollar may move in range bound manner	US Dollar potentially can weaken

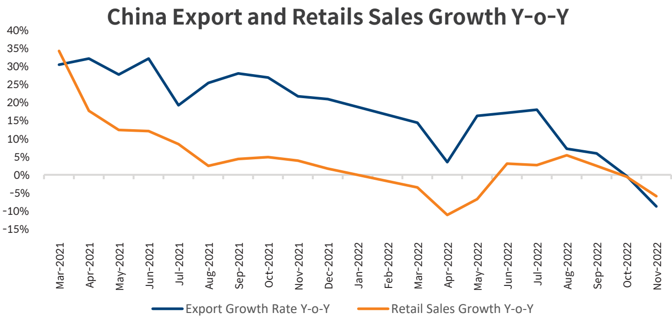
The upside in U.S. Equity market fundamental appears limited in the near term, even though a mild recession was arguably already priced into stocks in September's lows. A bull case is less likely, but could emerge to propel stocks to new highs if growth makes a rapid turnaround and inflation cools. Current trends in rates and macroeconomic indicators show S&P 500 earnings are likely to fall in the year ahead, despite consensus still being generally positive. Another risk to the equities currently is that 12Month forward consensus estimate of earnings looks high, having only declined 5% from recent peak. A recession is likely to witness downward revision in estimate by 10% - 20%, although market has priced in some further downgrade to consensus forecast.

Heightened uncertainty may lead to volatility in 2023. We believe any strong directional bet by investor can lead to being caught on the wrong foot. During these times appropriate diversification and focusing on long term objective remains quintessential. We feel that with several scenarios already factored in for the U.S. equity, potential for further steep decline is slightly more limited compared to start of the previous year.

China Outlook

For entire 2022, persistent implementation of Zero-COVID policies (ZCP) and a deteriorating real estate sector along with weaker external demand have placed significant downward pressure on sentiment and economic activity in China. The strict lockdown in April – May 2022 led to severe dent in growth of Chinese economy . China's labor market, retail sales and service sector growth have come under pressure as COVID-19 restrictions intensified. China's real GDP growth is expected to be 3.0% Y-o-Y for 2022 far from the target of 5.5% set at the start of the year.

China's export growth had turned negative in October for the first time in 29 months. That is, external demand, one leg of China's " Dual Circulation" strategy, is on a shaky ground. In the past two years, Chinese economy has remained resilient, owing to the strength in Chinese exports that confounded most economists, despite ZCP and a frail property market. However now, the Fed's tightening has started to affect demand for Chinese exports. Meanwhile, retail sales growth, a measure of domestic demand, had also slipped into negative territory in October. As such, both wheels of "Dual Circulation" are somewhat stuck in reverse. The concern of CPC on these two fronts along with mass discontent on COVID restrictions, has made Chinese government to start relaxing/phasing out of ZCP and that has led to strong momentum in Chinese equities, recently.



Source: Bloomberg, Data as on Nov 30, 2022, China export and retail sales growth year-over-year.

Further, on November 10, 2022 the Politburo Standing Committee held a meeting discussing China's Covid situation, placing less emphasis on "calculating the political cost" and more emphasis on optimizing Covid control measures to reduce the negative impact on the economy. On November 11, the government unveiled "20 measures" to shorten quarantine times, to make inbound international travel easier, and most importantly, to lay out a plan on necessary medical preparations. This recent development coupled with failure of "dual circulation" mandate provides a strong impetus for the market to assume that Chinese economy is expected to re-open soon. And largely, the outlook for 2023 for Chinese equities will be constructed around the re-opening and shift from Zero-COVID Policy (ZCP). China's re-opening is expected to be driver of asset prices across 2023.

The re-opening in China is expected to resemble similar face that we have witnessed across the globe. In most countries re-opening of the economy was followed by growth accelerating, increase in household consumption, growth in service sector, rise in inflation and policies turning less accommodative. However, all this is expected only if china re-opens majorly, which looks likely in Q2 CY 2023. However, any delay in phasing out of ZCP can act as a negative barrier to the market. Thus, the first half of 2023 is likely to be status quo with major impetus and strong momentum coming into the second half of 2023 as further major policy announcements may come in 2Q23, after the annual "Two Sessions" policy meeting (held in March)

The property sector that has its fair share in slowing down the economy in 2022 is expected to be less painful in 2023. In order to support the property sector mortgage rates have been slashed, banks are required to increase lending to the sector and providing greater flexibility to local government to regulate their own housing policy are some of the welcome moves. People's Bank of China's latest 16 measure directed towards improvement in health of property sector is a welcome move. That said, any revival in property sector should not be expected to be quick.

China looks nicely positioned with expectations of double-digit earnings growth with historically cheap relative valuations at 10x forward earnings combined with a Price-to-Earnings Growth (PEG) ratio of 0.66x, the lowest among major Asian markets. Yet earnings forecasts are still being marked down, with the market likely on the lookout for more policy support measures in 2023. Fundamentals look compelling, with undemanding valuations and a potential EPS bounce, if market expectations of China's economic reopening, potentially in 2023, play out.

The Chinese tech stocks specially the soft-tech companies have been able to withstand largely the swiping regulatory measures taken in last two years. The tech crack-down seems to be subsiding to large extent with continuous large support being echoed from political corner of China. The threat of de-listing of Chinese tech listed in United States has led to the companies opting for primary listing on the Hong Kong Stock Exchange. The recent inspection of the books of Chinese companies by SEC authorities is a welcome move. However, the re-escalation of tension between US and China can act as a headwind for the tech companies. With re-opening of economy, consumption demand might help in top line of the leading platform companies that rely heavily on domestic consumption whereas hard tech companies dealing in export may see marginal decline with reduction in global discretionary spending.

It is to be noted that much of the potential recovery of Chinese economy in 2023 and spilling into 2024 and repricing of equities is dependent on the withdrawal of Zero COVID policy. While it is expected that reopening, may be accompanied by rise in COVID cases and public confidence and hence consumption may take some time to build, but any significant continuation of COVID restriction over next year, may hamper the recovery of the Chinese economy and keep the Chinese equities volatile. As per the latest information, at the time of this report release, the COVID cases in China is rising and severe COVID wave is expected. This carries the risk of delay in withdrawal of restrictions and in worse case long lockdowns like we have already seen in China. As mentioned earlier, this may impact the recovery in Chinese economy and equity market and may further plunge it into year of sub optimal growth.

Theme 2023 Outlook

Amidst a challenging economic outlook, from rates to potential recession, there are themes that may be poised to shine within growth and within technology segment from long term point of view. Trillions of new dollars in fiscal spending via proposals such as the U.S. Inflation Reduction Act (IRA), U.S. Infrastructure Investment and Jobs Act (IIJA), European Union's Global Gateway is expected to provide support for clean energy, electric vehicles (EVs) and infrastructure in 2023 and beyond. The Infrastructure Investment and Jobs Act (IIJA) directs $1.2 trillion to U.S. infrastructure, out of which $110 billion across 4,300 projects has been announced for 2023. $21.6 billion is announced in spending which includes purchasing of battery-electric buses. The Inflation Reduction Act (IRA), which became law in August, directs $370 billion to clean energy and EVs, to be spent over a decade. While $370 billion is the Congressional Budget Office's (CBO) projection, tax credits may be utilized far more, and spending may well double to as much as $800 billion. Further China, one of the largest EV market, recorded largest number of EV's sold in 2022 providing much needed impetus to growth of Electric Vehicles. The latest law passed by European Union in Oct 2022 banning effectively sales of new petrol and diesel cars from 2035 is aimed at speeding up the switch to electric vehicles and combat climate change.

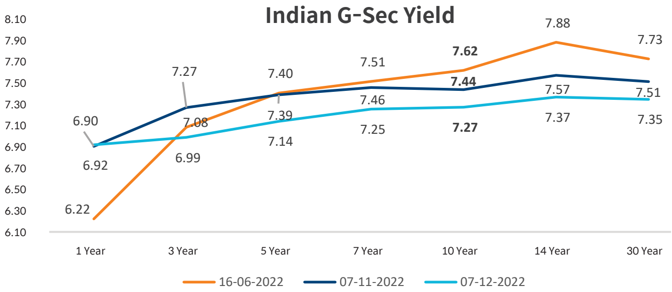
2023 is expected to see growing use of to LFP (lithium iron phosphate)-based chemistries, which is expected to account for 42% of battery demand by 2023, including through variations such as LMFP (lithium iron manganese phosphate), where the addition of manganese will further improve energy density. Lithium price have surged almost 123% YTD 2022 (as on Oct 2022). In November 2022, prices for battery grade lithium carbonate in China hit an all-time high of $85,058 per tonne, eclipsing the record set just a month prior. Lithium pricing trends are deeply rooted in the transportation segment's ongoing shift toward electrification. 2025 lithium forecast projects for triple the demand seen in 2021. EVs alone could account for about 84% of total lithium demand in 2030, up from about 55% in 2021. Along with strong earnings outcomes, several prominent lithium miners recently announced capacity expansion ambitions. We view this increased willingness to expand future lithium supplies as a positive development for the EV space.

Cyberattacks across industries have increased by 28% year-over-year (YoY) in Q3 2022, a trend that is expected to continue as cloud adoption increases, endpoint devices gain penetration and geopolitical conflicts persist. These pressures are likely to drive greater spending at the corporate and government levels. Cyberattacks are up by 81% over pre-pandemic levels and the economic costs they inflict are set to reach $10.5 trillion. Cyber security is viewed as least likely tech expense to be cut in a downturn.

Target Maturity Fund Outlook

Majority of central banks across the globe followed hawkish stance along with US Fed in their policy rates. Reserve Bank of India (RBI) was no exception to this. While Indian economy continued to be resilient, the persistence of inflation above RBI's tolerance band, withdrawal of monetary accommodation and continuous intervention in the forex market to support the sliding rupee saw Indian yield inching up significantly. The 10 Yr. benchmark G-Sec yield moved from 6.5% at the start of the year 2022 and peaked at 7.62% on 16th June 2022. Infact, most of hike in yield (based on market anticipation) was factored in between April 2022 – June 2022 in longer end of the of the curve (7 Yr. and above).

Easing of India's retail inflation to a 11-month low of 5.8% (y-o-y) in Nov 2022 supported by a base effect along with indications that the U.S. Federal Reserve is open to slowing its pace of rate hikes has helped in easing of long-term yields.



Source: Bloomberg, Data as on Dec 07th 2022.The data shown above pertains to the Index and does not in manner indicate performance of any scheme of the Fund. Past performance may or may not sustain in future

The outcome of the Monetary Policy Committee (MPC) meeting on 7th December 2022 was to increase the policy repo rate by 35 basis points to 6.25 per cent, with immediate effect. The MPC also decided by a majority of 4 out of 6 members to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth. Slightly more hawkish tone has opened up the possibility of another 20 bps – 25 bps hike in upcoming MPC scheduled during February 06 - 08 - 2023.

Going in 2023, the Indian repo rate is expected to largely peak out by the end of Q4 FY 2022 – 2023. We believe any retrenchment of the benchmark repo rate will be governed by impact on domestic growth and any actions taken by the Fed that may have bearing on the global growth and strengthening of US Dollar. Any move purely in isolation by MPC looks unlikely and future monetary policy is expected to be data driven with due consideration to the action taken by the Fed. We believe the repo rate are expected to stay up for a while, with RBI maintaining liquidity through other routes, if needed. The short-term interest rate that has been volatile for major part of 2022, may get stabilised in 2023 before falling back on the back drop of rate cuts. The yield curve is flattish and may continue to remain flat with investor getting risk and reward compensation in 3 – 5 Yr. segment. Currently, the State Development Loans (SDL) continue to offer reasonable spread over G-Sec in the medium term whereas in the segment greater than 7 yr. SDL or corporate bonds are currently offering spreads which are lower than historical spreads compared to G-Sec. We believe current yields seems to be attractive for investors to invest in target maturity funds. The right tenor depends on the investor investment horizon. Delay in investment in anticipation of rising yields should be assessed with opportunity cost of not investing now.

For now, the stronger fiscal position of the central government coupled with failing commodity prices and expectation of moderation in retail inflation by H1 FY 23 – 24, should keep domestic 10 Yr. yield in check. We expect even on the higher side, yields to be around 7.5% with probability of it being more on the down side than the upside in 2023, ceteris paribus.

Sources: NSE, RBI, CRISIL, Bloomberg, STCI. The views, facts and figures in this document are as on Dec 23rd 2022, unless stated otherwise

All time high index value for NASDAQ-100 Index and S&P 500 Index is based on closing price of index.