

# MONTHLY OUTLOOK

JULY 2023



**Together for more**

The word 'more' does not imply more returns or assurance of scheme performance. It refers to the additional value provided by the joint venture, as compared to Baroda AMC and BNP Paribas AMC individually.



# Equity Markets Outlook

- In July 2023, the **Nifty index in India gained 3%**, while year-to-date, it recorded a 9% increase. **Mid-cap and small-cap indices outperformed large-cap, rising 5.5% and 8% respectively.** The power, realty, and capital goods sector has experienced the significant growth.
- Globally, **Russia, Hong Kong, and Malaysia** were the top-performing markets, with China also performing well due to anticipated stimulus measures.
- Key factors during the month include the fed rate hike, China's expected stimulus, and inflation trends.
- In the US, GDP remained strong, with Q2 GDP at 2.6%, up from 1.8% in Q1. US Personal Consumption Expenditure data came in at 3%, down from 3.8% in May. The European Central Bank (ECB) and the FOMC hiked their policy rates to 3.75% and 5.5% respectively.
- In China, the politburo meeting addressed the lack of domestic demand, and the policy stance was dovish to boost market confidence. China's GDP growth is projected to be 5.2% in 2023, slowing further to 4.8% in CY24.
- On the currency front, the dollar index weakened by 1.1%, while the Indian Rupee (INR) depreciated by 0.2%. Some commodities saw prices increases, with LME Aluminium up 3%, Zinc up 6%, and copper prices up 3% on a monthly basis.
- **IIP growth** in India exceeded expectations, recording a growth of 8.2% in June, indicating a healthy economy. However global demand conditions remain weak.
- **Inflation in India increased to 4.81%** in June, mainly due to rising food prices. The Manufacturing PMI remained robust at 57.7 in July, indicating buoyant demand.
- Street forecasts project EPS growth of 20% for FY24 and 15% for FY25, with key contributors for growth expected to be banks, Auto, Oil & Gas, and Metals sector.
- The market have rallied and, some consolidation is expected. The outlook for FY25 appears to be promising for earnings growth in both Indian and US markets, with a cautiously optimistic outlook maintained.

Source: JM Financials, Kotak Institutional Equities. Data as on 31<sup>st</sup> July 2023.



# Fixed Income Markets Outlook

- **Global Economy -**

In mid-2023, global anticipation of a recession persists, central banks are raising rates, and markets react to information against expectations. Despite challenges like high rates and a banking crises, the resilient US economy surprises, even after a sovereign downgrade by FITCH. The US FOMC raised again in July, causing concern about inflation along with the Bank of England and ECB. These three regions average inflation remains high post rates hikes, mainly due to sticky core inflation. China supports its fragile recovery with rate cuts, while the bank of Japan introduces greater flexibility through Yield Curve Control. India stands out as stable macro environment amidst this global landscape.

- **Domestic Economy -**

India's high-frequency indicators have shown robust performance across various sectors. Manufacturing, construction, and services activities have expanded, with positive growth in indicators like cement production, air travel, domestic trade, and services PMI. This indicates a positive contribution to Indian's economy.

Oil prices, represented by Brent crude, have risen to around \$85/barrel, although still lower than the previous year. Inflation is expected to remain on the upper side of the RBI'S target band, potentially reaching around 5.5% year-on-year in FY24.

Bank credit growth reached 20.2% for the fortnight ending July 14, 2023, including the impact of the HDFC Ltd. Merger. Excluding this merger, bank credit growth declined to 14.4% year-on-year by the end of July 14, 2023. Liquidity is currently in surplus due to government spending and currency adjustment.

Looking ahead, while some liquidity tightening is anticipated in the Sep-Oct 2023 period during the festive season, RBI operations are expected to maintain the liquidity window closer to neutral.

## **Outlook –**

1. India's interest rate scenario hinges on two critical factors. Firstly, the August MPC meeting will assess the impact of rising domestic food inflation and consider its implications for policy decisions. Secondly, concerns arise from the narrower interest rate differentials between the US and India following the Fed's rate hike and Brent price increases, which have already led to rising yields.

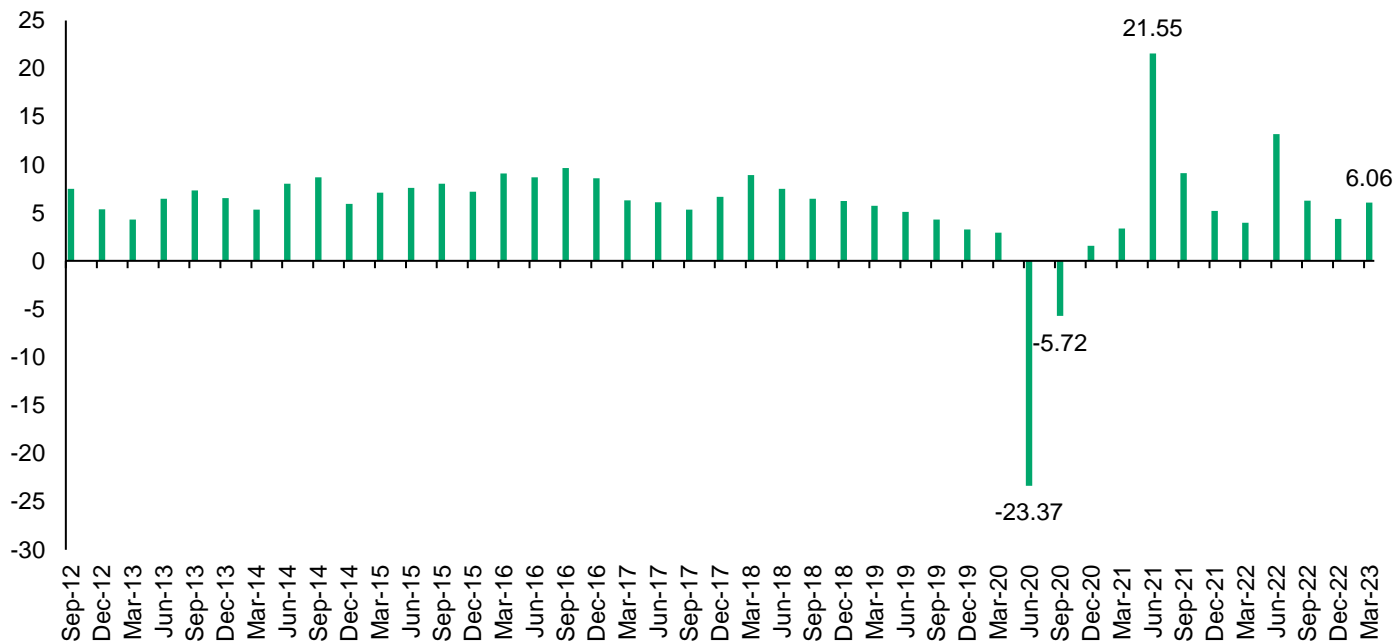
2. In the foreseeable future, there seems to be reduced potential for rate cuts in FY24 due to India's resilient economic growth, persistent core inflation, and global macro dynamics.

Source: PIB, RBI, Bloomberg, BOJ, FOMC, BOE, ECB, MOSPI. Data as on 31<sup>st</sup> July 2023.

# MACRO ECONOMIC INDICATORS

# India's GDP on the recovery path

India's GDP Growth (%) (YoY)



## Why this indicator matters?

GDP measures the health of the economy and determines the current economic phase.

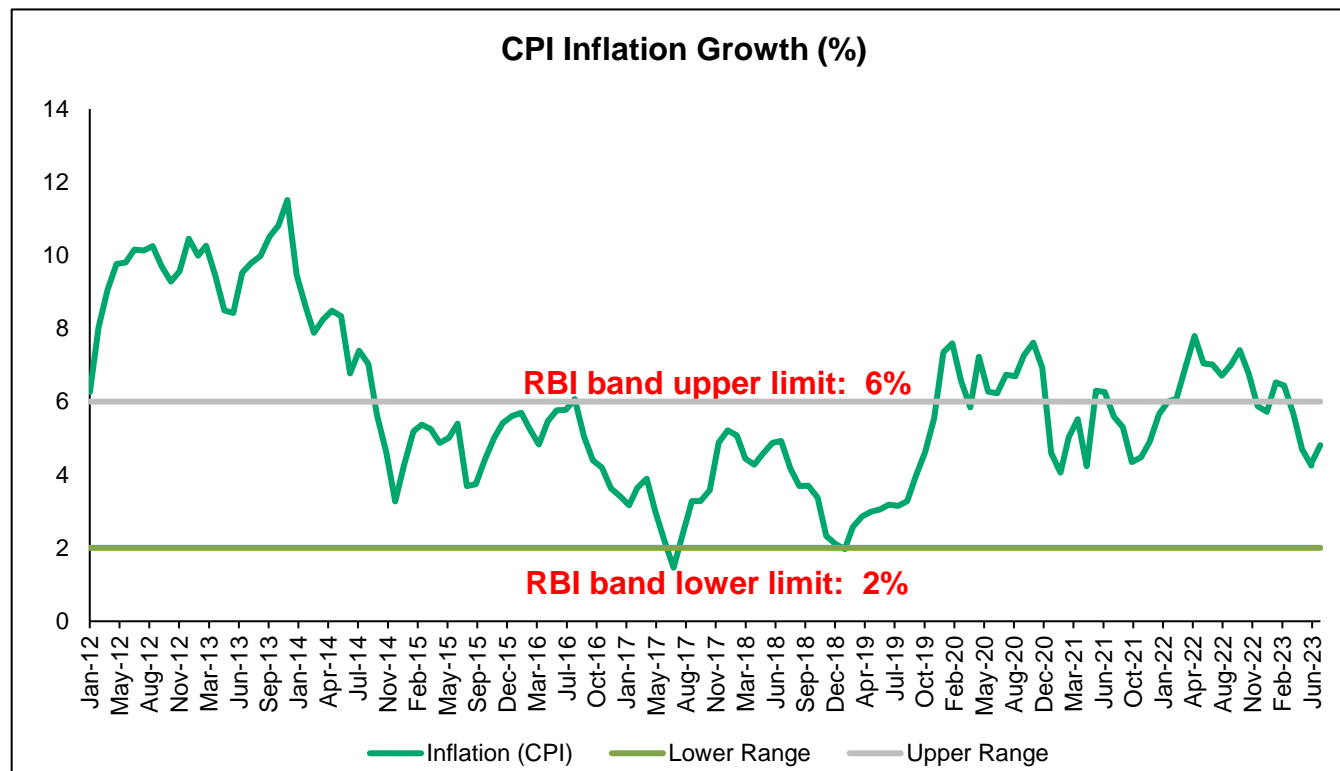
## What it means for investors?

The GDP growth rates are an important determinant of equity market growth and returns.

- India's 4QFY23 GDP growth recorded a stronger-than-expected 6.1% y-o-y. Growth in construction and financial services were the key surprises.
- 4QFY23 (Mar-2023) real GDP growth came in at 6.1% y-o-y, pushing the full year FY23 real GDP growth to 7.2%, versus the earlier estimate of 7%.

Source: Bloomberg, The Mint. Latest quarter Data as on 31st March 2023.

# Consumer Price Index Inflation



## Why this indicator matters?

CPI measures the prices of a basket of goods & services.

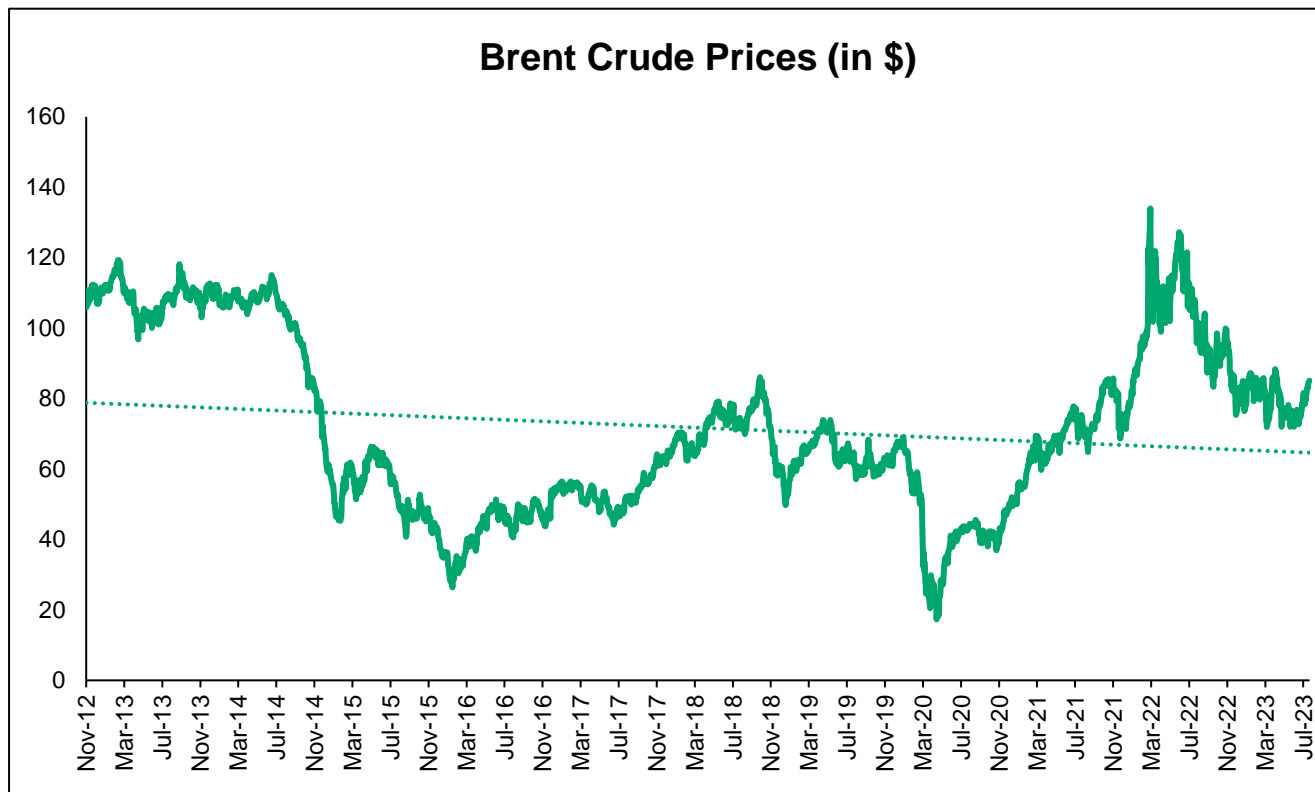
## What it means for investors?

CPI inflation, colloquially, indicates the rate of price rise in the consumption basket of consumers. It can have significant impact on investors' savings and investment value.

- The country's CPI inflation rose to a three-month high of 4.8% in June 2023, from 4.25% in May this year.
- The maximum upward pressure in current index came from food & beverages group contributing 1.62 percentage points to the total change. Year-on year inflation for the month stood at 5.57% compared to 4.42% for the previous month and 6.16% during the corresponding month a year before.

Source: Forbes Advisors, PIB. Data as of 31<sup>st</sup> July, 2023.

# Crude Oil Prices



## Why this indicator matters?

A rise or fall in crude oil prices affects the prices of various commodities.

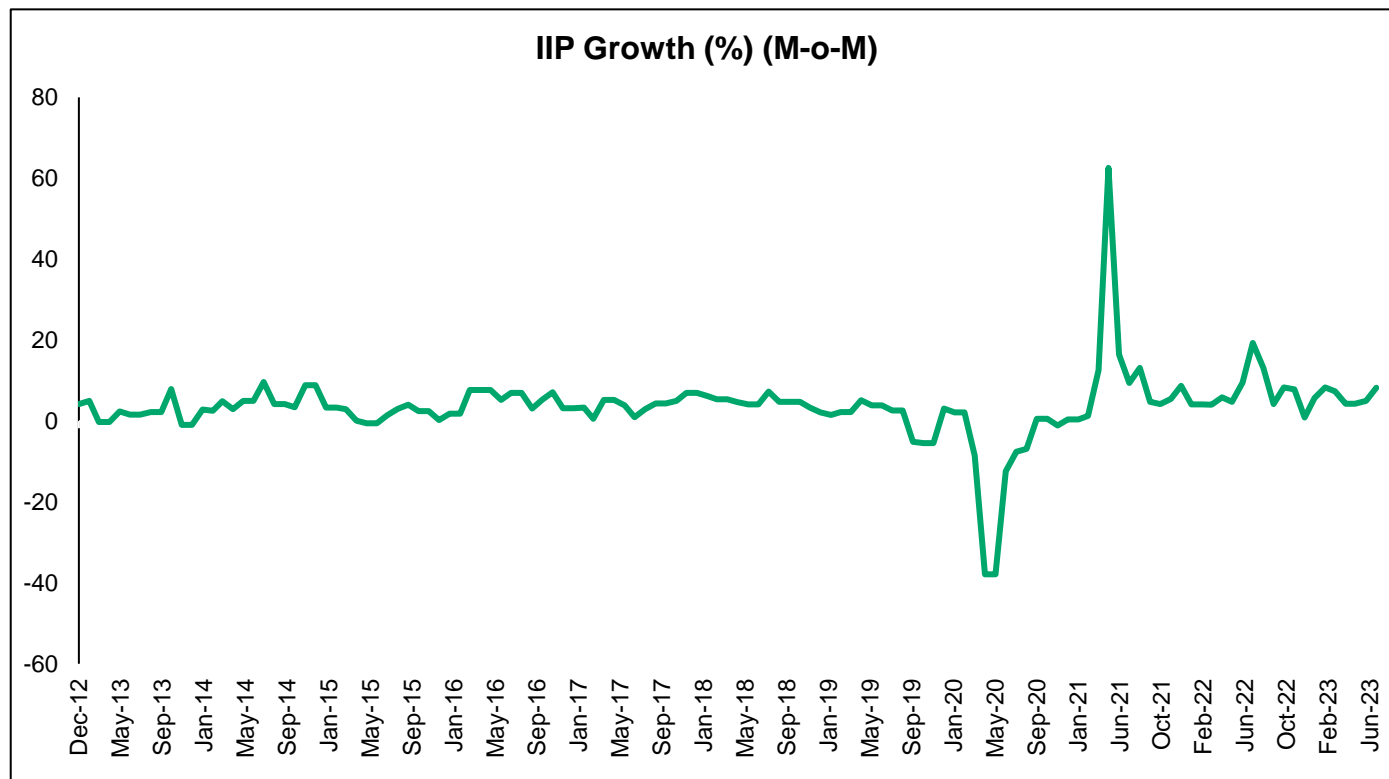
## What it means for investors?

Oil prices may have an impact on economy's current account deficit. Oil also impacts the input prices of commodities, impacting profitability of companies.

- On July 31, 2023, the Brent crude oil price stood at **\$85.09 per barrel, an increase of 12.4% from June 2023**— which is one of the most important benchmarks used as a reference for oil and gasoline prices.

Source: Bloomberg. Data as of 31<sup>st</sup> July 2023.

# Index of Industrial Production (IIP)



- IIP growth came in higher than expectations and positively recorded a growth of 8.2% in June vs 5% in May 23.

## Why this indicator matters?

IIP indicates changes in production levels of manufacturing and service industries.

## What it means for investors?

IIP is considered a lead indicator when it comes to corporate earnings as higher IIP tends to translate into higher earnings and revenues.

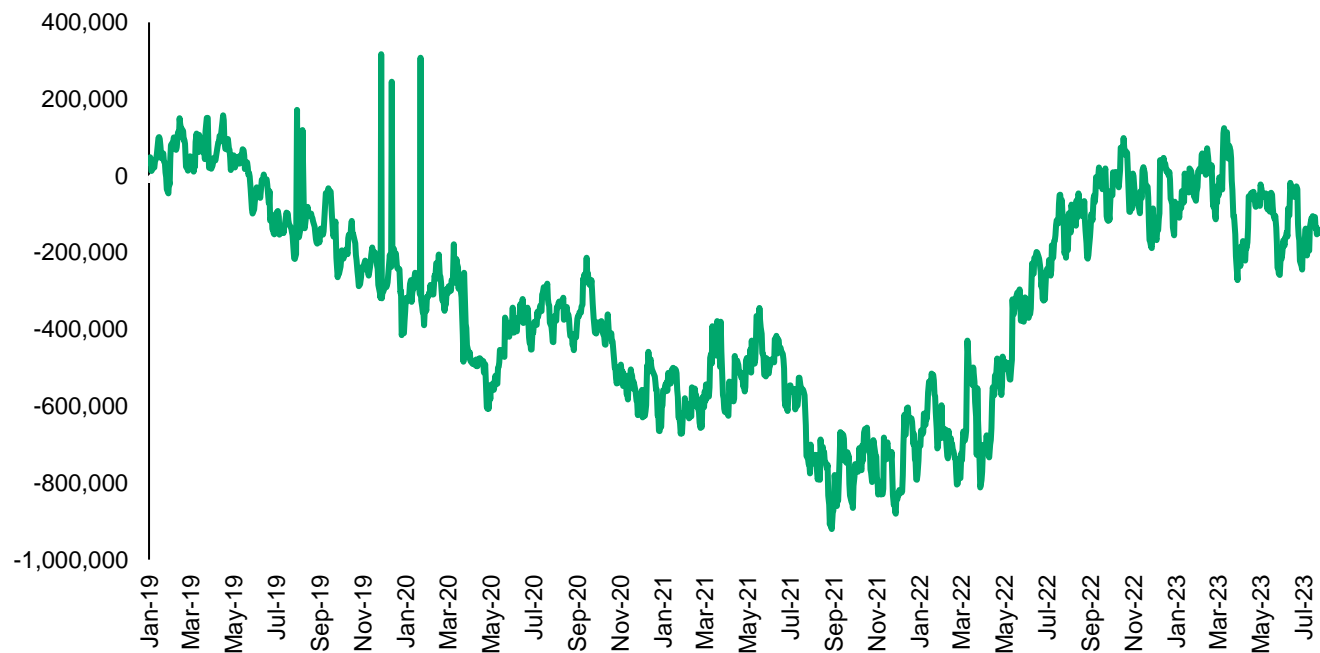
Source: Bloomberg. Data as on 30<sup>th</sup> June 2023.

\*8 core Industries are Natural Gas, Coal, Refinery Products, Crude Oil, Cement, Electricity, Steel, and Fertilizers.



# RBI liquidity status

RBI Liquidity Adjustment Facility (LAF)



## Why this indicator matters?

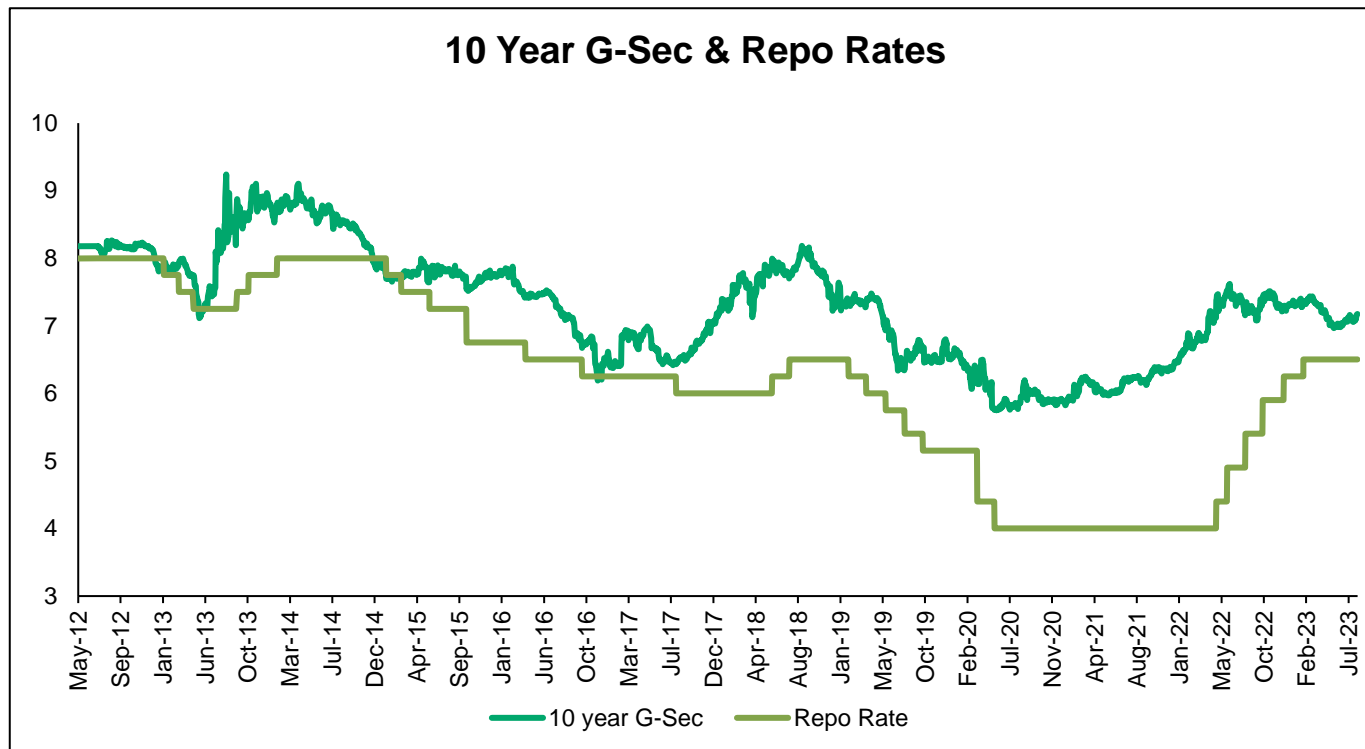
LAF helps RBI manage inflation by increasing or decreasing money supply in the economy.

LAF aims to bring stability to the economy by helping banks borrow money from RBI through repo or loan money to RBI through reverse repo.

- With large amounts of the Rs 2,000 denomination notes being deposited in banks and an increase in government spending, the surplus liquidity in the banking system has crossed Rs 2 lakhs crore mark.
- We expect some liquidity tightening in Sep-Oct 2023 period as festive season advances but also expect RBI's operations to keep the liquidity window closer to neutral.

Source: Bloomberg, Money Control. Data as on 31<sup>st</sup> July 2023.

# Interest Rates



## Why this indicator matters?

10-year G-secs are long term government securities whose interest rates are determined by the RBI.

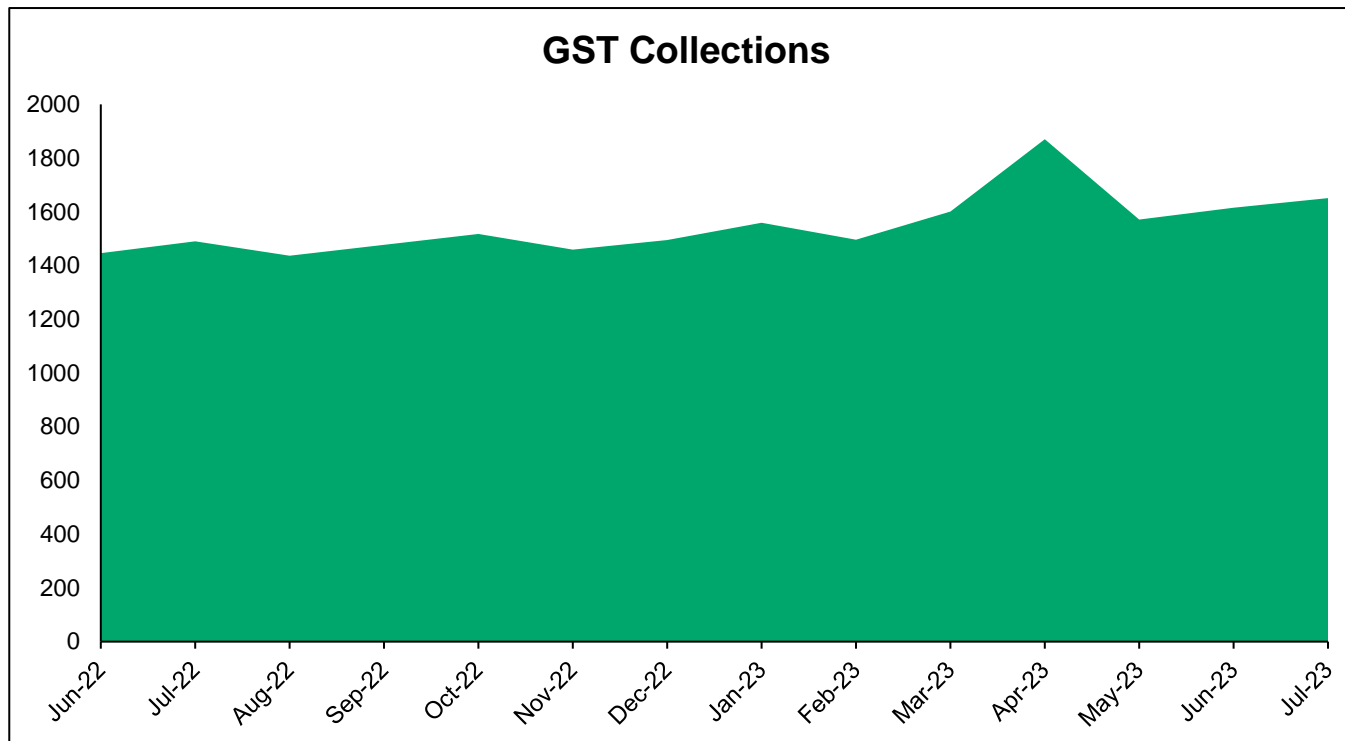
## What it means for investors?

The 10-year G-sec rate is considered the benchmark for setting interest rates across tenors and instruments.

- RBI in April 2023 Policy decided to keep the repo rate unchanged at 6.50% backed by the concerns on domestic outlook from global spillovers.
- In the current scenario, where we expect the banking system liquidity to remain neutral and with repo rate at 6.50%, with a high possibility of a long pause, we expect the yield curve to steepen.
- The spread between G-sec and Repo stands at 67 bps.

Source: Bloomberg. Data as on 31 July 2023.

# Monthly GST Collections



## Why this indicator matters?

GST is one of the major sources of revenue for the government.

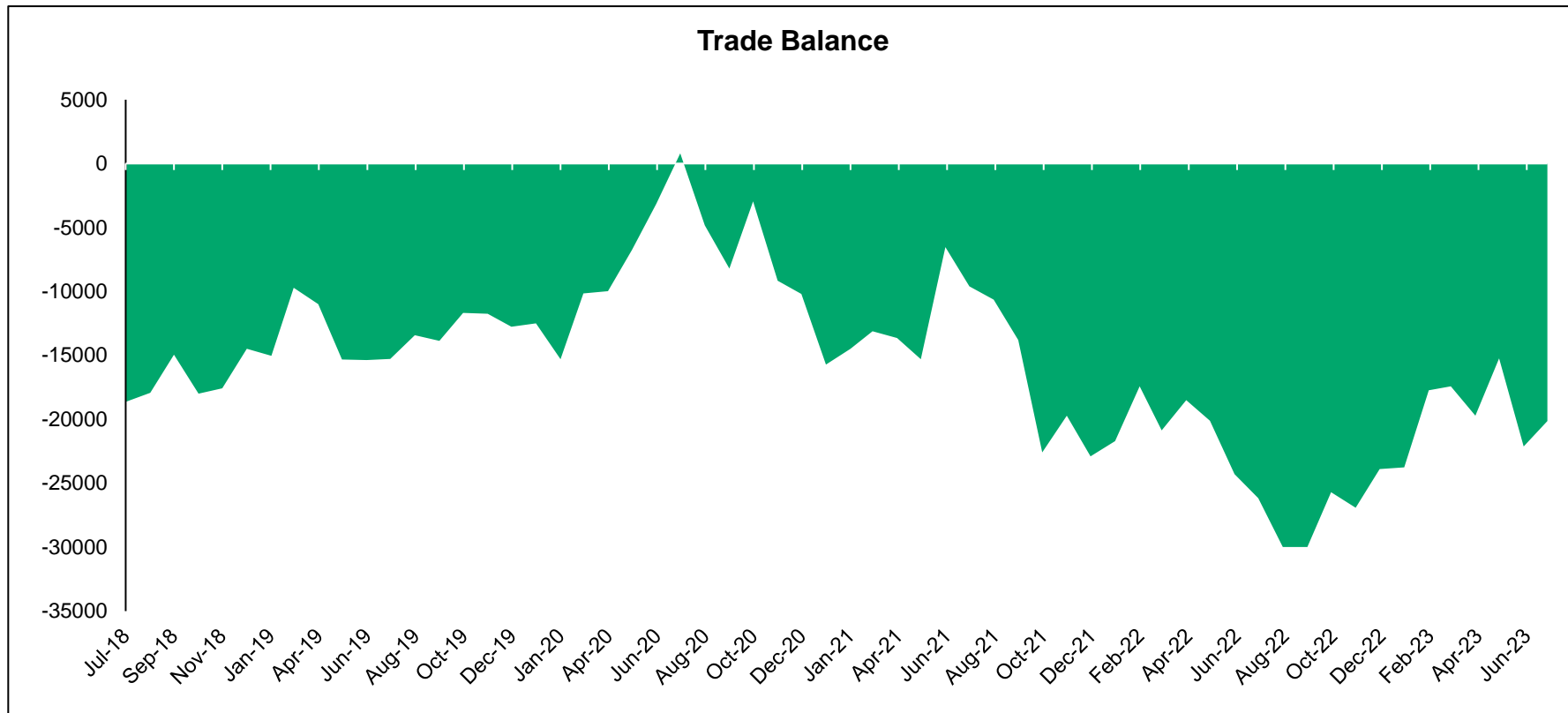
## What it means for investors?

Recovery in GST is considered a good proxy for the revival of state finances and GDP.

- July GST collections showed an increase of 10.81% Y-o-Y.
- GST collection for July 2023 touched 1.65 lakh crore, slight increase from 1.61 Lakh Crore collected in June 2023.

Source: Bloomberg. Data as of 31<sup>st</sup> July, 2023.

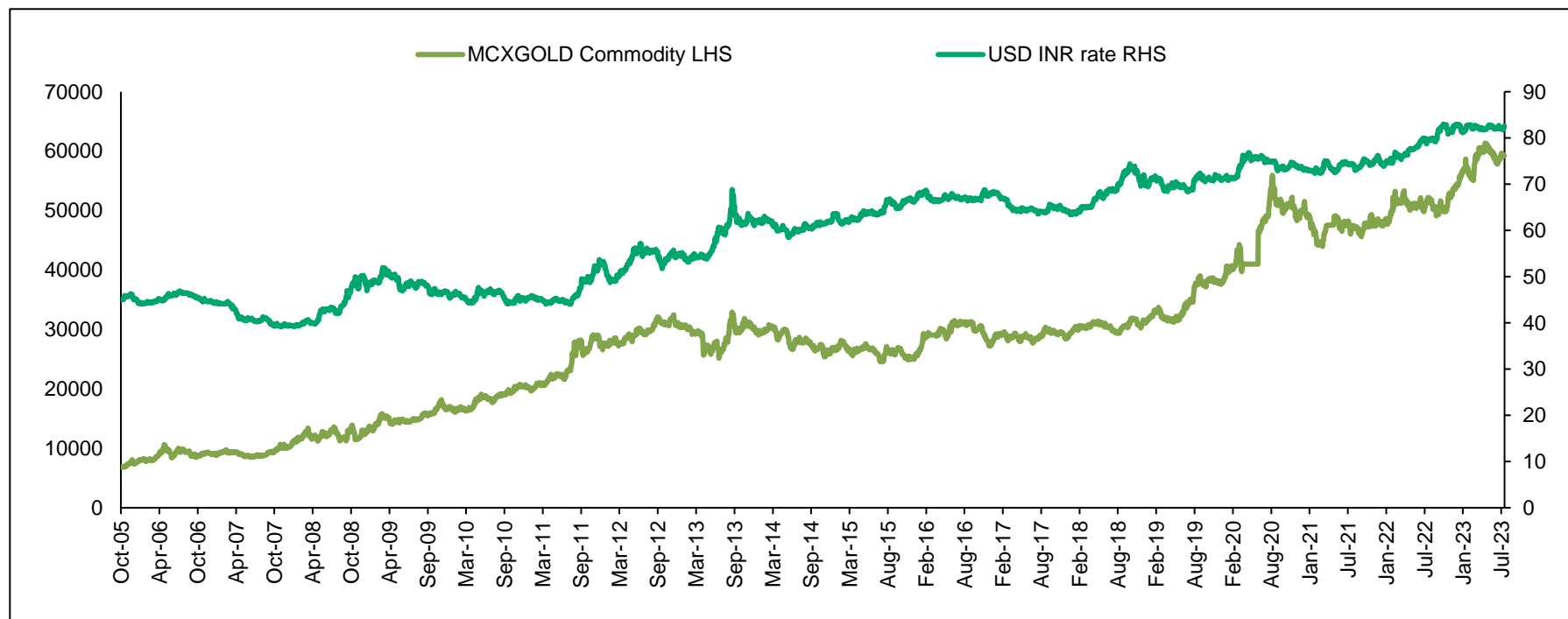
# Balance of Trade



- India's trade deficit decreased to USD 20.12 billion in June 2023, from USD 26.10 billion in the same month of the previous year.

Source: Bloomberg. Latest Available Data as of 30<sup>th</sup> June 2023.

# USD-INR Movement & Gold Prices

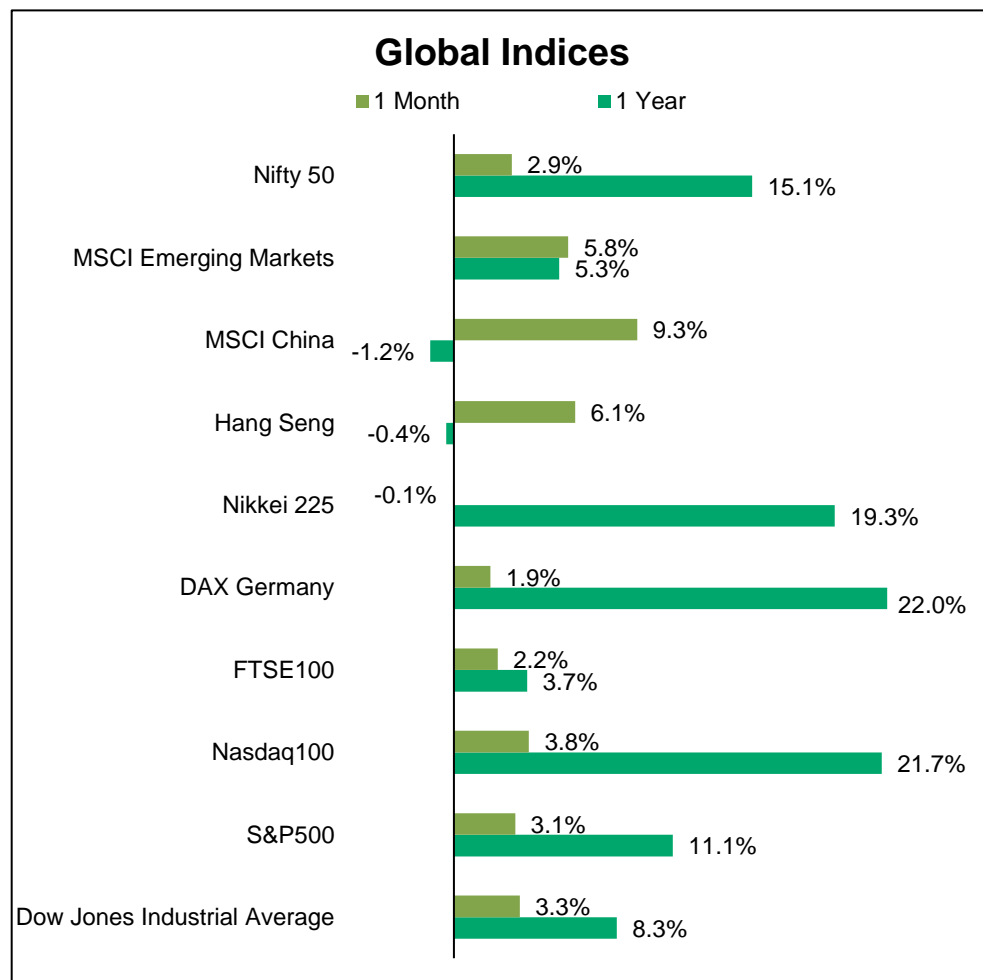


- Rupee closed on 82.25 on the last day of July 2023, rising 3.77% from July 2022.
- Economic Survey 2022-23 said the domestic unit may remain under pressure on account of plateauing of exports and subsequent widening of the current account deficit.

Source: Economic Survey 2022-23, Bloomberg. Data as of 31<sup>st</sup> July, 2023

# EQUITY AND GLOBAL INDICES

# Global Indices



Global markets were up ~3.3% (MSCI World) through the month of July. Most markets ended in the green with the S&P 500 rising 3% while the MSCI EM index was up 5.8%. The Nikkei was largely flat for the month.

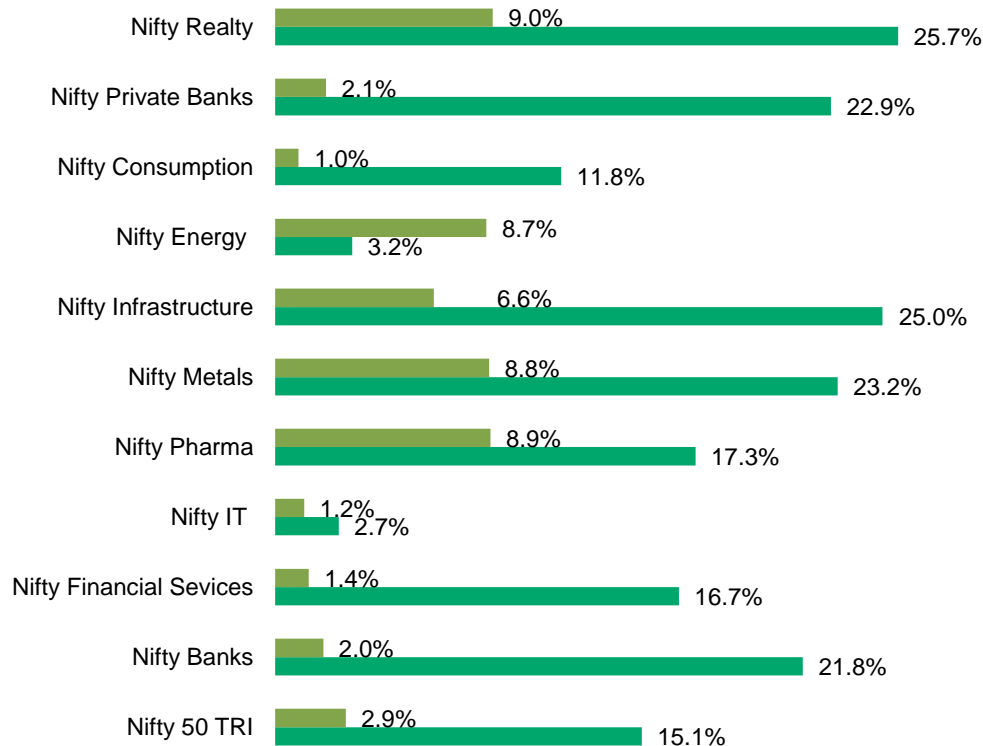
The last week of July was eventful for markets as the 3 major central banks globally – **the Fed, the ECB and the Japanese central bank raised rates/expanded** the corridor effectively signalling a tighter monetary regime. In our view, this could mean a near term tempering of the rally and some rotation back towards large caps.

Source: Bloomberg; Schroders. Data as of 31<sup>st</sup> July 2023.  
Past Performance may or may not be sustained in future.

# Equity Indices

## Sector Indices

■ 1 Month ■ 1 Year



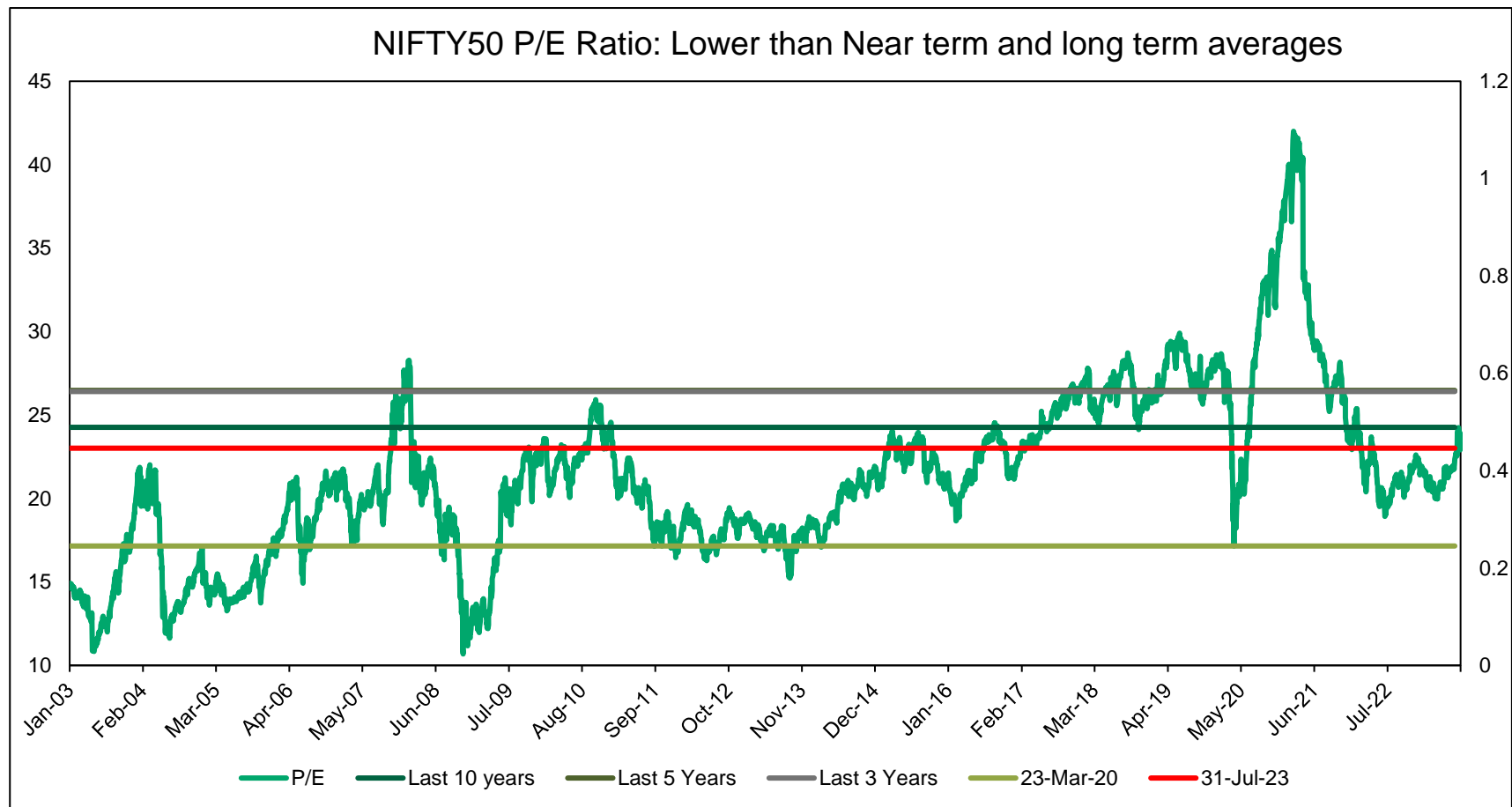
- All sector indexes ended the month in positive.
- The top performer for the month were **Nifty Realty (9.0%)** and **Nifty Pharma (8.9%)**
- On 1 year basis, **Nifty Realty** and **Nifty Infrastructure** were highest gainers while **Nifty IT** and **Nifty Energy** ended lowest for the year.

Source: Bloomberg. Data as of 31<sup>st</sup> July 2023.

Past Performance may or may not be sustained in future.



# PE Valuations – Nifty 50



**The current p/e valuation for Nifty 50 is lesser than the historic 3, 5 & 10 years average.**

Source: NSE India. Data as of 31<sup>ST</sup> July 2023.

Past Performance may or may not be sustained in future.

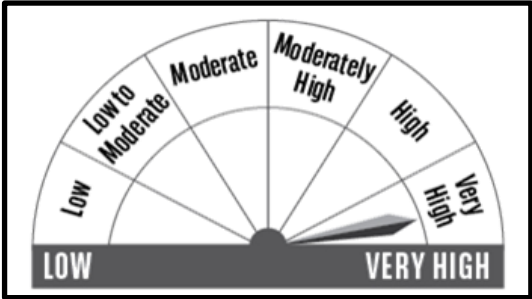
# Sector Positioning of Equity Portfolios

GICS Sectors	Baroda BNP Paribas Large Cap Fund	Baroda BNP Paribas Mid Cap Fund	Baroda BNP Paribas Flexi Cap Fund	Baroda BNP Paribas Focused Fund	Baroda BNP Paribas India Consumption Fund	Baroda BNP Paribas Banking & Financial Services Fund	Baroda BNP Paribas Business Cycle Fund	Baroda BNP Paribas Multi Cap Fund	Baroda BNP Paribas Large & Mid Cap Fund	BBNP Paribas ELSS Fund	Baroda BNP Paribas Value Fund
Consumer Discretionary	12.2%	15.8%	9.8%	14.4%	37.3%	0.0%	9.9%	13.6%	9.4%	10.6%	7.4%
Consumer Staples	8.6%	4.8%	14.4%	6.6%	36.1%	0.0%	13.4%	7.7%	4.4%	7.6%	8.2%
Energy	8.9%	3.9%	5.6%	7.5%	0.0%	0.0%	9.0%	3.4%	4.8%	4.8%	7.6%
Financials	30.1%	24.4%	28.5%	30.4%	9.1%	93.2%	29.4%	16.9%	27.1%	28.7%	28.4%
Health Care	4.0%	9.6%	3.4%	4.1%	0.0%	0.0%	10.8%	10.5%	6.9%	7.2%	7.4%
Industrials	8.9%	17.4%	10.5%	16.2%	1.9%	0.0%	7.2%	12.3%	14.2%	12.3%	2.2%
Information Technology	10.2%	4.1%	8.1%	6.4%	0.0%	0.0%	6.9%	7.6%	6.2%	8.7%	2.0%
Materials	3.5%	9.8%	5.6%	7.4%	4.7%	0.0%	5.2%	11.9%	9.5%	6.8%	6.1%
Real Estate	0.0%	2.1%	3.8%	0.0%	0.0%	0.0%	0.0%	3.0%	3.8%	2.9%	0.0%
Communication Services	2.1%	1.3%	1.7%	0.0%	7.0%	0.0%	1.1%	2.6%	1.4%	3.0%	1.1%
Utilities	3.6%	5.7%	4.5%	1.9%	0.0%	0.0%	3.1%	4.4%	7.6%	3.3%	11.1%
Cash/Debt/Derivatives	7.80%	1.05%	4.08%	5.32%	3.71%	6.83%	3.86%	6.10%	4.83%	4.16%	18.44%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Top 5 sectors with largest holdings. Excluding cash/debt/derivatives											

Source: Internal. Data as of 31<sup>st</sup> July 2023. Sector classification as per GICS (Global Industry Classification Standard) sectors.

'Past Performance may or may not be sustained in future. The sector(s)/stock(s) mentioned in this document do not constitute any recommendation of the same and Baroda BNP Paribas Mutual Fund may or may not have any future position in these sector(s)/stock(s).

# Product Labeling

<p><b>Baroda BNP Paribas Large Cap Fund</b> (An Open-ended Equity Scheme predominantly investing in large cap stocks)</p> <p>This product is suitable for investors who are seeking*: - Wealth Creation in long term.</p> <p>- Investments in diversified and actively managed portfolio of equity and equity related securities with bias to large cap companies.</p>	<p><b>Baroda BNP Paribas Large &amp; Mid Cap Fund</b> (An open-ended Equity scheme investing in both large cap and mid cap stocks)</p> <p>This product is suitable for investors who are seeking*: - Capital appreciation over long term.</p> <p>- Investment predominantly in equity and equity related instruments of large and midcap stocks.</p>	<p><b>Baroda BNP Paribas Mid Cap Fund</b> (An Open-ended Equity Scheme predominantly investing in mid cap stocks)</p> <p>This product is suitable for investors who are seeking*: - Wealth Creation in long term.</p> <p>- Investments in companies in mid capitalization segment.</p>
<p><b>Baroda BNP Paribas Multi Cap Fund</b> (An open-ended equity scheme investing across large cap, midcap and small cap stocks)</p> <p>This product is suitable for investors who are seeking*: -Capital appreciation over long term.</p> <p>- Investments predominantly in equity and equity related instruments.</p>	<p><b>Baroda BNP Paribas ELSS Fund</b> (An Open-ended Equity Linked Saving Scheme with a statutory lock in of 3 years and tax benefit)</p> <p>This product is suitable for investors who are seeking*: -Wealth Creation in long term.</p> <p>-Investments in diversified and actively managed portfolio of equity and equity related securities across market capitalization along with income tax rebate</p>	<p><b>Baroda BNP Paribas Business Cycle Fund</b> (An open-ended equity scheme following the Business Cycles theme)</p> <p>This product is suitable for investors who are seeking*: -Long term wealth creation.</p> <p>-Investment predominantly in equity &amp; equity related securities, including equity derivatives in Indian markets with focus on riding business cycles through dynamic allocation between various sectors &amp; stocks at different stages of business cycles in the economy</p>
<p><b>Baroda BNP Paribas Focused Fund</b> [An Open-ended Equity Scheme investing in maximum 25 stocks across market capitalization (i.e., multi cap stocks)]</p> <p>This product is suitable for investors who are seeking*: - Wealth Creation in long term.</p> <p>- Investment primarily in equity and equity-related securities of upto 25 companies and the rest in debt securities &amp; money market instruments.</p>	<p><b>Baroda BNP Paribas Banking and Financial Services Fund</b> (An open-ended equity scheme investing in the Banking and Financial Services sector)</p> <p>This product is suitable for investors who are seeking*: -Capital appreciation over long term.</p> <p>- Investment predominantly in equity and equity related securities of companies engaged in the Banking &amp; Financial Services Sector.</p>	
<p><b>Baroda BNP Paribas India Consumption Fund</b> (An open-ended equity scheme following consumption theme)</p> <p>This product is suitable for investors who are seeking*: -Wealth creation in long term.</p> <p>-Investment primarily in equity and equity-related securities and the rest in debt securities &amp; money market instruments to generate capital appreciation and provide long-term growth opportunities by investing in companies expected to benefit by providing products and services to the growing consumption needs of Indian consumers.</p>	<p><b>Baroda BNP Paribas Value Fund</b> (An open-ended equity scheme following a value investment strategy)</p> <p>This product is suitable for investors who are seeking*: -Capital appreciation over long term.</p> <p>- Investment predominantly in equity and equity related securities by following a value investment strategy</p>	

\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them. Investors understand that their principal will be at VERY HIGH RISK. Data as on 31<sup>st</sup> July 2023.

# Disclaimers

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

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**THANK YOU**