

# MONTHLY OUTLOOK

AUGUST 2022



Together for more

# Equity Markets Outlook

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- NIFTY 50 closed 3.5% for the month, outperforming US and other developed markets.
- Markets gave away gains post FED Chair's comments that Central Bank won't back off in its fight against inflation. Powell was also more candid that the cost of reducing inflation would be not only below-trend growth but also "some pain" for businesses and households.
- RBI hiked repo rate by 50 bp the third, taking the policy rate to 5.4%.
- RBI has maintained its growth estimate at 7.2% noting that high frequency indicators are strong and capacity utilization is above long period average.
- 1Q results season was broadly inline. NIFTY earnings saw marginal cut of 2.7% for FY23E. Profit in 1QFY23 was entirely driven by Banking & Financial Services, aided by a moderation in credit cost. Oil & Gas dragged the aggregates while Consumer, Metals and Cement have beaten expectations. IT earnings were flat in 1QFY23.
- FPIs turned net buyers for the month of August with net inflows of USD 5.7bn\$ while DIIs sold stocks worth USD880mn.
- Strong DII flows, expectations of Inflation having peaked and likely strong consumption demand ahead of upcoming festival season is keeping sentiments high.

Sources: Kotak Securities, Motilal Oswal Securities. Data as on 30<sup>th</sup> August 2022

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# Fixed Income Markets Outlook

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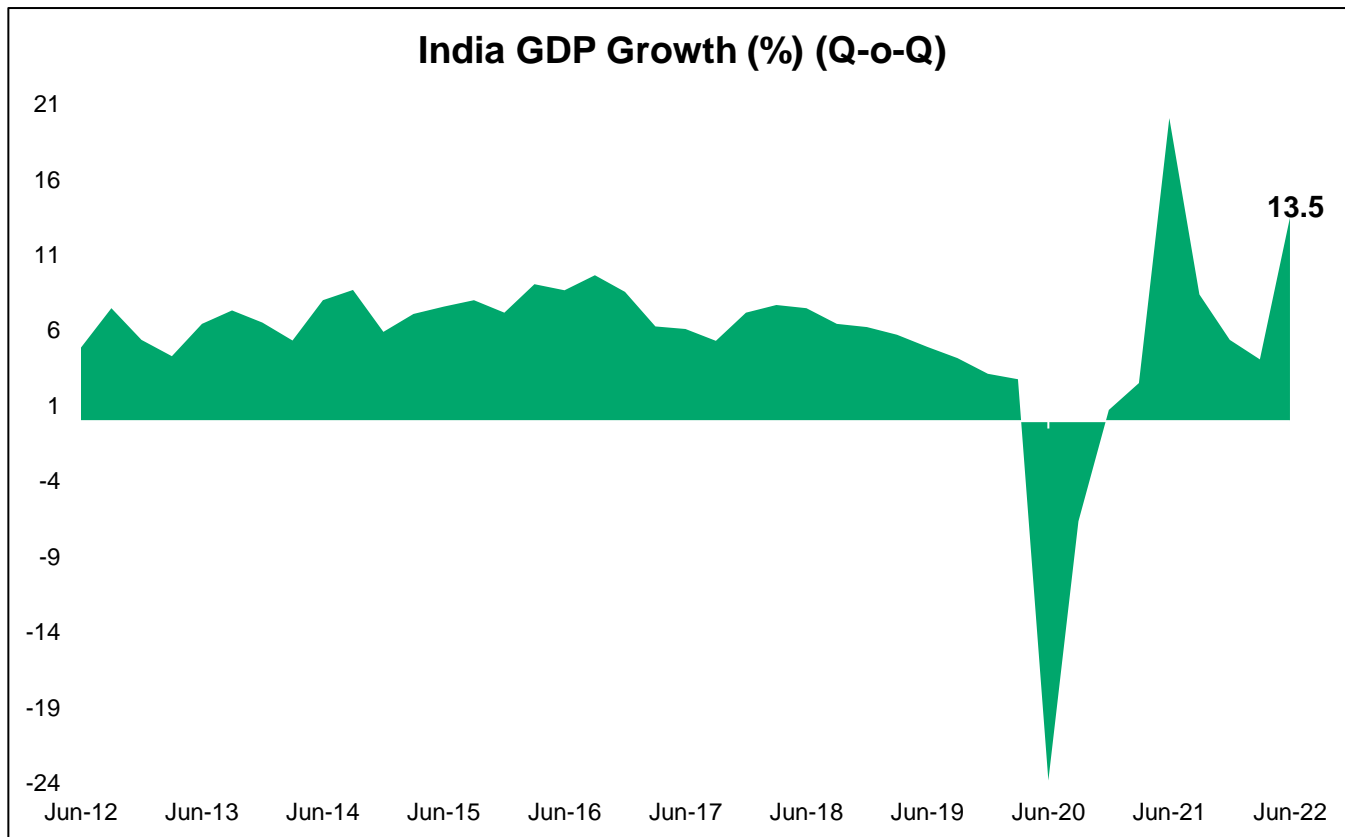
- Debt market witnessed a further rally in the month of August due to the expectations of a recession in the US, the softening of crude and commodity prices and the news on inclusion of Indian bond in JP Morgan emerging market bond index.
- Consumer Price Index (CPI) inflation soften to 6.7% YoY in July 22 due to fall in food inflation.
- April-July fiscal deficit was at 20.5% of FY23 target. Tax collection remained strong particularly the income tax and the corporate tax collection which grew by 35% and 50% YoY respectively.
- The **Monetary Policy Committee (MPC)** increased the REPO rate by 50bps to 5.40%. Therefore, SDF rate and MSF rate increased to 5.15% and 5.65% respectively. CRR remains unchanged at 4.5%.
- The Gross domestic product (GDP) growth projection remains unchanged at 7.2% with risk evenly balanced. Better prospects in rural economy and rebound in contact-based services, likely to bolster the GDP.
- MPC kept inflation forecast unchanged at 6.7% for FY23.
- We expect the 10-year yield to trade in the range of 7.25%-7.50% in near term due to concern on higher supply, hawkish RBI, higher inflation and sharp increase in rates by US central bank.

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Source: RBI & Bloomberg. Data as on 30<sup>th</sup> August 2022.

# MACRO ECONOMIC INDICATORS

# India's GDP on the recovery path



## Why this indicator matters?

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

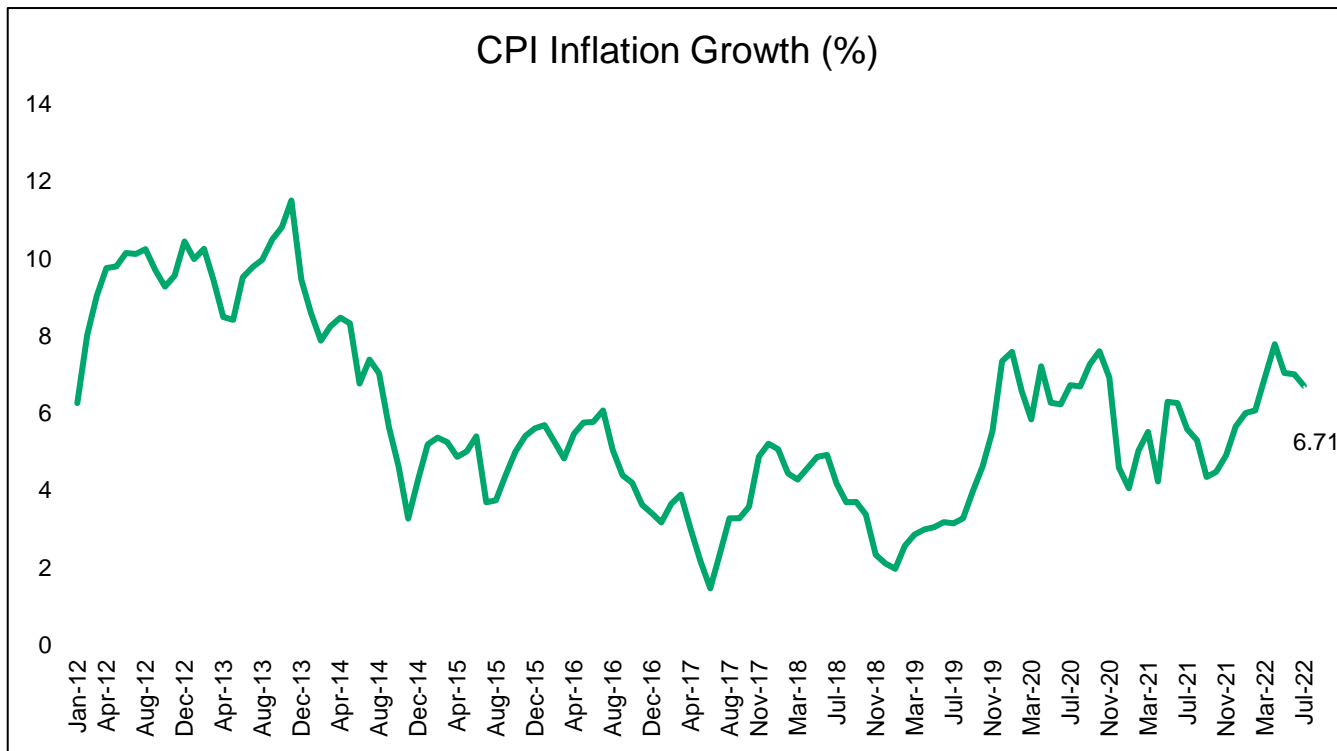
## What it means for investors?

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

- At \$ 3.5 trillion, the Indian GDP has surpassed that of the UK, to become the fifth largest economy
- **The IMF has forecast the GDP growth for India to be 7.4% for FY23**

Source: Bloomberg. Data as on 30<sup>th</sup> June 2022

# Consumer Price Index Inflation



- CPI inflation softened to 6.7% YoY in July 22 due to fall in food inflation
- Recent softening of crude and commodity and international food prices could reduce the inflation further
- MPC kept inflation forecast unchanged at 6.7% for FY23. (Assuming normal monsoon and crude oil prices \$105 per barrel)

Source: Bloomberg. Data as of 29<sup>th</sup> July 2022

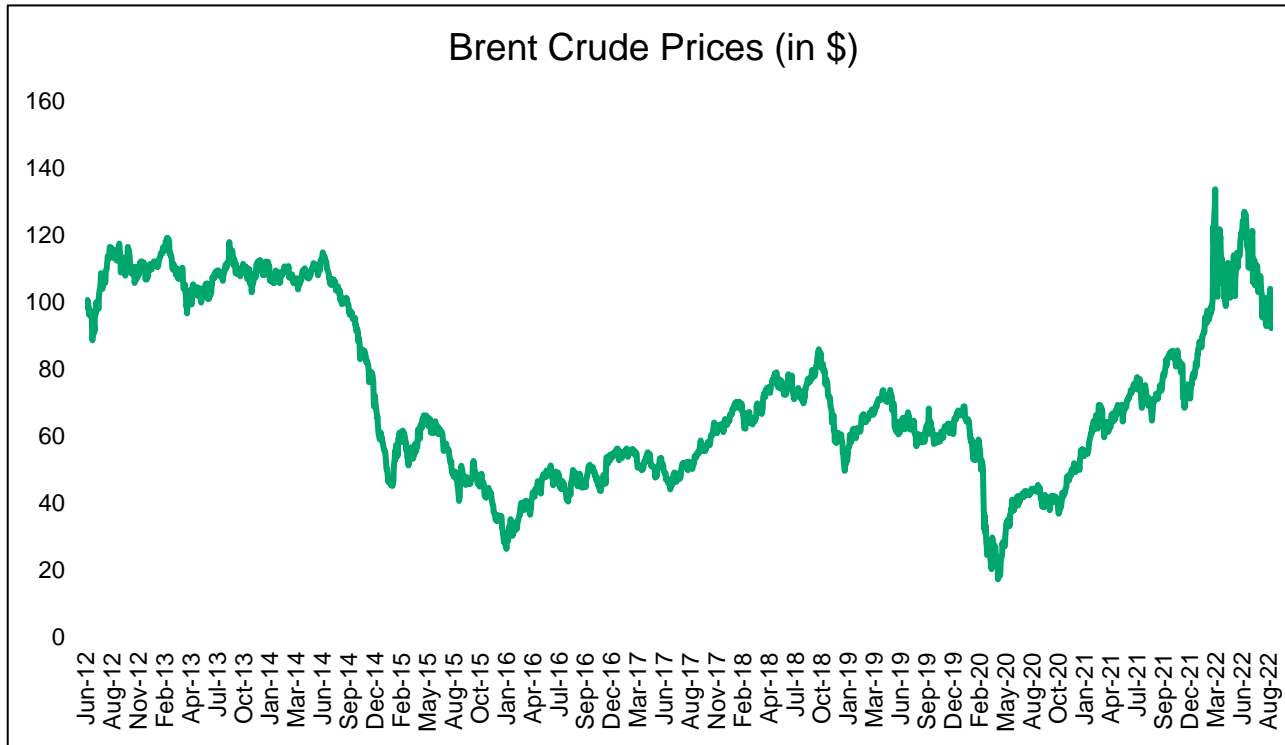
## Why this indicator matters?

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.

# Crude Oil Prices



- Crude oil prices declined by 11% to US \$ 96 per barrel in August 2022
- **Crude oil prices are at a 7-month low**
- Fall in the prices is mainly due to the concerns over the global economic slowdown and weaker demand.

Source: Bloomberg. Data as of 30<sup>th</sup> August 2022

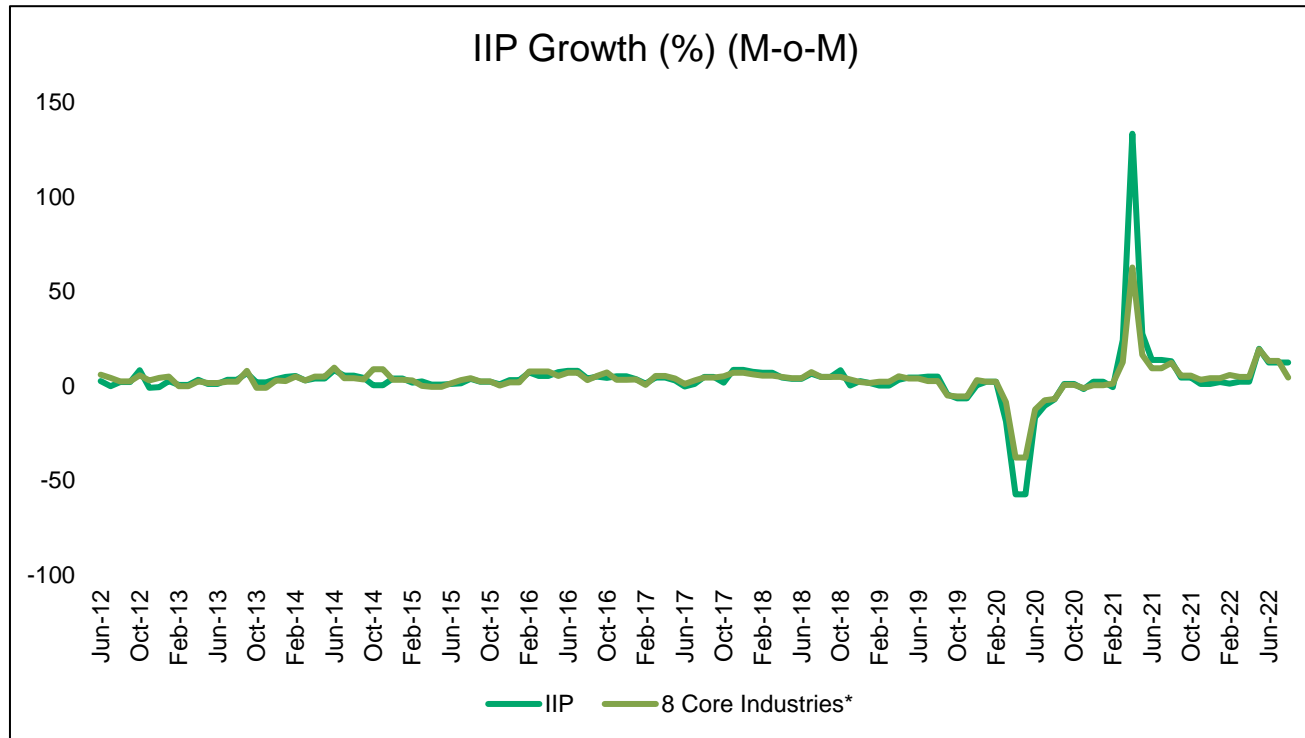
## Why this indicator matters?

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.

# Index of Industrial Production (IIP)



- IIP growth tapered in June'22 to 12.3% YoY against a 19.6% growth in the previous month. However, it comes on a strong base of 13.8% in June 2021.
- Growth was low as manufacturing and mining tapered on the back of lower output amidst supply chain constraints.

Source: Bloomberg. Data as on 30<sup>th</sup> June 2022

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

## Why this indicator matters?

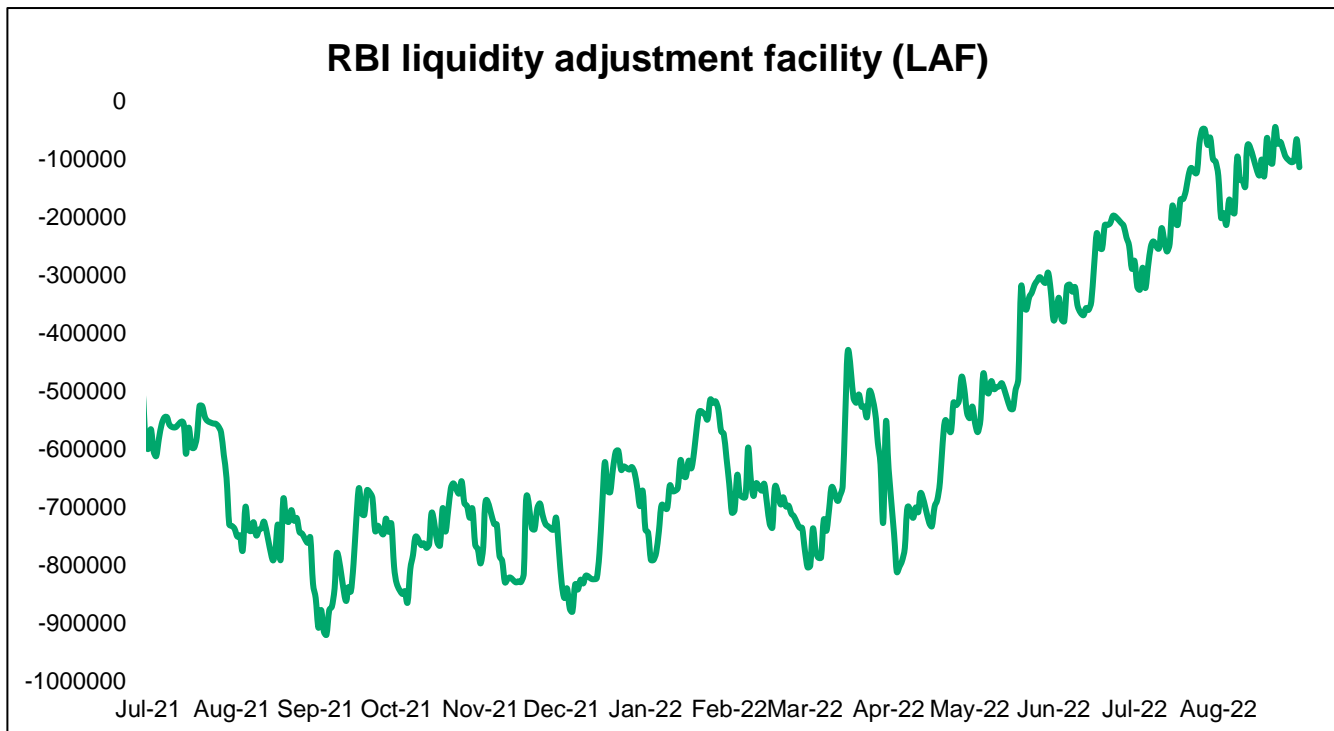
IIP indicates changes in production levels of manufacturing and service industries.

## 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.



# RBI liquidity status



- The net LAF continue to be in the negative territory indicating excess liquidity in the economy
- However, liquidity tightened due to advance tax out flows and GST payment

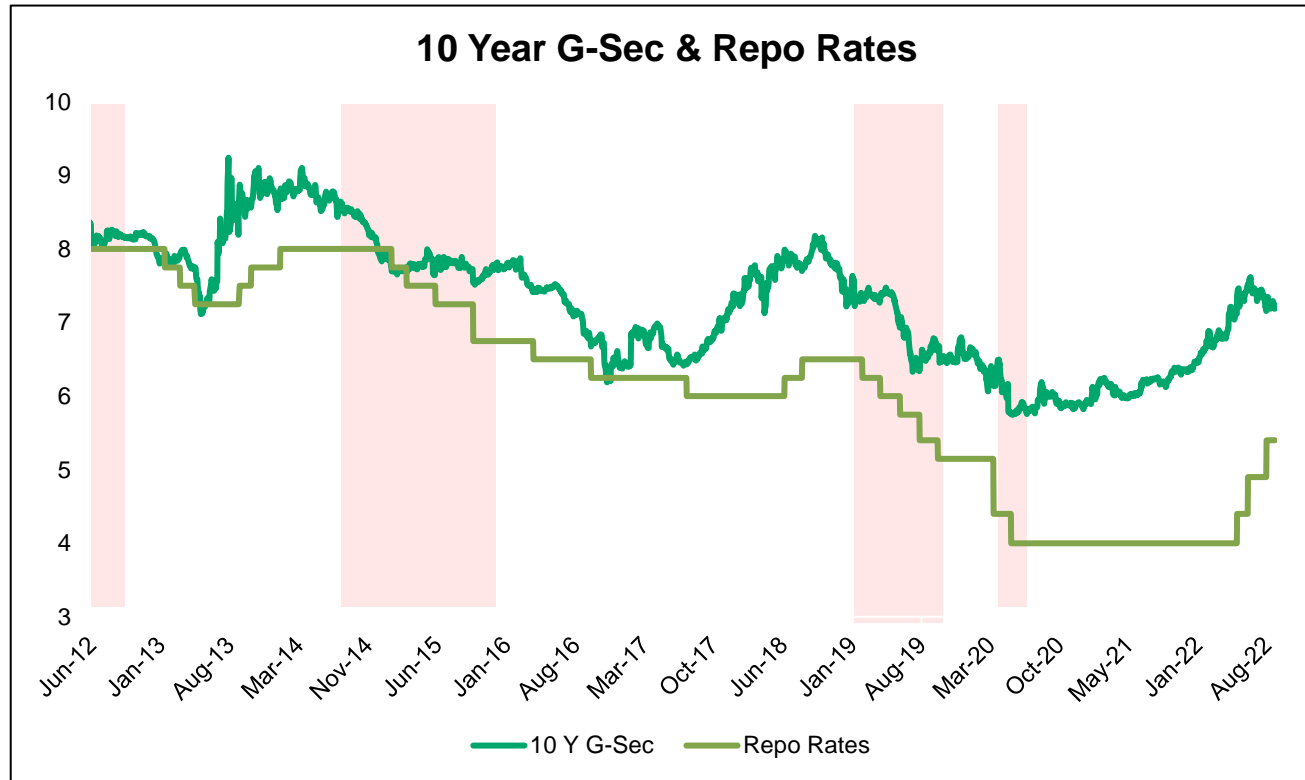
## Why this indicator matters?

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

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

Source: Bloomberg Data as on 30<sup>th</sup> August 2022

# Interest Rates



- 10 Year G-sec Yield are up by almost 86 bps in the CYTD period
- The current repo rate at 5.40% (after the August hike) makes it higher than the rate in pre-pandemic 2020.
- The spread between G-sec and Repo is around 230 bps

## Why this indicator matters?

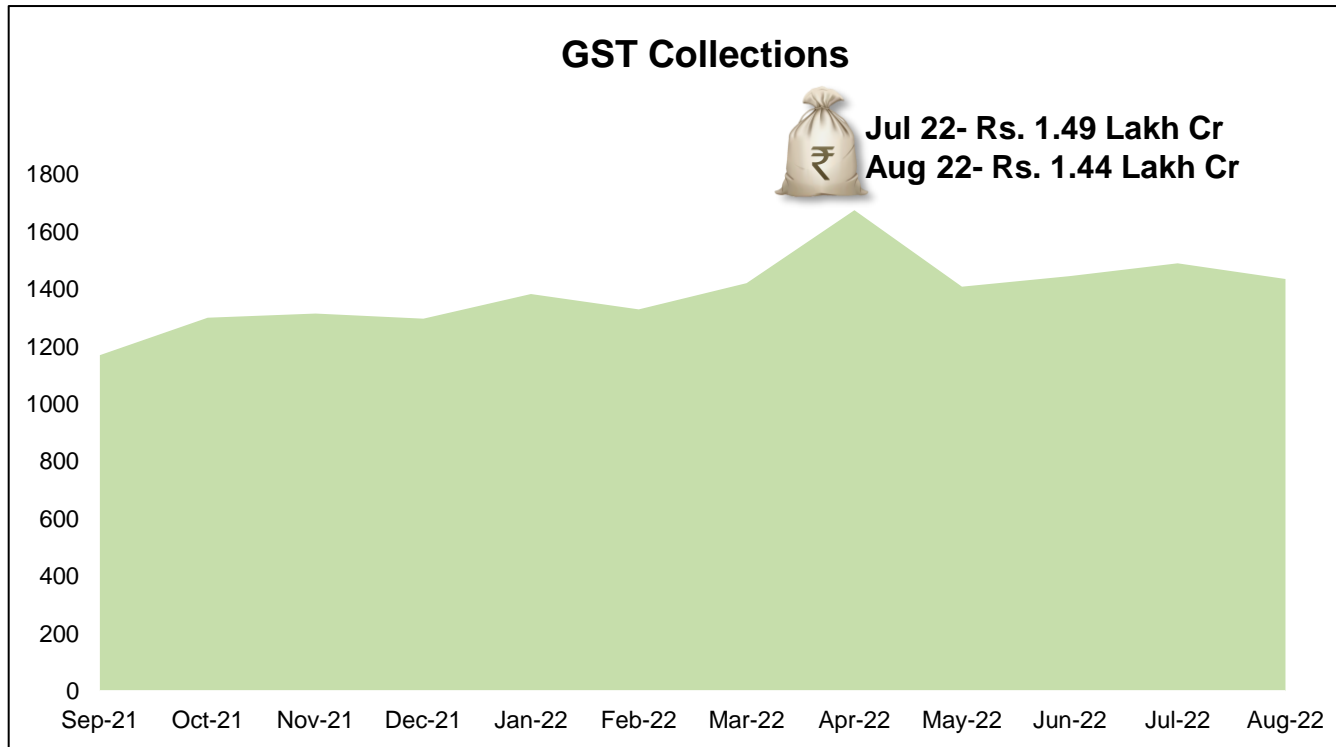
10-year G-secs are long term government securities whose interest rates are determined by the RBI.

## What it means for investors?

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

Source: Bloomberg Data as on 30<sup>th</sup> August 2022

# Monthly GST Collections



## Why this indicator matters?

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

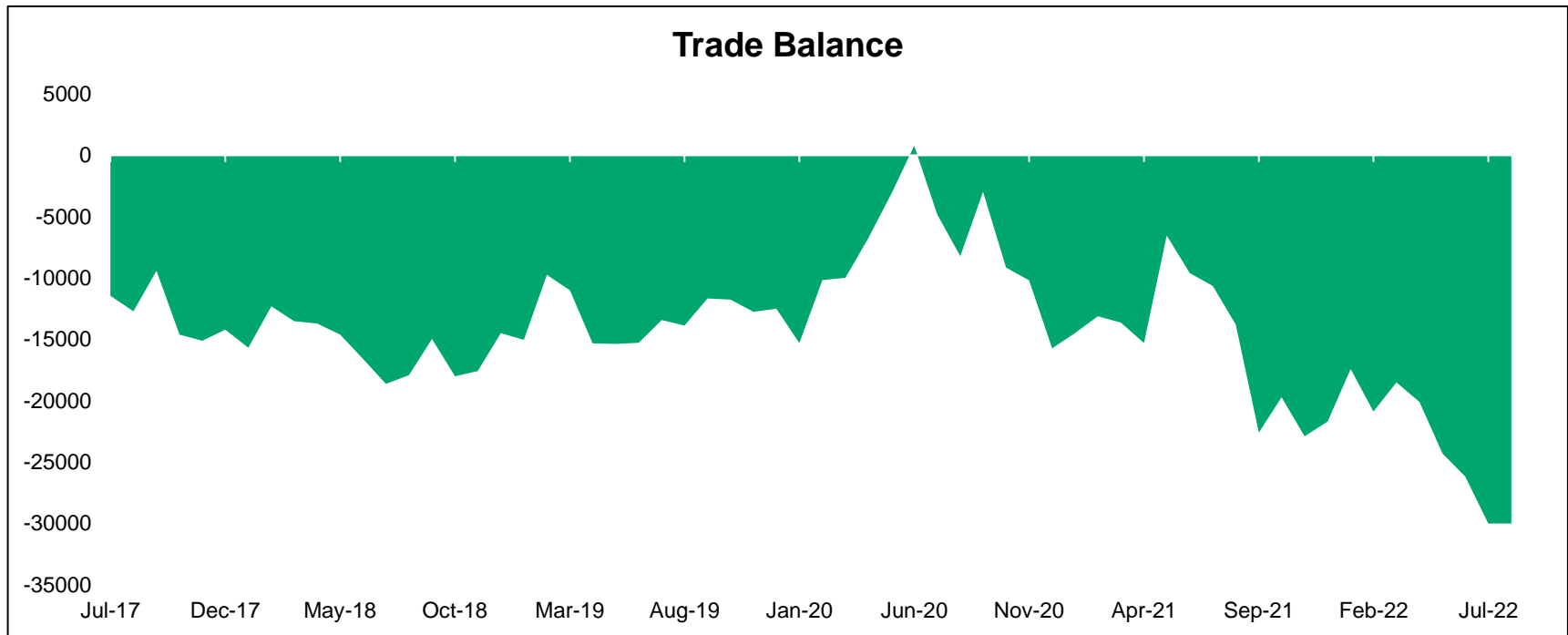
## What it means for investors?

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

- GST collections remained healthy with more than 1.4 crores of collection for the 6<sup>th</sup> straight month
- Collections are up by more than 40% since the pandemic levels

Source: Bloomberg. Data as of 30<sup>th</sup> August 2022

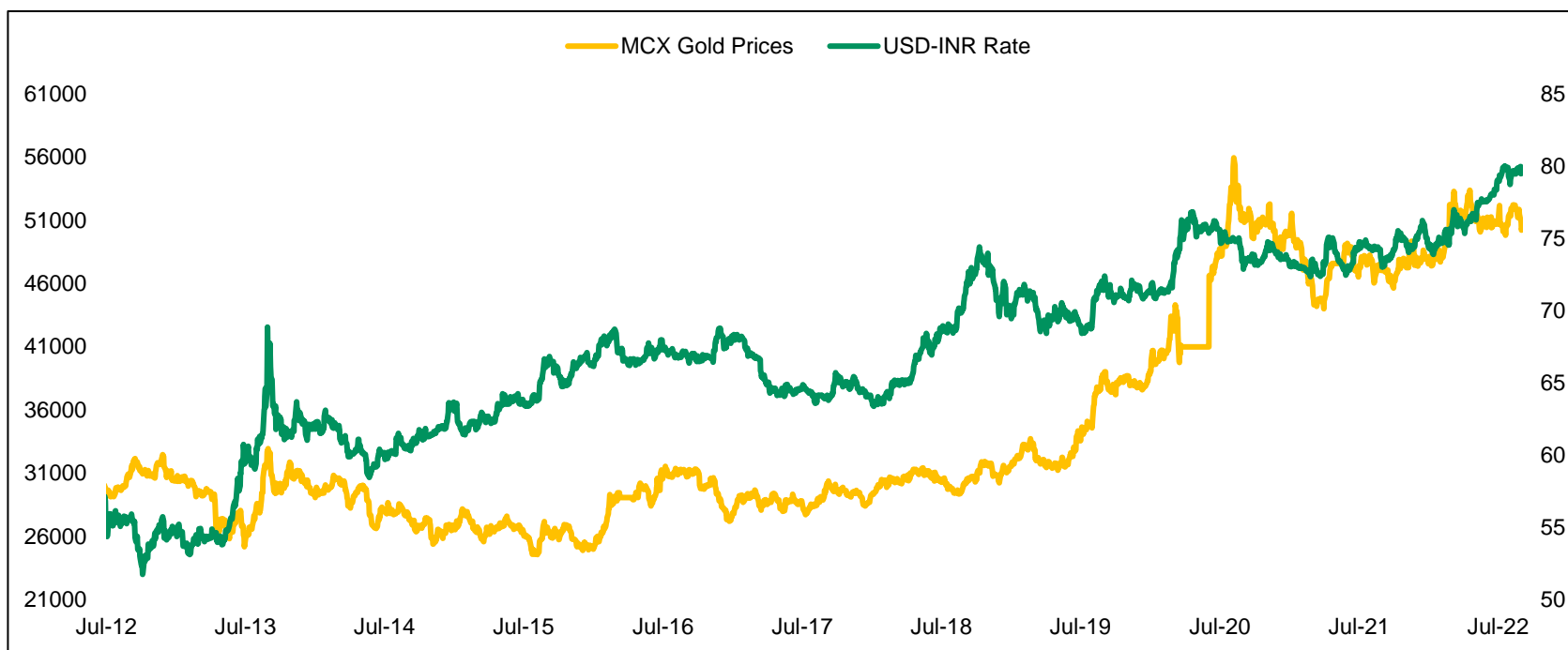
# Balance of Trade



- The trade deficit for India slightly increased to \$ 31.02 Billion in July from \$ 26.18 Billion, a month earlier
- Higher crude oil and coal imports on one hand and slow rise in exports due to disruptions in key markets such as US and European Union likely responsible for the widening of trade deficit

Source: Bloomberg. Data as of 29<sup>th</sup> July, 2022

# USD-INR Movement & Gold prices

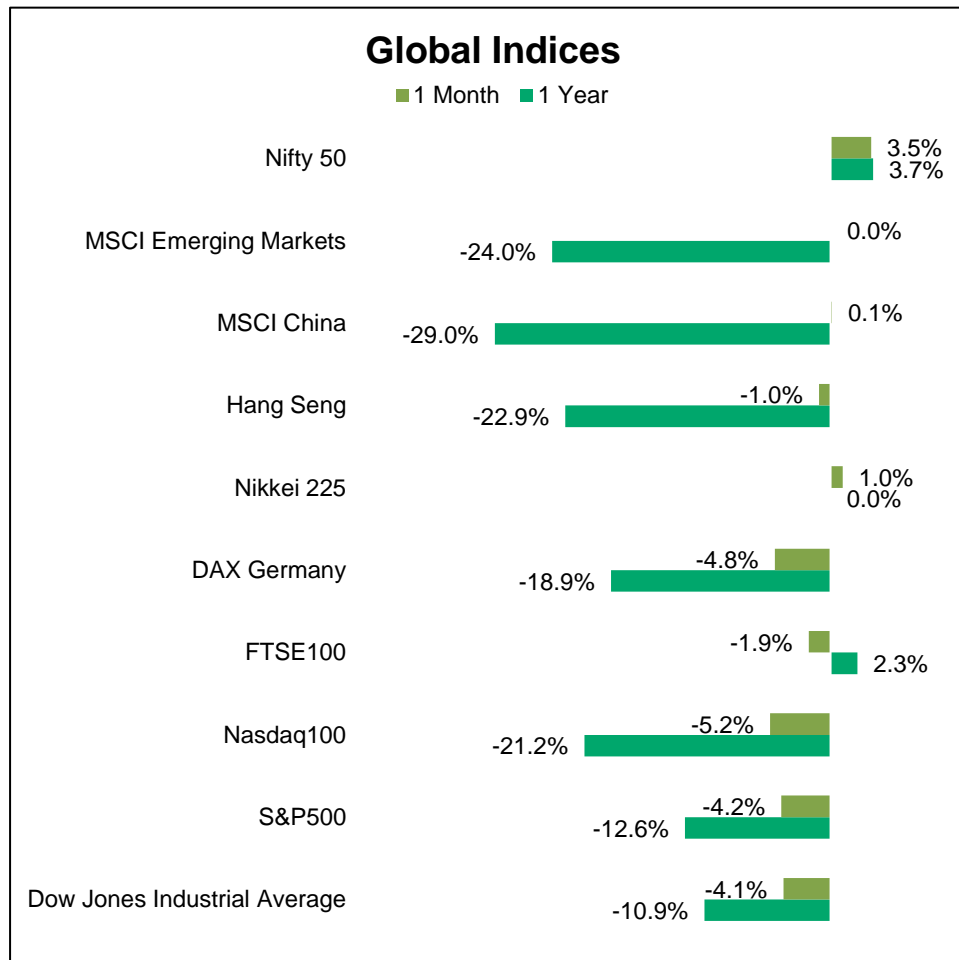


- Rupee closed on 79.8 on the last day of Aug 22, with a growth of 7.5% from Dec 21
- Rupee movement is largely due to challenging global factors
- Gold prices have held range bound in August also, on account of mixed global cues on slowdown worries, COVID lockdowns in China and stronger dollar

Source: Bloomberg. Data as of 30<sup>th</sup> August, 2022

# EQUITY AND SECTOR INDICES

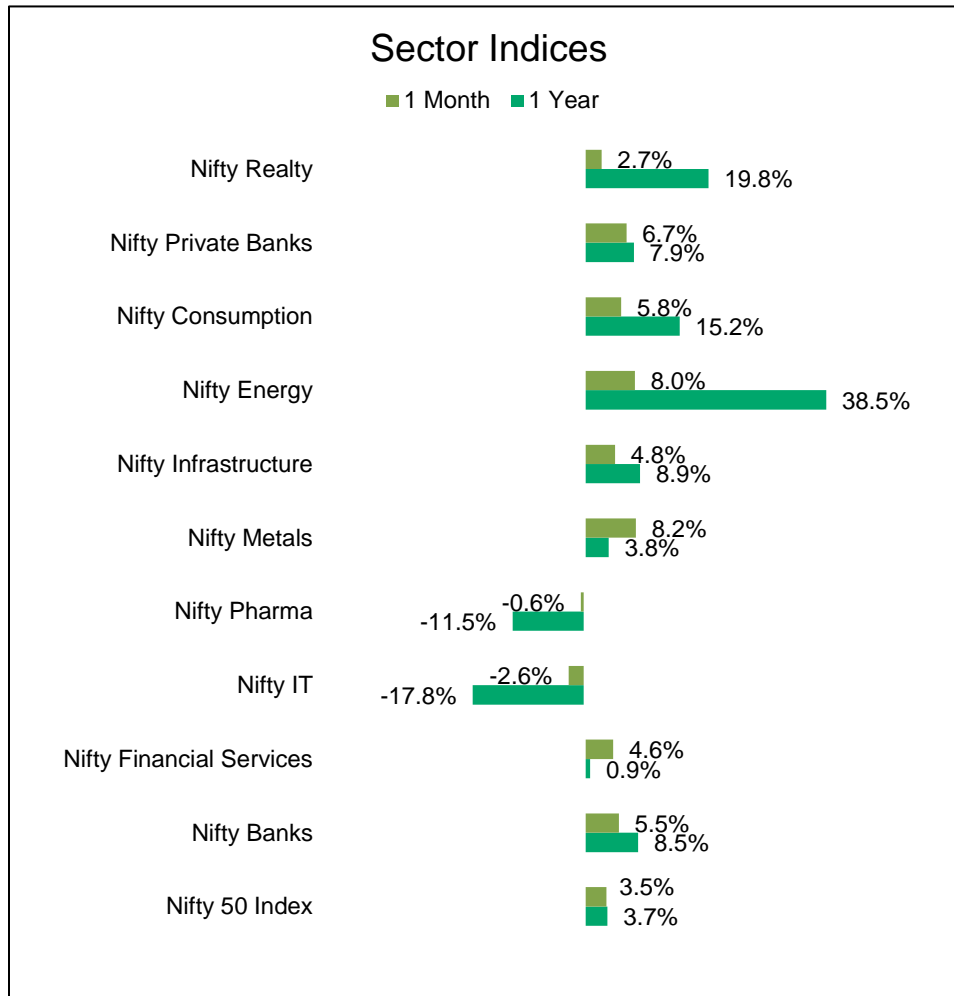
# Global Indices



- In August, except for the Tokyo based Nikkei and Indian Nifty 50, all global indices ended in negative.
- Asian indices suffered due to risk of curbs on investments by the US and growing concerns over COVID lockdowns.
- European markets fell on account of high inflation and wave of monetary tightening. European stocks slumped further worsening energy crisis added to the risks.
- The US stocks witnessed a slump mainly on account of high inflation and rising interest rates.

Source: Bloomberg. Data as of 30<sup>th</sup> August 2022

# Equity Indices



- Except for IT and Pharma, all other indexes ended the month on a positive note.
- Top performing sectors for the month were Metals, Energy and consumption
- Energy, IT and Pharma sectors tumbled in August
- On 1 year basis, Energy, Realty and banks were highest gainers while IT and Pharma were laggards.

Source: Bloomberg. Data as of 30<sup>th</sup> August 2022

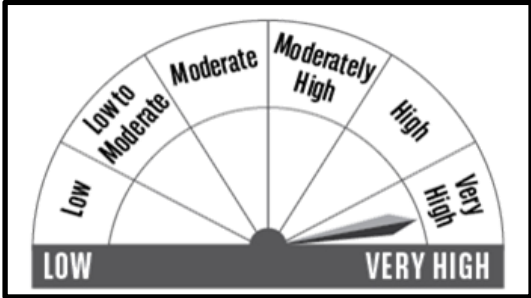


# Sector Positioning of Equity Portfolios

GICS Sectors	Baroda BNP Paribas Large Cap Fund	Baroda BNP Paribas Large & Mid Cap Fund	Baroda BNP Paribas Flexi Cap Fund	Baroda BNP Paribas Multi Cap Fund	Baroda BNP Paribas Mid 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 ELSS Fund
Consumer Discretionary	8.0%	12.5%	6.8%	15.2%	21.0%	12.7%	24.7%	0.0%	9.4%	11.0%
Consumer Staples	8.4%	6.2%	9.4%	2.6%	9.2%	7.1%	24.3%	0.0%	9.1%	6.1%
Energy	8.3%	5.2%	6.4%	4.3%	1.5%	5.7%	0.0%	0.0%	9.0%	6.7%
Financials	35.8%	26.7%	23.0%	22.9%	16.2%	35.5%	27.6%	94.6%	30.8%	34.4%
Health Care	3.3%	10.4%	1.1%	12.3%	5.7%	10.7%	0.6%	0.0%	6.3%	5.3%
Industrials	8.2%	9.1%	7.3%	11.3%	16.3%	13.0%	5.9%	0.0%	5.9%	12.0%
Information Technology	12.9%	6.6%	5.9%	9.4%	6.1%	6.3%	0.0%	1.9%	9.4%	10.5%
Materials	4.5%	6.6%	2.6%	9.0%	8.1%	0.0%	7.6%	0.0%	10.1%	3.6%
Real Estate	0.0%	0.9%	3.1%	2.2%	2.0%	0.0%	1.2%	0.0%	2.8%	2.2%
Communication Services	2.4%	3.6%	0.7%	5.3%	1.0%	0.0%	5.1%	0.0%	3.0%	4.1%
Utilities	1.6%	5.9%	2.3%	0.9%	7.6%	4.2%	0.0%	0.0%	1.2%	0.7%
Cash/Debt/ Derivatives	6.5%	6.3%	31.5%	4.7%	5.2%	4.9%	3.1%	3.6%	3.1%	3.6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Top 5 sectors with largest holdings. Excluding cash/debt/derivatives										

Source: Internal. Data as of 30<sup>th</sup> August 2022. Sector classification as per GICS sectors

# Product Labeling

<p><b>Baroda BNP Paribas Large Cap Fund</b> (An Open ended Equity Scheme predominantly investing in large cap stocks) This product is suitable for investors who are seeking*: - Wealth Creation in long term. - 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 scheme investing in both large cap and mid cap stocks) This product is suitable for investors who are seeking*: - Capital appreciation over long term. - 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) This product is suitable for investors who are seeking*: - Wealth Creation in long term. - 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) This product is suitable for investors who are seeking*: -Capital appreciation over long term. - 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) This product is suitable for investors who are seeking*: -Wealth Creation in long term. -Investments in diversified and actively managed portfolio of equity and equity related securities across market capitalisation 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) This product is suitable for investors who are seeking*: -Long term wealth creation. -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)] This product is suitable for investors who are seeking*: - Wealth Creation in long term. - 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 &amp; Financial Services Fund</b> (An open ended equity scheme investing in the Banking and Financial Services sector) This product is suitable for investors who are seeking*: -Capital appreciation over long term. - 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) This product is suitable for investors who are seeking*: -Wealth creation in long term. -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>		

\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Data as on 30<sup>th</sup> August 2022

# Disclaimers

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



**THANK YOU**