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From the desk of CIO: What happened in markets in August 2023?

1. We launched our Alphaa Focussed Small-cap Portfolio this month. The fund performance has been a stellar one. The Fund delivered a return of +3.88% till 31st August compared to (-)1.83% for Nifty 50 TRI. We are encouraged by this performance. This month, we plan to launch three more funds namely: Alphaamoney Equity+ Portfolio, Alphaa Better Risk Reward 30 Stocks Portfolio, Alphaa MPT Plus Fund.

2. All major Equity markets declined in August. The Hang Seng Index fell by a whopping 8.5%. India's Nifty 50 declined by 2.5%. However, India's Nifty Midcap 100 & Nifty Smallcap 100 rose by 3.7% & 4.6% respectively. Indian mid-caps have seen investments by FPIs while the DIIs are witnessing highest inflows in the small-cap segment. Quarterly earnings for June Q were really good.

3. Indian Bond yields curve flattened marginally during the month. Yield on 2-year G-Sec rose by 5 bps while yields on 30-year G-Sec declined by 3 bps. The US yields curve did the opposite. Yields on the US 2-year rose by 2 bps while yields on the 30-year treasury rose by 22 bps. The bear steepening of the US yield curve is a pointer to recession going forward.

4. Indian Rupee declined by 0.6% versus the Dollar during August. India does have a comfortable forex reserve of about $600 billion. The price of Brent crude oil rose by 1.5%, more due to supply cuts than demand pressures. The price of Gold in Dollars fell by 2.2% as the real interest rates on 2-year / 10-year US treasuries rose to 3% / 2% respectively.

5. Global macro: The world GDP estimate for CY23 has witnessed upgrades as recession in Developed markets has been pushed back to 2024. As a result, economists have downgraded GDP estimates for 2024. Globally, Services have been performing better than manufacturing. Mean while India's Q1FY24 GDP was near expectation at 7.8%.

6. Most central banks are done with 80 to 90% of rate hikes. We expect the US & ECB to hike rates by 25 bps while BOE & RBA should hike rates by additional 50 bps. Most EMs are done with rate hikes. We have seen a few EMs cut interest rates during August. However, in most economies we will see interest rates "higher for longer".

7. We believe 2023 is different from 2022 from an inflation point of view. Globally, we expect inflation to behave favourably in coming months. The market participants' approach towards inflation can be described as "Once beaten, twice shy" in the post COVID & R/U conflict scenarios.

8. Other developments: Rating agency Fitch did downgrade rating for US to AA+. In contrast, the same rating agency upgraded Indian Banks. The FED chief, Powell stuck to the 2% inflation target in his address at Jackson Hole symposium. 6 new countries are now part of BRICS.

9. The outlook for Indian equities appears steady backed by a superior earnings trajectory. The EPS growth for MSCI India is expected to be 59% between 2021-24 compared to median growth of 19% for the top 11 markets of the world. ROEs for MSCI India at 14.8% is a vast improvement compared to earlier years. Hard landing in the US or deeper problems in China can negatively surprise markets. China has been taking actions to improve sentiment but such measures in the past have been short lived. Flows matter and India is currently enjoying flows into the Equity market.

10. The outlook for Indian Bonds is attractive but lacks a trigger. A sub 6% CPI inflation for August may act as a catalyst for yields to decline. India is the only major EM country whose Bonds aren't part of global Bond indices. We expect Indian Bonds to be part of global Bond indices in 2024. The movement in Japanese Govt Bonds has recently contributed to volatility in the global Bond market.