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PRP Wealth Market Intelligence for September 2023

Meltdown in Equities & Bonds in major markets. India relatively unscathed.

September was a difficult month globally across asset classes (Equities, Bonds & Gold). However, Indian Equities rose while bonds suffered marginally.

Outlook

Equities: Historically, on an average, two-thirds of equity returns occur in the last 10 weeks of the year for MSCI AC World Index. Hopefully, the same trend continues in 2023. The earning season kicks off in 2nd week of October. Numbers and narratives of companies will influence individual stock performance. Commentators will look for improvement, if any, in macro parameters like bond yields, real interest rates, price of crude oil, credit spreads, Dollar, cross asset volatility and growth.

Bonds: Continuing sell off in the bonds of developed markets is hurting the fixed income market. Markets will align with the “higher rates for longer” narrative in coming weeks. Analysts will be guided by supply of bonds, QT, actions of the BOJ, price of crude oil and strength of the Dollar while taking a call on duration.

What happened in September?

Equities: Sell off in Bonds coupled with rich valuations hurt equities. High interest rates will adversely impact economic activities. Indian equities are enjoying lowest drawdowns from 52-week highs compared to other markets. Large / mid / small-cap indices are down less than 4% compared to a decline of 7% for MSCI AC Index. Late showers in September have reduced the adverse impact of El Nino on Indian consumption. FPIs sold during the month but local flows ensured that the indices closed in the green

Bonds: The performance of the global FI market can be described as “Bond Bath”. The yield on 10-year US treasuries went up by 46 bps with the yield curve witnessing bear steepening (yields on 2-year were up 18 bps). Indian sovereign fared better with 10-year yields going up by 9 bps. The difference between yields on 10-year paper of India and the US has declined to 260 bps, lowest in 16 years. Japan may have the lowest 10-year yield of 75 bps, but, the journey from zero to 75 bps has contributed to hardening of yields globally. The inclusion of Indian G-Secs in the JP Morgan index is a positive development and is expected to bring in about $30 bn. No negative surprise in GOI’s borrowing program is a welcome step.

Crude Oil: The price of oil has been going up on account of geopolitics with Saudi and Russia curtailing output. India’s terms of trade have deteriorated. We don’t expect RBI to undertake monetary tightening unless the price of oil goes significantly higher than $100 to a barrel.

INR: Rupee has behaved rather well in an environment of strengthening Dollar. During September, Rupee declined by 0.3% vis-à-vis Dollar.

Gold: Strong Dollar and multi decade high real interest rates resulted in the price of Gold coming down by 5.1% during September.

Fund Performance of our PMS:

- To sum up, we remain constructive on Indian assets. India can be described as “higher growth for longer” while the taglines for the US and Europe would be “higher interest rates for longer” and “low growth for longer” respectively. The risks to India story are: outcome of elections different from what markets are factoring in, high price of oil, China green shoots and cut to EPS estimates. The long-term story is intact with improvement in ROEs and capex spending.
- Lot of foreign investors will begin to look at Indian bonds in the coming months, The stability of the currency coupled with disciplined fiscal management should attract global investors.
- Investors looking to invest in Indian assets should treat volatility as a friend.