TOP 10 ISSUES FOR 2023

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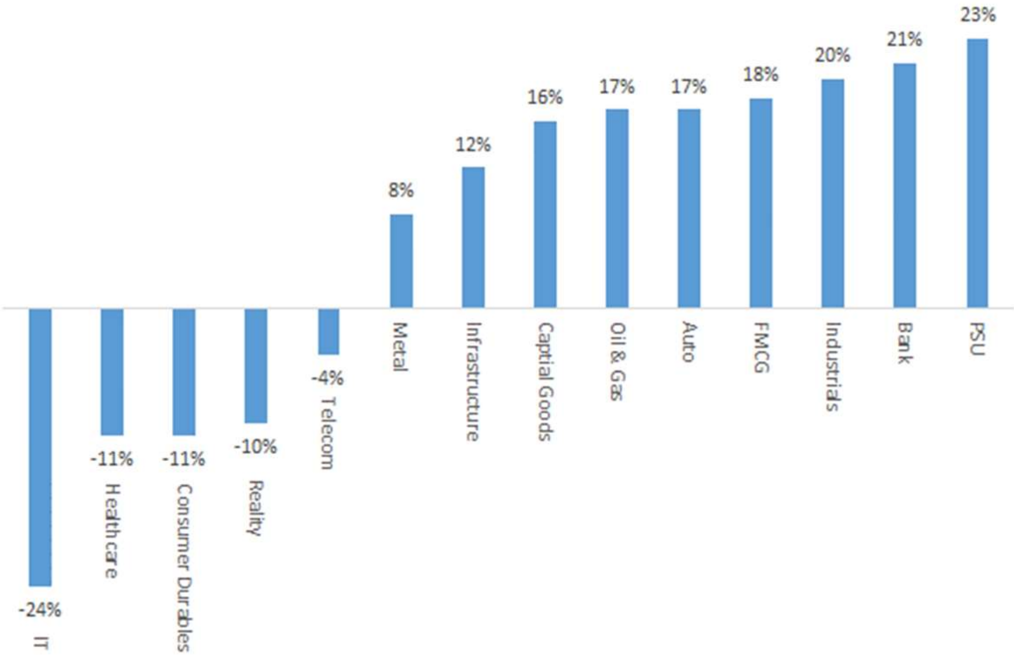
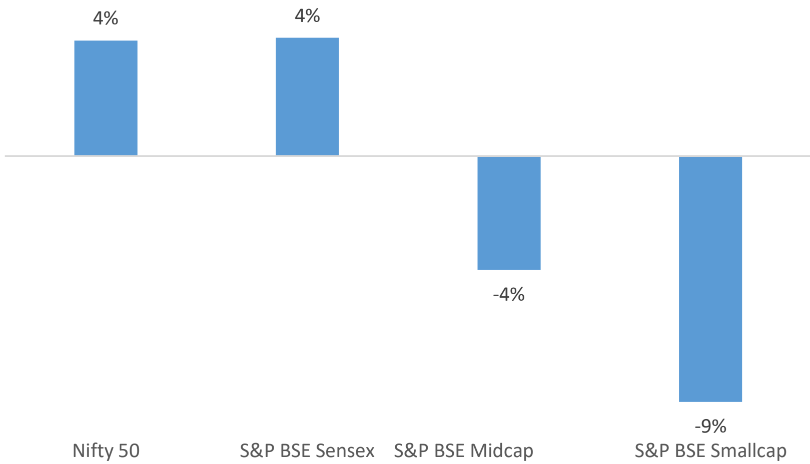
Year 2022 in numbers

DOMESTIC INDICES: 2022

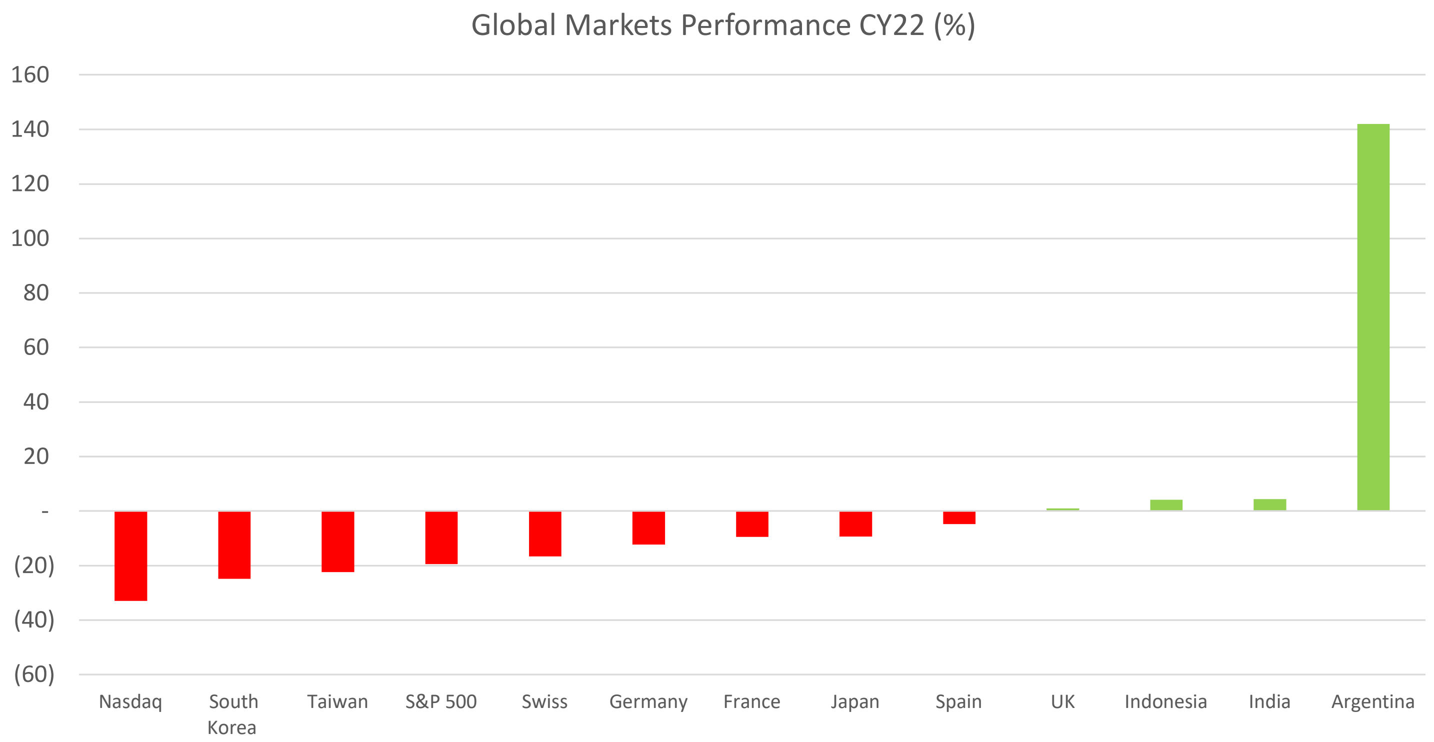
Sectoral Indices 2022



Domestic Indices (By Market Cap)



GLOBAL INDICES 2022



Sectoral Outperformers in CY22

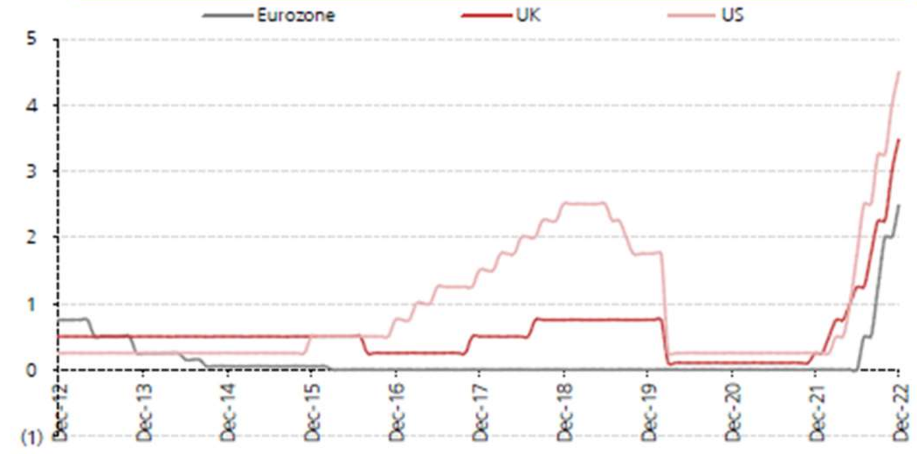
S&P Bse Sensex	**4.4%**
S&P Bse PSU	**23%**
S&P Bse Bankex	**21%**
S&P BSE Industrials	**20%**
S&P Bse FMCG	**18%**
S&P Bse Auto	**17%**

1. Interest Rates and Inflation

A. Central Bank Rate hiking rates aggressively in CY22

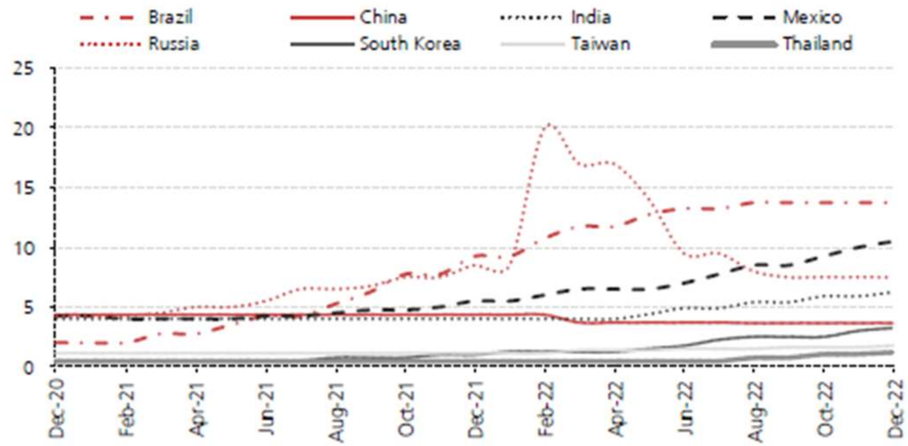
- In CY22, we have seen central banks globally hiking policy rates aggressively.
- The US Fed has raised rates by 425 bps in CY22. In India, RBI has hiked repo rate by 225 bps cumulatively.

Policy Rates trajectory in Developed Markets



Source: Bloomberg, Kotak Institutional Equities

Policy Rates trajectory in Emerging Markets



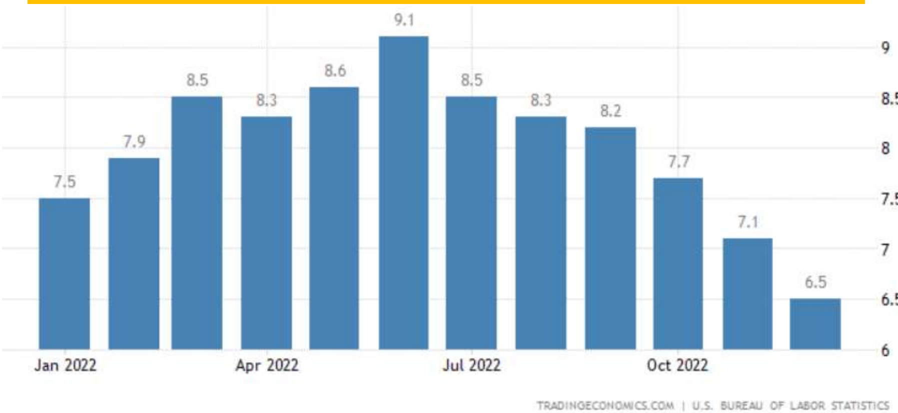
Source: Bloomberg, Kotak Institutional Equities

1. Interest Rates and Inflation

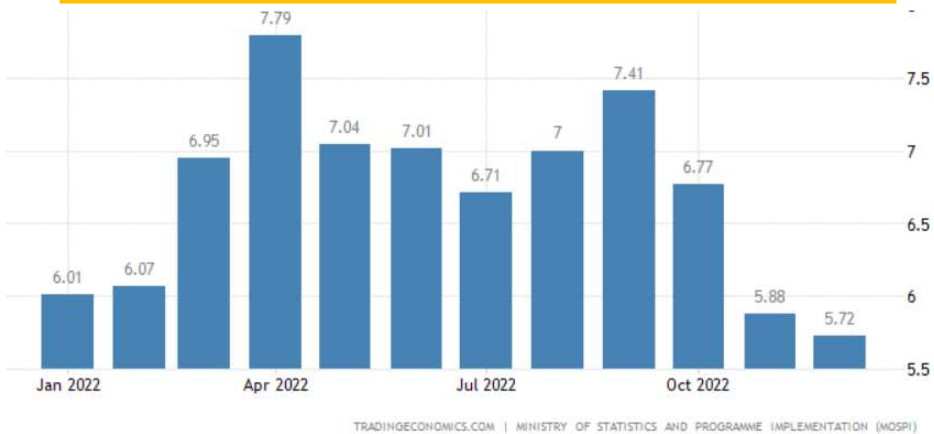
B. Are we nearing the end of rate hike cycle?

- US inflation data suggests that it has peaked and has started abating (from 9.1% in June'22 to 6.5% in November)
- Even in India, we have seen inflation cooling off from its recent 6-month peak of 7.4% to 5.7%
- The recent cool off in inflation suggests that the rate hike cycle could come to an end in H1 CY23

US Consumer Inflation trend – Jan 2022 till Dec'22



India CPI Jan-2022 till Dec'22



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1. Interest Rates and Inflation

C. Fed rate peak will be a defining moment for world market

- While there seems to be consensus that we would be nearing an end of the rate hike cycle, the key question is how long will policy rates continue to stay high
- The US Federal Open market Committee (FOMC) members, see Fed rates at a median of 5.1% by end of CY23 (i.e a range of 5.0%-5.25%) vs. the current Fed rate at 4.25%-4.5%
- While commodity prices have cooled down and overall Consumer inflation has cooled, service sector inflation continues to stay high because of a tight labour market.

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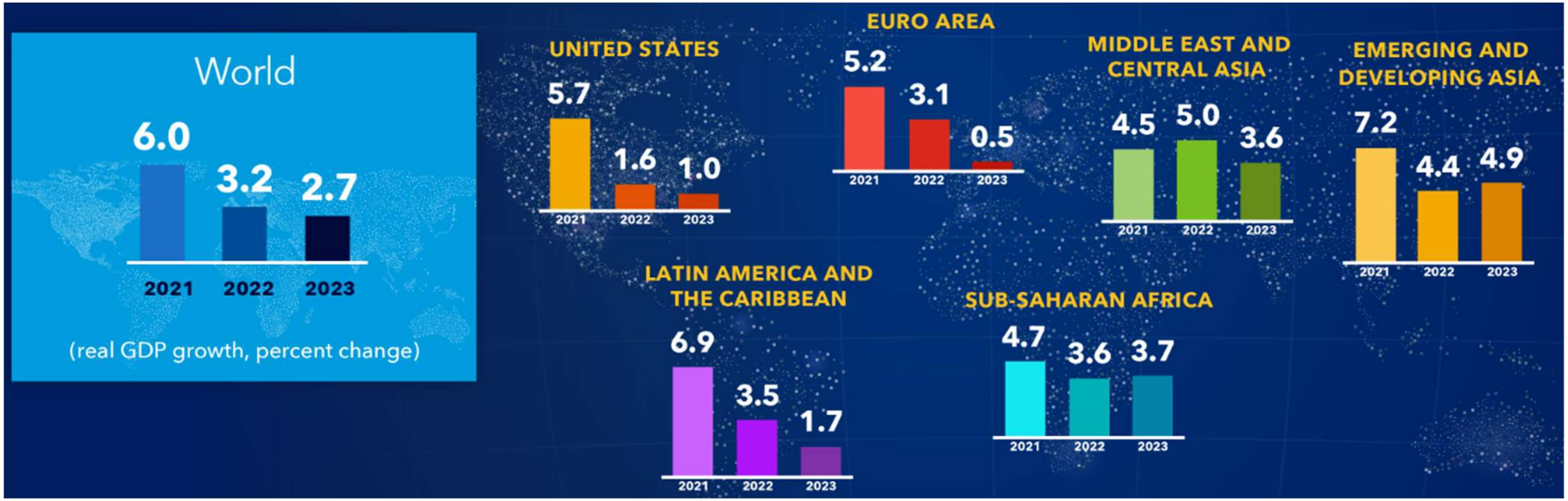
2. Global Recessionary fears

A. IMF Forecasts

- IMF chief commented recently that one-third of the world economy could be in recession as the Big 3 – US, European Union and China are all slowing down simultaneously



Source: World economic outlook, IMF , October 2022

2. Global Recessionary fears

B. Emerging markets to lead global growth

- The recent cool off in Energy prices augur well for Emerging markets, esp India and China
- Easing of covid restrictions in China and opening up of Chinese economy should lead to strong rebound after a tough CY22
- Inflation in most of the Emerging Markets have started to trend down and not as much an issue as in Europe and America.
- IMF forecasts Emerging markets to show faster economic growth than Developed markets.

Source: World economic outlook, IMF , October 2022

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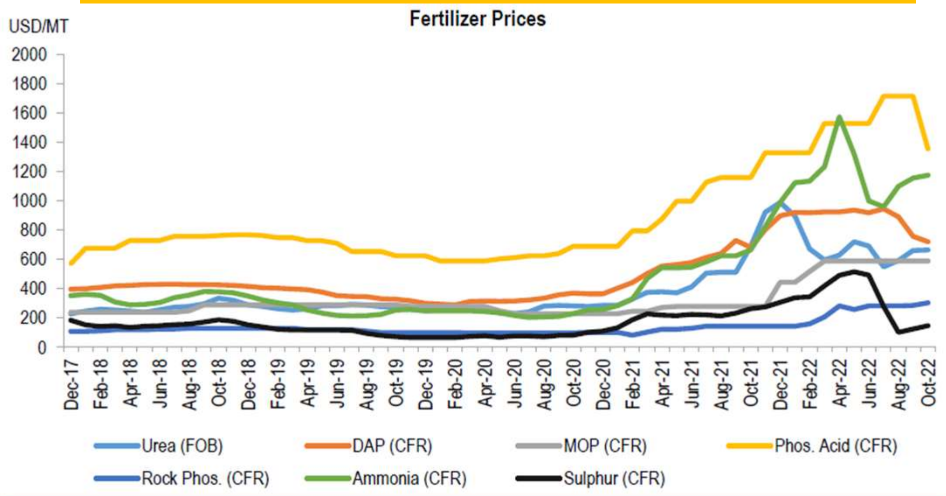
3. Strong Domestic Economy

A. Signs of pick up in rural demand after a tough CY22?

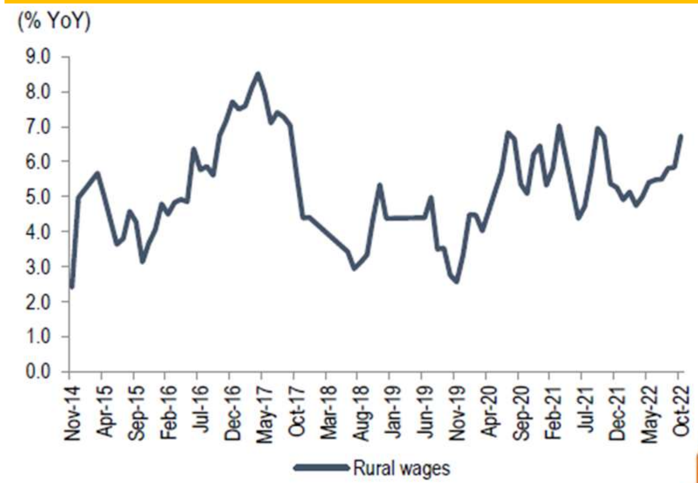
- Rabi sowing progressing well and farm input prices moderating
- Government's outlay to rural schemes expected to be strong given general elections next year
- Deficient rainfall in the Easter belt (UP, Bihar, West Bengal & Jharkhand) and a poor Kharif season impacted rural demand in CY22

Moderating Fertilizer prices



Source: Nirmal Bang report, Department of fertilizers

Rural Wages



Source: Nirmal Bang report, CEIC

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3. Strong Domestic Economy

B. Consumption Demand and High frequency data points to strong domestic demand

Urban economic indicators (YoY%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Oct-22	Nov-22
CMIE Index of consumer sentiments (Urban)	96.2	40.2	40.3	47.8	50.7	44.7	51.2	50.3	58.2	66.2	74.5	80.2	79.0
Passenger car sales	-26%		12%	11%	48%		4%	-20%	-6%	67%	41%	47%	50%
Domestic air passenger traffic (Mn)	32.8	2.3	8.9	18.9	23.3	10.7	18.3	30.4	24.7	32.5	30.2	31.9	33.4
Gasoline consumption	-0.5%	-36.4%	-4.9%	6.4%	10.5%	54.4%	11.8%	2.3%	1.5%	30.7%	9.0%	9.7%	8.6%
CPI- urban	6.5%	6.6%	6.9%	6.4%	5.9%	5.7%	5.2%	5.5%	5.9%	7.0%	6.8%	6.8%	6.5%
Corporate wages	8.0%	6.1%	4.8%	5.1%	5.6%	8.6%	10.9%	11.8%	12.2%	12.0%	12.4%		
CMIE unemployment rate (%)	9.3%	19.9%	9.2%	7.7%	7.5%	11.5%	8.9%	8.3%	8.0%	8.3%	8.5%	7.2%	9.0%
Income tax	6.4	-34.1	11.7	35.7	33.9	86.0	26.0	11.0	-2.3	11.1	12.4	11.1	4.7

Rural economic indicators (YoY%)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Oct-22	Nov-22
CMIE Index of consumer sentiments (Rural)	97.1	44.7	49.6	55.8	59.7	49.3	61.3	61.1	69.0	69.7	79.0	81.8	82.1
Tractor sales	-9%	-20%	43%	33%	83%	167%	-4%	-12%	-22%	25%	2%	7%	9%
2-wheeler sales	-25%		0%	13%	30%		-11%	-23%	-23%	98%	14%	11%	11%
Households demanded work (MGNREGA) (mn)	20.7	44.8	24.4	26.5	26.2	34.0	24.0	24.0	24.1	28.7	15.0	13.9	16.2
Govt. spending (Ministry of rural development)	43%	155%	1%	47%	34%	-51%	4%	-1%	18%	-21%	8%	70%	4%
Agricultural credit	8.1%	8.8%	10.3%	7.6%	10.5%	10.6%	10.6%	14.5%	9.9%	13.0%	13.4%	13.6%	13.8%
CPI-rural	6.8%	6.6%	6.9%	6.3%	4.0%	5.5%	5.0%	4.6%	6.7%	7.5%	7.2%	7.2%	6.9%
Rural wages	4.1%	6.6%	6.0%	5.3%	5.4%	3.6%	4.3%	4.8%	4.4%	4.5%	4.9%	5.2%	5.4%
CMIE unemployment rate (%)	7.3%	17.8%	6.7%	7.4%	6.3%	8.8%	6.7%	7.2%	7.1%	7.3%	6.6%	8.0%	7.6%

Source: CEIC, CMIE, UBS. Note: Green signals strength/less severity. Red signals weakness/greater severity. Numbers represent YoY growth unless specified. Pre-pandemic average (FY19-20) households demanded work under MGNREGA stood at 15.6m. Corporate wages are based on salaries and wages expense of all listed companies as per their quarterly results and used as a proxy for urban wages.

Source: UBS Thematic Report - 2023

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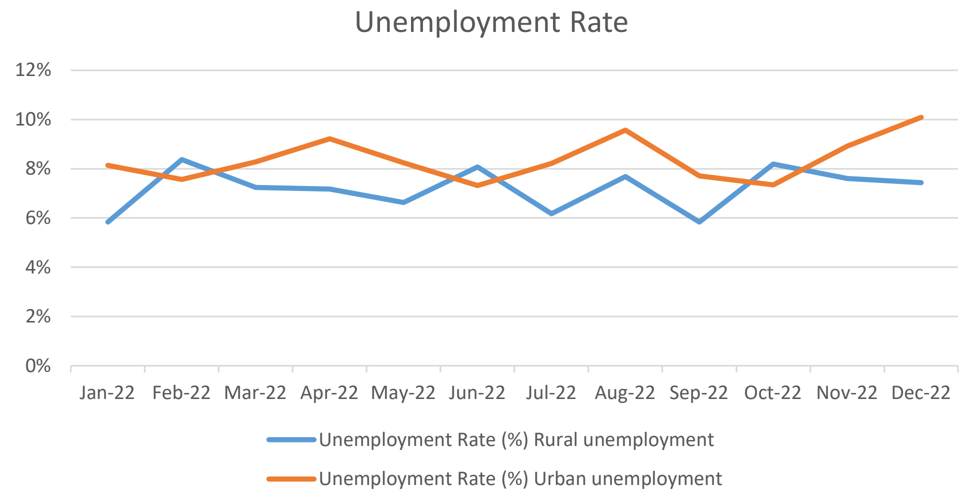
3. Strong Domestic Economy

C. Employment Data mixed but backed by high labour participation rate

- Rural unemployment slipped in the month of December, while urban unemployment rose to 10.1% vs. 9% in November
- As per MD of CMIE, unemployment rate was "not as bad as it may seem" as labour participation rate was 40.48%, highest in 12 months
- However unemployment data rose to 16-month high of 8.3%



Source: CMIE

4. Union Budget 2023

- After the introduction of GST the role of the Union Budget in influencing industry specific sentiment has declined
- Going by past standards there could be a lot of announcements and mentions in the Budget but we will need to focus on the following areas

FISCAL POSITION FY23 • The tax buoyancy of FY23 • Expenditure control • Quality of spending • Sustainability of the public finances	RESOURCE MOBILISATION FY24 • Disinvestment targets and specific mentions • Asset monetisation status • Any innovative means of raising resources
PESONAL TAX ANNOUNCEMENTS: • To create a "feel good" factor • Sustain economic recovery through domestic consumption • Simplification of tax laws	QUALITY OF GOVERNMENT SPENDING • The proportion of revenue expenditure vs capital expenditure • Sectoral allocation of budgeted spending • Infrastructure spending and accountability

Source: Mint, India Today

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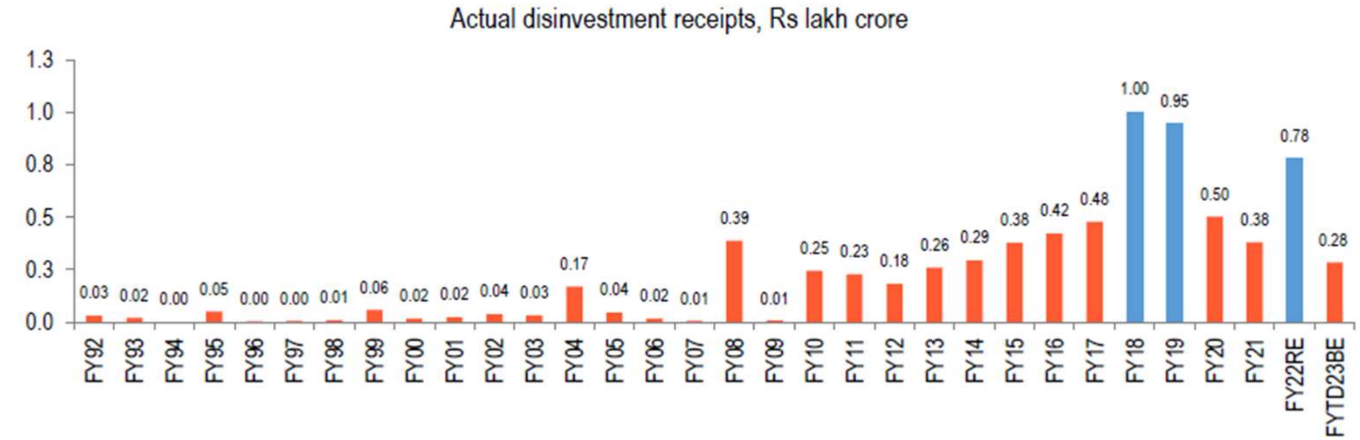
4. Union Budget 2023

- FISCAL POSITION FY23:
  - The government is expected to meet the FY23 fiscal deficit target of 6.4 percent of GDP, only after some spending cuts, given incremental subsidy spending in the fiscal year following the commodity shock.

- RESOURCE MOBILISATION
  - Ever since it was introduced 32 years back, Disinvestment has missed its targets in all except 8 years. This year the receipts are likely to be in the range of Rs 40,000 - 50,000 crs.
  - Asset monetization programme also needs to sharpened.



Source: Union Budget documents, CEIC, Bank of Baroda Research Note: RE: Revised Estimate, BE: Budgeted Estimate, FYTD:Apr-Nov

Source: Moneycontrol, India Today, BoB Caps

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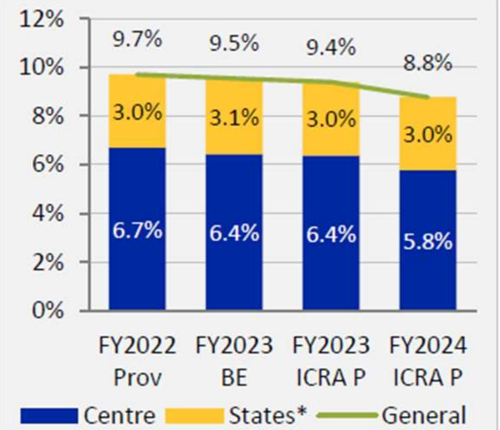
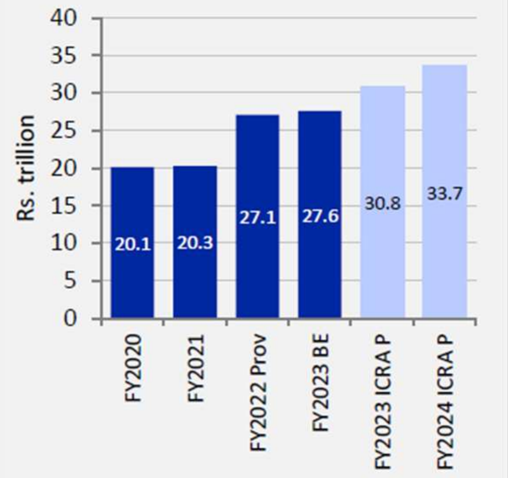
4. Union Budget 2023

Fiscal Deficit as % of GDP



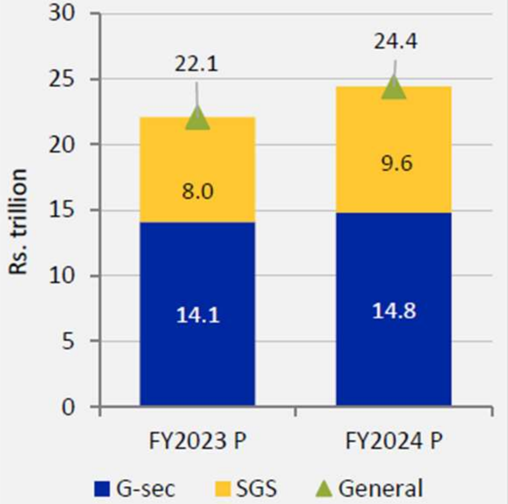
*BE: Budget estimate; P: Projected; *including 27 states, except Goa; Source: Budget documents; CGA; ICRA Research*

GoI's Gross Tax revenues



Source: Budget documents; CGA; ICRA Research

Gross Market Borrowings (ICRA's ests)



BE: Budget estimate; P: Projected; Source: Budget documents; CGA; ICRA Research

Source: ICRA

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4. Union Budget 2023

- QUALITY OF GOVERNMENT SPENDING:
  - The government is expected increase in capex allocation towards infrastructure (mainly consisting of roads and railways) , increased allocation towards rural spending and welfare measures (mainly education and healthcare).
  - More vibrant infrastructure & Technological support.
  - Green initiatives - will be liked by FIIs and ESG Funds

- PERSONAL RELIEF:
  - IT slabs may be tweaked and exemption amount maybe raised to create a feel good factor and leave more money in the hands of the urban population
  - Impetus to Rural Economy : As the rural economy faces headwinds (through post-covid recovery & inflation), the budget 2023 is expected infuse agriculture support to aid the growth of the economy.
  - Simplification of Rules- In LTCG & STCG.

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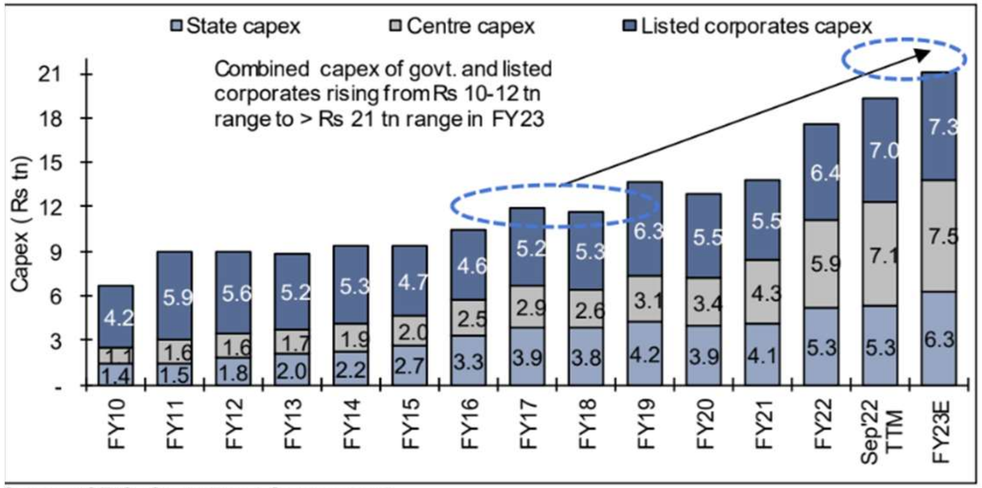
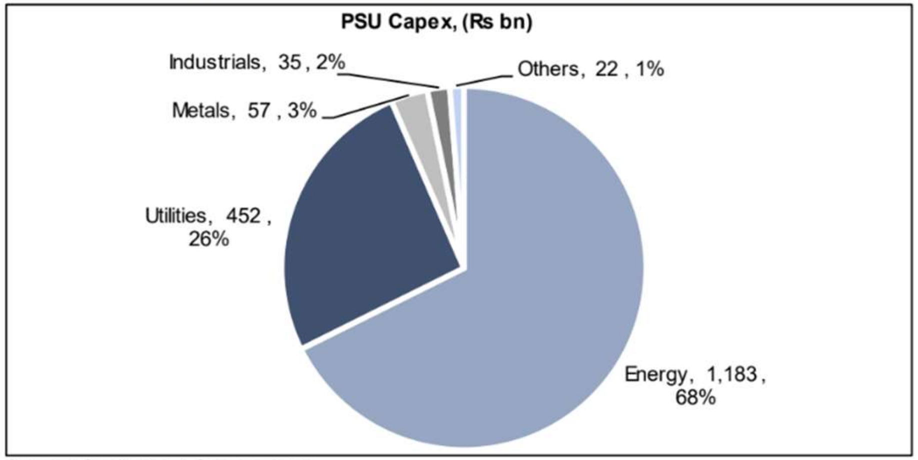
4. Union Budget 2023- The Big Infra Push and Capex Cycle uptick from Private players

- As India moves towards a fast growing economy , the government plans to infuse capital into various sectors like-Railways, Defence & Infrastructure. This push is in line with the rising opportunities due to China+1 strategy & geopolitical tensions.
- As capex cycle continues to grow with robust & strong Indian banking system. It is evident that Indian banks have shown good quality credit growth despite the rising interest rate, through which most of the public & private players are able to fund capex.
- Combined government capex has risen to an all-time high of Rs12.3trn on a TTM basis (Centre Rs 7 tn and states Rs 5.3tn) and is likely to exceed Rs15 trn in FY23E going by Budget estimates and current trends .

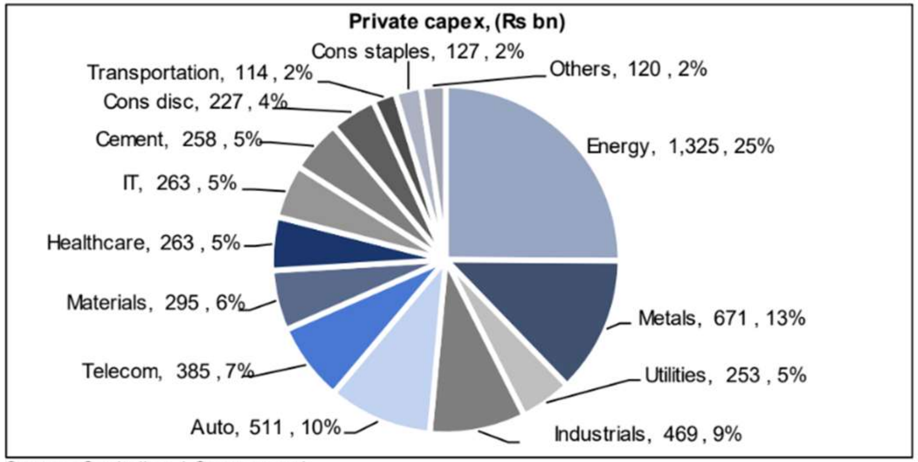


Source: CEIC, Capitaline, I-Sec research

4. Union Budget 2023- The Big Infra Push and Capex Cycle uptick from Private players



Source: Capitaline, I-Sec research



Source: Capitaline, I-Sec research

- In 2022, the Energy sector was allocated 68% of the PSU capex & Private Capex , this percentage is likely to increase in upcoming union budget 2023 as India moves towards greater green energy initiatives .
- In the vision of India's growth story we expect the more capital infusion into Defense, Energy (Govt will mandate Hydrogen energy) & Infrastructure.

4. Union Budget 2023- The Big Infra Push and Capex Cycle uptick from Private players

- India stands on ample availability of financial resources (internal cash generation, tax buoyancy and bank credit) and relatively low interest rates
- Companies across sectors are infusing capital to increasing capacity over FY22 (Reliance, Adani Enterprises, leading Steel players, Leading Cement players (Ultratech, Gujarat Ambuja, etc..) increasing overall India Inc capacity utilization

Private capex: Adani

Adani and TotalEnergies to create the world's largest green hydrogen ecosystem

Adani New Industries Ltd to invest USD 50 Bn in green hydrogen

This is India's largest commitment to green hydrogen by a company

Ahmedabad, 14 June 2022. Adani, India's fastest-growing diversified business portfolio, and energy supermajor TotalEnergies of France, have entered into a new partnership to jointly create the world's largest green hydrogen ecosystem. In this strategic alliance, TotalEnergies will acquire 25% minority interest in Adani New Industries Ltd (ANIL) from Adani Enterprises Ltd (AEL).

Private capex: Reliance

Reliance Industries signs MoU for investment of Rs 5.95 lakh crore in Green Energy & other projects in Gujarat

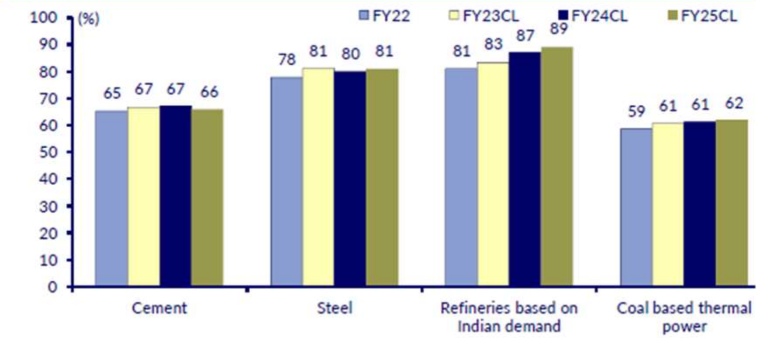
Will create 10 lakh employment opportunities in the State

Ahmedabad, January 13, 2022: Reliance Industries Limited (RIL) signed MoU today with the Government of Gujarat for a total investment of Rs 5.955 lakh crore as part of Investment Promotion Activity for Vibrant Gujarat Summit 2022. These projects will create 10 lakh direct / indirect employment opportunities in the State.

L&T: private Capex pickup

to be better than that of the previous year. Year-to-date, the public Capex spends have been significantly higher over the comparable period in the previous year, driven by Centre and PSUs, although the momentum in the State Capex is yet to pick up. Private Capex is also seeing signs of revival. In Q2 our share of private within the domestic orders, was 29% vis-à-vis 22% last year, largely due to more orders in the Buildings and Factories and the Minerals and Metals sectors. We will be closely watching this momentum build up in Private Capex in the coming quarters. Our order prospects pipeline for the remaining six months of the current financial year is around Rs. 6.3 trillion, comprising of domestic prospects of around Rs.5 trillion and

Capacity utilisation - Sector wise



Source: Adani Enterprises, Reliance, CLSA Capex report, L&T, RBI

5. Brace for a VUCA world

A. 2022 in retrospect:

- A. Russia invasion of Ukraine and the extended war was most unexpected
    - A. At a point it looked as if the war will take on a nuclear dimension – this threat has not gone away
- B. Covid waves in China and the policy flip flop also took world by surprise

B. Concern areas for 2023: World

Region	Nature of issue	Description	Resolution
Russia - Ukraine	Military	The war may get prolonged with West supporting Ukraine with arms and ammunitions and imposing economic sanctions on Russia	No immediate resolution is sight.
China Taiwan	Military	Speaker Pelosi's visit has brought a simmering issue to boil. Likely to escalate further	Has the potential to disturb regional peace and disrupt supply chains
North Korea – South Korea/ Japan	Military	N Korea continues to test launch missiles in the region	Can flare up into a major issue

5. Brace for a VUCA world....contd

B. Concern areas for 2023: Regional

Region	Nature of issue	Description	Resolution
Middle East – Saudi/Iran/Israel/Palestine/ Syria	Military	A volatile concoction of restful domestic politics and cross border terror/military action makes the region a source of worry	Domestic politics especially in Iran and Saudi Arabia has the potential to flare up into regional issue
UK	Economic	Erstwhile financial capital of the world is dealing with unemployment, inflation and recession	Cannot serve as an engine for global growth revival in the near future.
China – India border clashes	Military	China continues to provoke India with activity at the LAC	Looks like this will continue to be a regional flashpoint
Indian Sub continent – Pakistan/Srilanka/Myanmar	Economic	Mismanaged domestic economy is causing a restlessness in the population	Cause regional economic imbalances and can encourage local politicians to pursue military options to divert attention

5. Brace for a VUCA world

- The world has some or other geopolitical issue that occupies global attention
- Some have lasted longer and have had a wider impact on the world economy (Ukraine crisis in the more immediate context and GFC in the years following 2008)
- We should brace for a troubled world in 2023 and hope that we do not have an existing crisis (Russia- Ukraine) precipitate into a more sinister dimension or a new one (China – Taiwan) emerge to disrupt the fragile supply chains rebuilt post covid.

6. FII/DII inflows to be watched ?

Year	Amount (Rs. Cr)	Nifty Closing	Chg %
2023	-10,125.91	17,914.15	▼1.1%
2022	-278,429.52	18,105.30	▲4.3%
2021	-92,729.52	17,354.05	▲24.1%
2020	+64,379.00	13,981.75	▲14.9%
2019	+39,880.21	12,168.45	▲12.0%
2018	-73,733.35	10,862.55	▲3.2%

Source: StockEdge

- Indian equites were under extreme pressure over the past few years due Covid-19 & monetary policy actions reducing flow of easy money
- In 2023, the threats of recession in major economies & slowdown in economic activity the Indian stock market could trigger some FII outflows.
- India will be the fastest growing major economy of the world and a stable political environment, progressive economic measures, strong domestic flows and a diversified representation in the listed universe should see continued interest in the Indian markets.

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6. FII/DII inflows to be watched ?

Primary Market-

- In 2022, the Indian stock market saw more than 100 companies raising more than USD 16 billion in CY22. However according to leading investment banks it is expected that primary markets to remain robust and see the growth of 30% in CY23
- Foreign institutional investors have increased their participation in India's primary market, investing three times more in initial public offers, offers for sale and qualified institutional placements than in the secondary market.
- The primary markets weren't as impactful in the CY22 due to unfavorable macro-economic conditions & some disastrous listings. But the Indian IPO market is likely to see strong a lot of interesting listings (and hopefully gains) in 2023.
- As India is placed strongly among the emerging markets with a large economy and growing at a pace faster than the developed economies it will attract long term flows to India

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7. Elections: Politics to drive economics

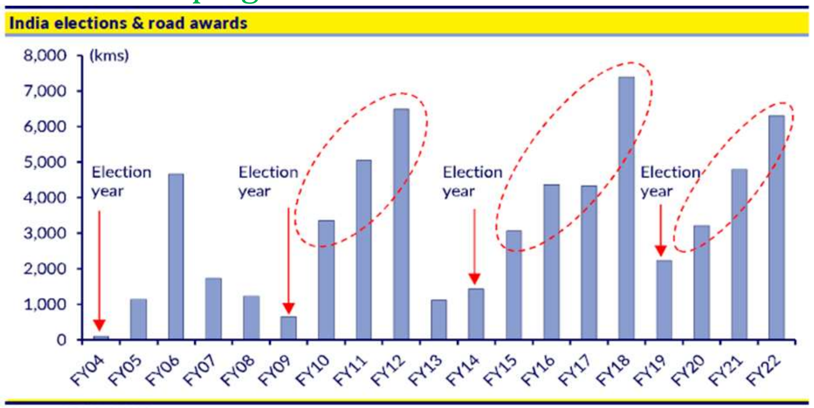
- Before the Run up to General Elections, there will be a few significant state election to deal with

India: State election calendar (2023)

Election month	States
Jan 23	Madhya Pradesh, Rajasthan
Mar 23	Meghalaya, Nagaland, Tripura
May 23	Karnataka
Dec 23	Chhattisgarh, Mizoram, Telangana
May 24	National election

Source: CLSA

- Historically, there has been strong pick up in government capex ahead of elections – focus on demonstration/execution as a showcase for election campaign



Source: CLSA, NHAI

8. Earnings to take centerstage

	Share in Nifty FY23 EPS	EPS (INR)				EPS growth (%, YoY)			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
BFSI	**39**	**189**	**249**	**321**	**371**	**16**	**32**	**29**	**15**
Banks	32	150	205	265	306	37	37	30	15
NBFC	6	36	42	52	61	(29)	17	25	16
Insurance	0	3	3	4	4	4	(4)	28	22
Exports	**16**	**80**	**100**	**129**	**159**	**11**	**25**	**30**	**23**
Information technology	13	82	96	103	119	11	16	8	15
Pharma	3	12	16	23	28	4	31	47	19
Export Auto	0	(15)	(12)	2	12	6	(19)	(120)	390
Commodities	**24**	**122**	**228**	**193**	**213**	**46**	**86**	**(15)**	**10**
OMCs	0	18	12	3	9	427	(33)	(75)	207
Energy (ex OMC)	15	71	104	118	132	26	46	14	12
Metals and mining	9	34	113	72	72	38	233	(36)	(0)
Domesitc Consumption	**12**	**39**	**70**	**94**	**118**	**53**	**80**	**35**	**25**
Domestic Auto	4	16	23	33	43	(20)	41	42	29
Consumer staples	5	33	37	44	49	(5)	12	19	13
Telecom	1	(15)	4	10	16	(56)	(128)	129	62
Consumer discretionary	1	4	6	8	10	(2)	27	43	23
Domestic Investment	**10**	**66**	**74**	**78**	**91**	**20**	**12**	**6**	**17**
Utilities	4	28	37	34	37	23	30	(7)	9
Agro Chemicals	1	5	6	8	9	62	26	33	18
Industrials	3	27	21	28	35	22	(23)	33	24
Cement	1	6	11	9	11	(11)	73	(19)	24
Nifty	**100**	**495**	**721**	**816**	**952**	**24**	**46**	**13**	**17**
Nifty ex financials	**61**	**307**	**472**	**495**	**581**	**30**	**54**	**5**	**17**
Nifty ex financials and commodities	**37**	**184**	**244**	**302**	**368**	**21**	**32**	**24**	**22**

Source: Bloomberg, Nuvama Research

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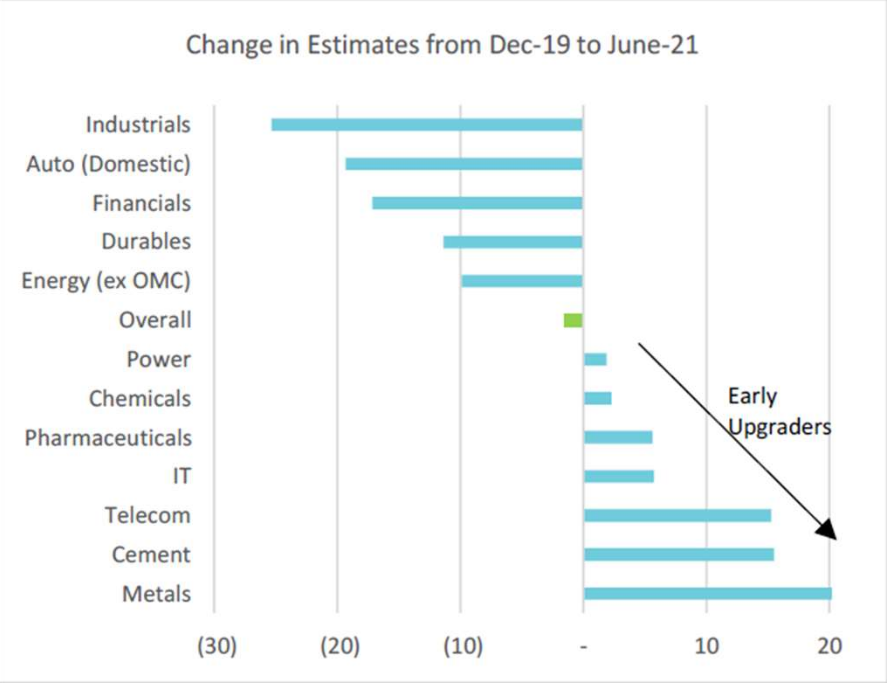
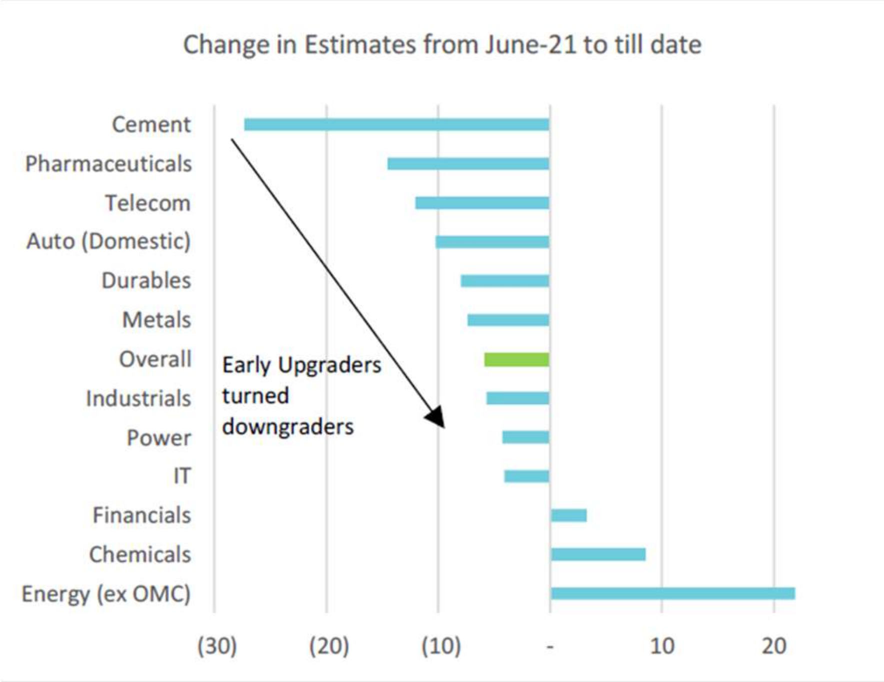
8. Earnings to take centerstage

Earnings upgraded initially..



… are sectors that saw downgrades first



Source: Nuvama Research

8. Earnings to take centerstage

Sectors expected to lead the market in 2023?

- CY22 saw sectoral performance in-line with earnings upgrades/downgrades
- There seems to be cyclical pattern –Downgrades began with global oriented sectors initially followed by domestic consumption oriented ones
- In the event of soft landing, the upgrades will also follow a similar pattern and we may see the global oriented sectors' earnings to be upgraded first, followed by domestic cyclicals
- We can expect initial rally in IT, Metals, Pharma, Specialty Chemicals and other export oriented sectors followed by consumer durables, autos, cement
- Sectors which can outperform on the back of already announced upgrades – Banks, OMCs, Infrastructure
- The dark horses could be Telecom and consumer staples

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9. Sectoral Leadership of the market to change

A. Sectoral Performance – Last 5 years

- Over the last 5 years, IT services, Banking & Financials have led the rally. Despite the pause in CY22, the IT services sector has grown at 20% CAGR

2018	2019	2020	2021	2022	5 Year CAGR
IT 24%	REALTY 28%	PHARMA 61%	METAL 70%	PSU BANK 71%	IT 20%
FMCG 14%	FINANCIAL 26%	IT 55%	IT 60%	METAL 22%	ENERGY 13%
FINANCIAL 11%	BANK 18%	CONSUMPTION 19%	REALTY 54%	BANK 21%	FINANCIAL 13%
BANK 6%	NIFTY 12%	METAL 16%	PSU BANK 44%	FMCG 18%	NIFTY 11%
NIFTY 3%	ENERGY 11%	NIFTY 15%	PSE 37%	AUTO 15%	METAL 11%
ENERGY 1%	IT 8%	FMCG 13%	INFRA 36%	ENERGY 14%	BANK 11%
CONSUMPTION -2%	INFRA 3%	INFRA 12%	ENERGY 34%	PSE 14%	FMCG 10%
PHARMA -8%	CONSUMPTION -1%	AUTO 11%	NIFTY 24%	FINANCIAL 10%	CONSUMPTION 8%
INFRA -13%	FMCG -1%	ENERGY 6%	CONSUMPTION 19%	CONSUMPTION 7%	INFRA 8%
PSU BANK -17%	PSE -5%	REALTY 5%	AUTO 19%	INFRA 6%	PHARMA 6%
METAL -20%	PHARMA -9%	FINANCIAL 4%	FINANCIAL 14%	NIFTY 4%	REALTY 4%
PSE -21%	AUTO -11%	BANK -3%	BANK 13%	REALTY -11%	PSU BANK 3%
AUTO -23%	METAL -11%	PSE -13%	PHARMA 10%	PHARMA -11%	AUTO 1%
REALTY -33%	PSU BANK -18%	PSU BANK -31%	FMCG 10%	IT -26%	PSE 0%

9. Sectoral Leadership of the market to change

B. IT Industry – Can there be transformative changes?

- IT services industry saw strong growth post covid led by acceleration of Technology adoption, while margins saw some pressure in CY22 due to supply side challenges and resumption of travel and work (vs. WFH earlier)
- Digital Transformation, Cloud Migration and Technology adoption (replacement of legacy systems/processes) have become imperative for organisations to stay ahead of the curve
- For IT services, we need to watch out
  - Tech Budgets by MNCS that are decided by Q1CY23
  - Deal Win momentum, Size of Deal wins, Vendor consolidation to drive revenue growth
  - On the margin front, higher utilisation, pyramid optimisation (as freshers get trained and utilised), higher offshoring, easing of attrition to drive earnings growth
  - Small to mid-sized acquisition as leading vendors look to enhance their technology/domain capabilities, widen their geographical reach or enter new end markets

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9. Sectoral Leadership of the market to change

C. Can the market surprise us in 2023?

- The year has started on very low expectations in terms of returns from equity as an asset class
- The market seems to be clutching on every hope of a macro economic recovery – Indices bounce whenever inflation numbers are favourable. Therefore we have not seen capitulation as yet
- Much will depend on how the outlook changes and when?
  - Does it happen after the market gives up all hope of avoiding a recession and consequently a hard landing – in which case we will see a rally after capitulation.
  - If the market expectations of a step back by central bankers and a soft landing is corroborated with actual data, we may see a recovery without capitulation.
- In this milieu the improving real yields on fixed income assets now poses a threat to attractiveness of equity as an asset class.
- The recent rally in Gold has also diverted some attention

10. Which will be the winning Asset class for 2022 - a) Equity

A. EQUITY:

- Indian Equity markets have seen FII outflows and correction as we start CY23. This also comes on the back of strong outperformance by Indian Equities in CY22 while S&P and global markets saw a sharp decline.
- We expect the year to be volatile in the backdrop of a high interest rate environment and consumer inflation
  - See India as a "Buy on Dips" market with strong domestic demand, sustained credit growth and signs of recovery in rural demand
  - Mid-caps and small caps could outperform the large caps this year
  - Market to reward Bottom up stock picking as earnings take centre-stage.
- In the short term, there could be FII flows moving to Chinese markets as valuations looks attractive and the economy opens up and moves away from Zero-covid policy
  - FII with a long term outlook could use the dips to increase allocation to India with all structural drivers in place – strong consumption demand, government policies, pick up in capex, manufacturing and services

RISKS:

- Upcoming Elections
- Earnings growth slowing down
- Rich valuation relative to other EMs

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10. Winning asset class for 2023 – Debt and Bullion?

- Rising interest rates have made the real returns from Debt instruments attractive again
- In the Indian context Bank FD rates are attractive once again (though the post tax returns are still not so attractive)
- The Government has also kept the interest rates on small savings high and is unlikely to bring it down in a pre election year
- Mutual Funds have expanded the options for clients by adding new categories such as Target Maturity Funds
- This year saw the advent of Silver ETFs in India and their growing popularity:
    - Surprisingly Gold ETF saw an outflow in 3 out of 4 quarters in CY 22 despite positive returns

Quarter	Flow (in crore)
Jan-Mar 2022	-495
Apr-June 2022	1438
July-Sep 2022	-165
Oct-Dec 2022	-320
Total	458

    - Silver ETF as a class grew to Rs 1,750 crs in size by Dec'22
- Global Funds have been on the backseat delivering negative returns to client portfolios
    - However the outlook in relative terms is much better for global diversification

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