EQUITY MARKET OUTLOOK

7 min read

JM FINANCIAL
MUTUAL FUND

Details as on March 31, 2023

Markets

- The Nifty Index ended the month of March on a flattish note with a gain of 0.3%
- The mid-cap and small-cap indices underperformed large-cap indices
- Sector-wise, NSE Energy (+5.2%), NSE Metals (+4.3%), and NSE Pharma (+2.3%) gained the most, whereas NSE Auto (-3.8%), NSE IT (-3.25%), and NSE Media (-0.3%) were the major losers.
- Global indices Dow Jones and Nasdaq outperformed, while FTSE 100 lagged Nifty returns
- The India VIX saw a decline in March. It was at 12.94 compared to 14.02 in the previous month, lower by almost 8%. This trend was observed in global markets as well with CBOE VIX lower by 10%.
- FII flows turned positive in March after three months of decline. Net FII inflows were INR 12578 crs. Domestic MF net inflows were higher on M-o-M at INR 17621 crs.

INDEX	Price as on 31-03-2022	Price as on 28-02-2023	Price as on 31-03-2023	MOM % Chg	YOY % Chg
Nifty (in INR)	17,465	17,304	17,360	0.32%	-0.60%
NSE Midcap 150 (in INR)	11,131	11,411	11,352	-0.52%	1.99%
NSE Small Cap 250 (in INR)	9,441	8,924	8,788	-1.53%	-6.92%
INR Currency	20.56	14.02	12.94	-7.74%	-37.09%
India Volatility Index (VIX)	75.79	82.67	82.18	-0.59%	8.43%
Dow Jones Industrial Average (in USD)	34,678	32,657	33,274	1.89%	-4.05%
Nasdaq Composite Index (in USD)	14,221	11,456	12,222	6.69%	-14.05%
FTSE 100 Index (in GBP)	7,516	7,876	7,632	-3.10%	1.54%

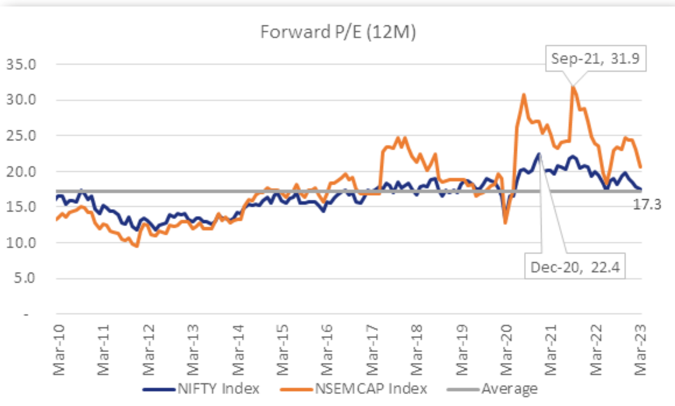
Source: JM Financial MF Research, Bloomberg

Particulars	for the Month of Mar -2022	for the Month of Feb -2023	for the Month of Mar -2023	CYTD till date (31st Mar,2023)	FY 2022-2023
FII SEBI (Equity) (in INR Crs)*	-37,945.04	-5,279.04	12,578.23	-22,868	-27,117
MF SEBI (Equity) (in INR Crs)**	22,410.02	12,824.67	17,621.67	48,404	1,51,145
DII (Cash) (in INR Crs)	39,677.03	19,239.28	30,548.77	83,200	2,55,236

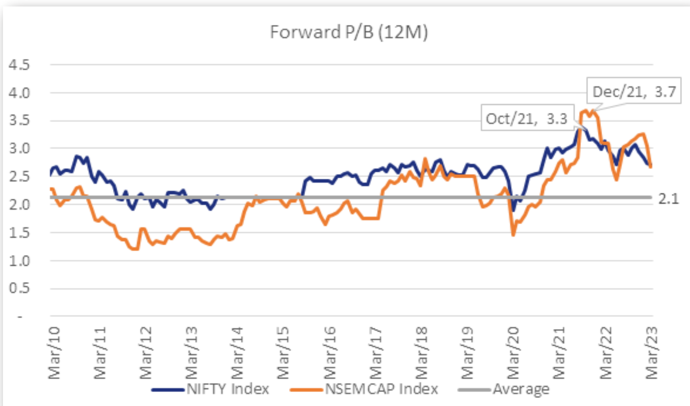
MF SEBI** Provisional upto 24-03-2023. FII SEBI* Provisional upto 29-03-2023. Source: Moneycontrol.com

Nifty PE has seen a correction and the 12 month blended forward P/E has come down by around 23% from the peak

Forward P/E (12M)



Forward P/B (12M)



Source: : JM MF Research, Bloomberg

Market Commentary

Mayhem in March: Markets were resilient even as there were sudden and unexpected bank failures. In America, Silicon Valley Bank collapsed while CSFB in Switzerland was acquired by UBS at the behest of its Central Bank. The sharp increase in interest rates over the past one year and concomitant MTM (mark to market) losses and rapid exodus of deposits proved a challenge to some of the smaller banks. This event stoked memories of the GFC and global markets were volatile, but Indian markets were resilient and barely moved. Smallcaps suffered a fall of 1.5% while largecaps were green, and midcaps marginally negative. Surprise was a positive performance in metals over 1 month. The IT sector continues to underperform on back of fears of a slowdown. Indian exports cross USD 750 billion dollars and March GST collections cross Rs1.6 trillion indicating that India is controlling its twin deficit problem well. US markets are recovering and the NASDAQ is up nearly 17% on a YTD basis while Indian markets are still down around 4%.

Is Global liquidity tightening? - not any more: One of the key reasons for asset prices falling has been declining liquidity due to rising cost of capital and reducing availability of money. Higher cost of dollar has made investors shift capital back to the US as also increased the cost of trade financing, impacting corporate profitability. However, BOJ and PBoC have increased liquidity which has improved global liquidity ensuring that some stability resumes and asset prices are not impacted significantly. So, as of now global liquidity does not appear to be a significant concern. US 10 year bond yields cooled off considerably from 4.05% to 3.5%. Indian 10 year Gsecs declined less - by about 15 bps to close the month at 7.332%.

Engineering a slowdown: The US Fed is targeting inflation by reducing demand. There are signs that this is working. Home sales have declined from a peak of 6.5 million to a low of 4 million homes in January 2023. However, demand snapped up to 4.8 million in February 2023, sharply higher than the previous month but significantly lower than the recent peak. Similarly, consumer confidence has also cooled off from a peak of 130 to the current 104. Unemployment has also nudged up, indicating the Fed policy may be having some impact. In India, there are signs of some demand pullback in consumer durables and FMCG as well. Oil prices will remain the key issue as regards fighting the inflation battle. India will remain vulnerable to crude prices, even as Russian oil supplies help in reducing the overall import bill

Term of trade changing: The Russia Ukraine war and the US Fed policy has created a chain of events that challenge the dollar in settling trade. India has started discussing use of its currency with a number of central banks to reduce dependence on the dollar. This will create interesting opportunities as well as risks for exporters. Indian companies may be compelled to invest overseas to create markets in places like Africa, where they may not be able to expatriate their earnings. We are also witnessing MNCs in India increasing their commitment to the country by increasing capacities and exports out of India. India's exports are at an all-time high, its share in world exports is still small and can increase significantly. Companies that have clear strategies to invest and grow will be winners in this space.

Positive commentary from mid-tier corporates: Corporate profitability may have peaked, but we are enthused by our recent interactions. Many companies have reported full capacity utilisation and are planning to expand capacities. This, we believe is the start of a virtuous cycle of investments, growth and higher cash flows. Corporate balance sheets are strong and can take on some leverage to accelerate growth. The associated benefits of higher employment will create spin off benefits in consumption and housing. Having a diversified base of exports is to our advantage as it reduces volatility.

Government controlling twin deficits is good for sustainable growth: India is now increasing service exports even as its merchandise imports were increasing. Consequently, its Current Account Deficit (CAD) is under check at 2.2% at last read. With its fiscal deficit under check and tax revenues buoyant due to higher compliance, we expect capital expenditure to increase and help infra and defence companies to benefit from this trend.

Make use of this market correction: The broad indices have not corrected as much as individual stocks. The Nifty 500 barely moved on a 6 month basis even though nearly 45% have corrected by more than 10%. There are many unknowns ahead such as monsoons and oil prices yet we trust the resilience of the Indian economy and believe that a SIP into a diversified fund such as our Midcap, Flexicap and Value will be the best way to ride out these uncertainties. In our portfolios, we will remain vigilant and agile to tackle dynamically, any risks that may emerge out of the fragile global financial system or unstable geopolitics.

3 Months Price Perf % NSE 500 Constituents	LC	MC	SC	6 Months Price Perf % NSE 500 Constituents	LC	MC	SC
>+0	29	43	43	>+0	47	60	73
+0 TO -10	42	41	69	+0 TO -10	27	26	41
-10 TO -20	20	66	139	-10 TO -20	11	64	137
<-20	9	0	0	<-20	15	0	0
Total	100	150	251	Total	100	150	251

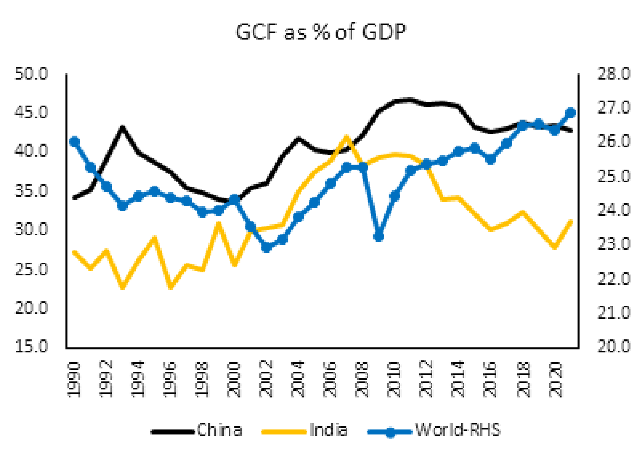
Source: ACE Equity, Bloomberg, JM MF Research *NSE 500 currently has 501 stock owing to demerger action in one of its constituents

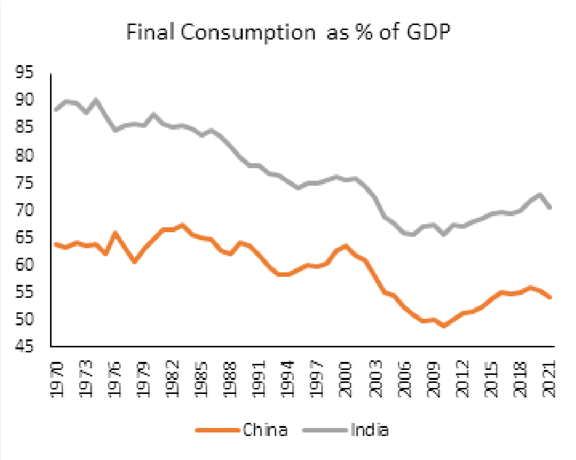
Will India's capex reboot sustain?

India has had a poor track record of implementing large infrastructure projects and has witnessed consumption growth as China grew its capex across all three fronts – Household, Corporate and public infrastructure. This sustained growth over a decade has made China the foremost consumer of almost all commodities, while India lagged on all three fronts. There are signs that this is changing. As China's contribution to global capex declines, countries such as India will also benefit. India had its own set of local issues such as weak balance sheets for both banks and corporates. There are signs that the worst is behind us as bank Non Performing Loans (NPLs) are at record lows and corporate balance sheets are as healthy as ever. With the Government realising that public infrastructure needs to be funded by itself, higher allocation to railways and roads are being seen. In its most recent budget, the Central Government has allocated Rs.10 trillion towards infrastructure. Similarly, localising of manufacturing has been one of the key thrust areas – Atmanirbhar and Production Linked Incentives (PLI) to attract both domestic and global companies to set up a manufacturing base. Similarly, in areas such as defence, we are seeing a thrust towards localising, which is helping domestic companies significantly.

India's Gross Capital Formation has declined for nearly 15 years: As mentioned above, India's capex boom, which lasted from 1996 to 2007 led to a process of long consolidation. As companies battled overcapacity and banks non-performing loans, India gross capital formation was weak. In comparison, China maintained its share in capital formation. Global gross capital formation has been on an upward trend post GFC.

The world economy has witnessed a strong growth in investments in the last three decades, with incomes routed more towards investments than consumption. This major shift of spending on consumption to investments was majorly led by China. China noted continued periods of strong growth largely due to massive expansion in manufacturing activities. Today, the country boasts about 30% of the global manufacturing output.

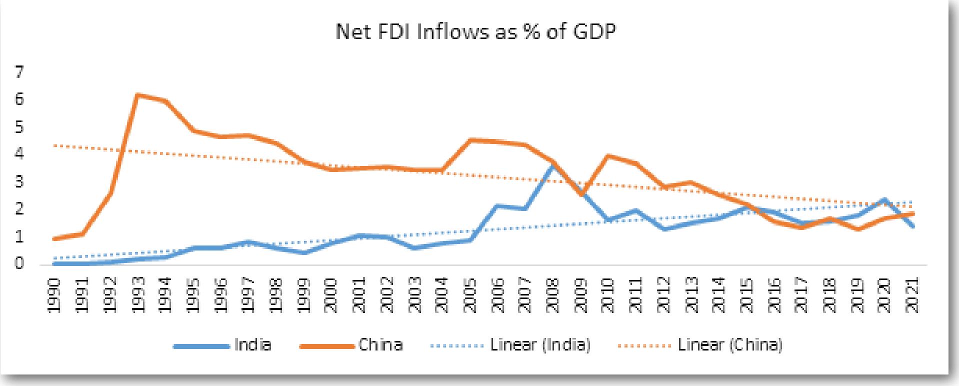




Source: World Bank, JM MF Research

Like China, India too witnessed the transition from consumption to investments, but it was and still remains extremely gradual. India lags China by a huge margin and accounts for a mere 3% in global manufacturing output. India has tremendous potential but requires a set of strong strategies as well as policies in order to lift its position to become the most favoured place of investment.

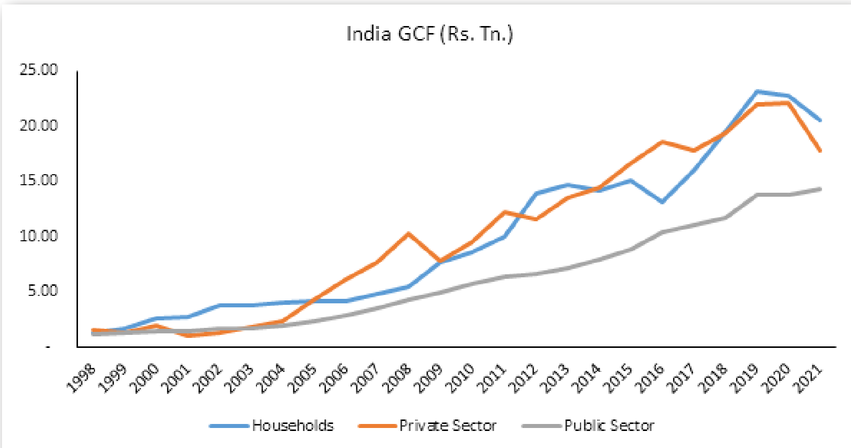
Net FDI Inflows give a ray of hope for India:



Source: Bloomberg, JM MF Research

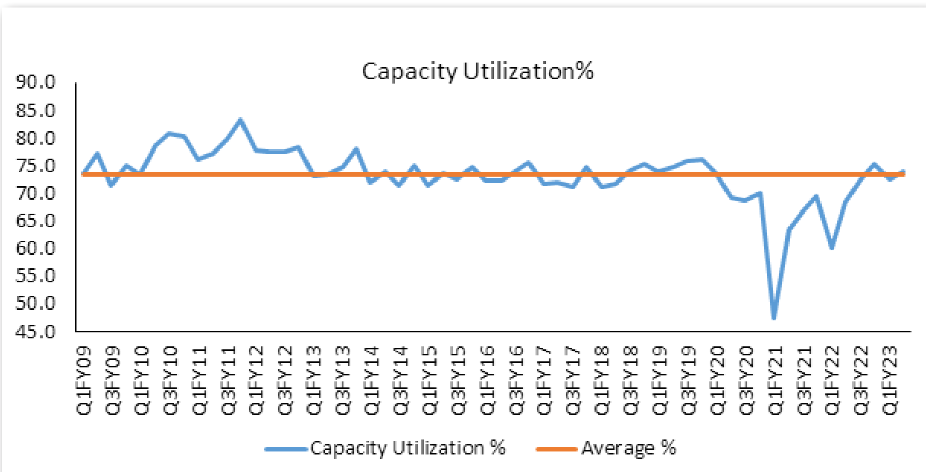
Apart from domestic capex which is primarily been driven by the three constituents - private, households and government, FDI (foreign direct investments) can kick start a new capex cycle in India. China enjoyed significant investments from global companies – at times as high as 6% of GDP to help the capex cycle. There are signs that this may shift to India. Using India as an alternative to China or using India as a China +1 base will increase FDI flows. We need to watch as to when and how this takes place. China is already seeing a declining proportion of FDI inflows while India a steady increase.

Investments within India: Within the three major sectors of the economy, households have contributed the most to gross capital formation. This may be viewed in a positive light that capex is diversified, but it also indicates that private capex has not taken off nearly as much. Pre GFC, private capex was the key driver of capital formation, but post GFC private capex proportion has lagged household capex. We expect that FDI inflows and improved capacity utilisation will start the next cycle of private (non household) capex as well. The Government's effort of crowding in investments could increase public sector capex as well as private sector expanding capacities.



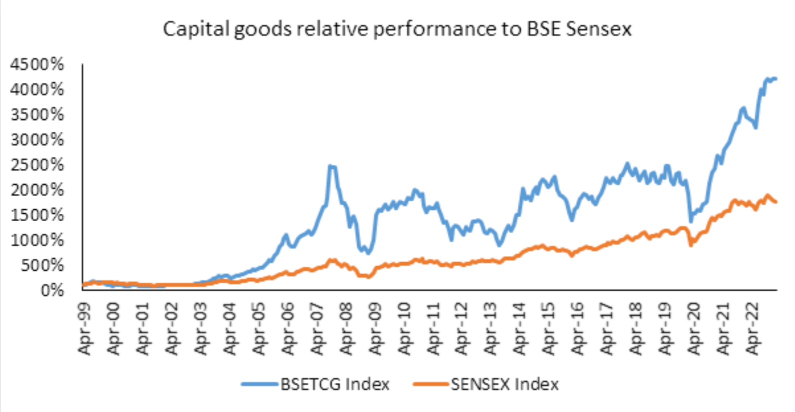
Source: CMIE, JM MF Research

Capacity Utilization of manufacturing sector moved slightly higher than the average: The aggregate capacity utilization of the manufacturing sector has been under pressure since the pandemic, with utilization of capacities in FY'21 falling to the lowest levels since FY'09. The economy has however rebounded sharply since then, and hovering around near or slightly higher than the long-period average of 73.2%.



Source: RBI, JM MF Research

Capital goods relative performance to BSE Sensex: The BSE Cap goods index has significantly outperformed on anticipation of a sustained recovery in this segment. Although we are early days into the cycle as compared to the previous time, where the peak was formed truly at the peak of 2007 bull market, valuations are expensive across many companies. Further, earnings may not keep pace to market expectations. However, we expect the capex theme to be a recurring theme for several years as Corporate India, foreign companies and the Government all spend together pushing the capex theme.



Source: Bloomberg, JM MF Research

Corporate Commentary is positive: Our interaction across several companies indicates that the narrative is positive and is likely to be a start of a long trend. We highlight the key points that came through these interactions.

Schaeffler India	• India so likely to be an export hub for Schaeffler group: Exports business is gaining momentum and export revenue share to increase further in coming quarters due to the benefits of relocation of products/manufacturing lines to India from Europe because of cost advantage. Shift of manufacturing base to India is structural in nature. • With an aim to increase the content per vehicle, the company has added new products in the transmission systems on the automotive side and new CRB/SRB in the off-road/energy sector on the industrial side. The company launched REPXPERT targeting repair garages, fleet workshops, retail markets, multi-brand garages etc. in order to penetrate the aftermarket further.
Siemens	• The Government's investments in smart and green infrastructure, electrification, decarbonisation technologies, automation and digitisation bodes well for the growth of the company considering its capabilities across the verticals. • Robust order pipeline across rail (loco, Vande Bharat tenders, metro rails in tier-2/3 cities), transmission (HVDC etc.), new-age areas (data centres/electronics) and conventional segments provides comfort given Siemen's capability.
ABB India	• ABB India (ABB) to be one of the major beneficiaries of increasing investments in automation, digitisation, productivity and efficiency. • Government's strong capex push in the areas of renewables, water & waste water, manufacturing, infrastructure, warehouse & logistics, electrical vehicles, transport infrastructure, etc., augurs well for ABB's growth due to its highly diversified product portfolio. • Management expects revenue growth from electronics, railways and metro, data centers, warehouse & logistics, renewable segments. • Water & wastewater, F&B, pharma & healthcare and automotive segments to render growth between 10% and 15% to ABB. • ABB Global has achieved 15% operational EBITDA margin and according to management, ABB India is on track to match parent's EBIDTA margin level.
Hitachi Energy India Ltd	• Management expects a decadal-growth opportunity initially led by HVDC and railways, followed by new areas (e-mobility, HSR, data centres etc.), wherein market scope is evolving. • Near-term opportunities lie in India's green energy transition plan, which has triggered the central government's transmission capex of Rs 2.4 tn. Hitachi likely to capture a significant market share of upcoming HVDC orders. Only Hitachi, Siemens and GE T&D have HVDC technology globally. • Hitachi is well diversified to benefit due to cyclical and structural growth vectors while new areas such as data centres, e-mobility, HSR/metros etc. can offer further upside.

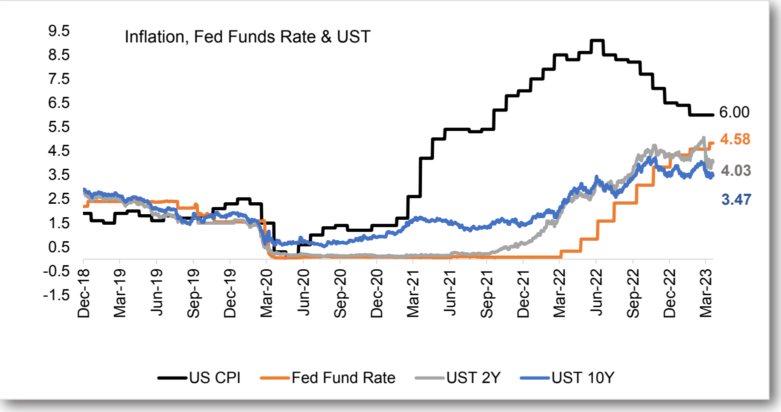
Cummins India Ltd	• Cummins has 70% market share in data centre market and segment is growing at a healthy rate due to data localization which is leading demand of data centres. • Cummins is a market leader in Indian genset industry with 35.2% market share. Expected power deficit over CY'23-25E likely to boost genset demand. • Manufacturing capex pick up is a structural tailwind. • New emission norms (CPCB 4+) for India are more stringent than Tier 4 norms in the USA and EU 5 norms, thus opening new export opportunities for Cummins.
Thermax	• Management of Thermax is seeing decent demand across the industry except in refining and petrochemical. Strong demand is being seen in the steel industry with new capex planned; sugar and ethanol distillery demand momentum started twelve months back is expected to continue for the next 12 months; the cement industry's demand for new capacity (earlier was demanding brownfield replacement for heat recovery); and decent demand from Chemicals, Pharma and Food & Beverage industries. • Thermax is bullish on the chemical segment and focusing on double-digit profitable growth.

Scheme wise Fund Managers Commentary

Fund	Portfolio commentary	Portfolio Positioning
JM Flexi Cap Fund	Our patience with materials in our Scheme contributed to stability during otherwise volatile period in the markets. The Scheme had added 7 new names in previous month that helped control the beta this month. The Scheme had just 2 new additions this month and exited 3 names with a view to consolidate our holdings prior to upcoming result season.	This Scheme has focused on consistency across periods by using a dynamic allocation strategy across market caps. We continue to favour higher midcap holdings as a way to mitigate FII selling led volatility. We intend to focus on the result season to add names where our conviction may be solidified by robust financial performance.
JM Value Fund	The Schemes overweight positon in industrials helped our performance and underweight on utilities hurt us. In addition, our contrarian positioning in IT sector helped our performance in midst of sector volatility. During the month, we had 2 new additions with likely business turnaround credentials and 2 deletions where the stocks had become ripe for profit booking.	We are continuously looking for beaten down names in high growth sectors where we can take contrarian positions. We expect the upcoming result season to benefit some of the contrarian names which we have invested in over the previous year, as it is our belief that their financial performance in midst of global volatility may bring a positive vote of confidence.
JM Large Cap Fund	The Scheme was challenged in midst of volatility during this month. We have substantially increased our activity to reduce the volatility. We have broad-based our holdings in the Scheme with the addition of 11 new stocks and deletion of 6 older names.	After broad basing our financials holding previously, we have now done the same to our midcap holdings here. We, now, have new high growth ideas in the midcap segment with adequate diversification and positive risk reward.
JM Focused Fund	Consumer discretionary stocks provided stable performance here in an otherwise a very volatile period for such stocks. This effective risk-reward in the names we hold is reassuring. We have added to industrials and manufacturing names here, which is less appreciated yet a very strong theme for the next few years.	We have reduced the count of stocks here by 1. We have followed a strategy of increasing the number of stocks when we expect volatility and running a tighter ship in regular times. We do expect gradual increase in consumer discretionary and industrial weightages.
JM Tax Gain Fund	We have cut 6 stocks with a view to prepare the portfolio for the result season with more confidence. Underweight in utilities hurt us here as well but material holdings supported our performance.	In the upcoming season, we will allocate money to strong consumption and manufacturing franchises.
JM Midcap fund	We have used the volatility to book profits in expensive IT names. We have added 3 new names to the portfolio.	We are actively monitoring our portfolio as it faces its first result season post complete deployment. We would also aggressively book profits on achieving our targets. At the same time, we are constantly evaluating new names to support the growth outlook of this Scheme.
JM Equity Hybrid Fund	The lower equity allocation during the month helps us navigate the volatility better. We have used the opportunity to add names in the defence and consumer discretionary sectors.	We intend to capture the opportunities thrown up by volatility and corrections where the long-term growth outlook is intact and valuations appear attractive. As we enter the result season, we expect to raise our equity allocation in the Scheme.

GLOBAL UPDATE

- The Federal Reserve raised federal funds rate by 25 bps to 4.75%-5.00%.
- The recent FOMC meeting decision focused on curbing inflation as well as acknowledging the negative impacts of rate hikes on the banking system.
- The Federal Reserve has become more cautious and nimble footed in the path of rate hikes, as the uncertainty pertaining to the health of the banking system poses a major risk.
- US CPI eased further to 6.0% in February 2023 from 6.4% in January 2023. On a sequential basis, the CPI moved up by 0.4% in February 2023, compared to 0.5% in January 2023. Core inflation remained sticky and elevated.
- The recent developments have substantially increased the demand for safe haven assets, like treasury notes resulting in a downward shift in the yield curve.
- The US 10Y and US 2Y softened materially during the month and closed at 3.47% and 4.03% respectively in March 2023 as compared to 3.92% and 4.82% respectively in February 2023.

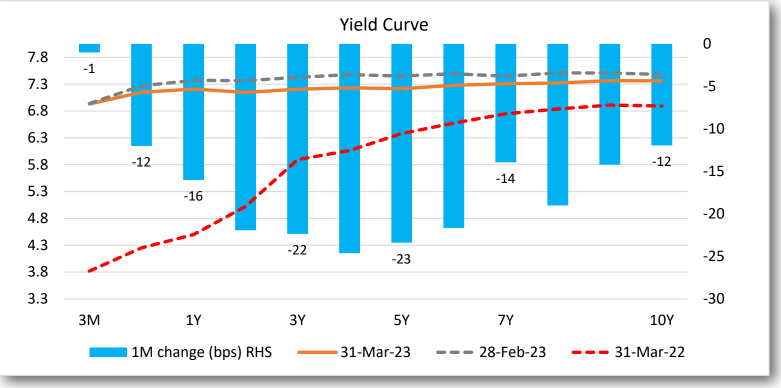


Source: Cogencis, JM MF Research

DOMESTIC UPDATE:

DOMESTIC BOND AND MONEY MARKETS:

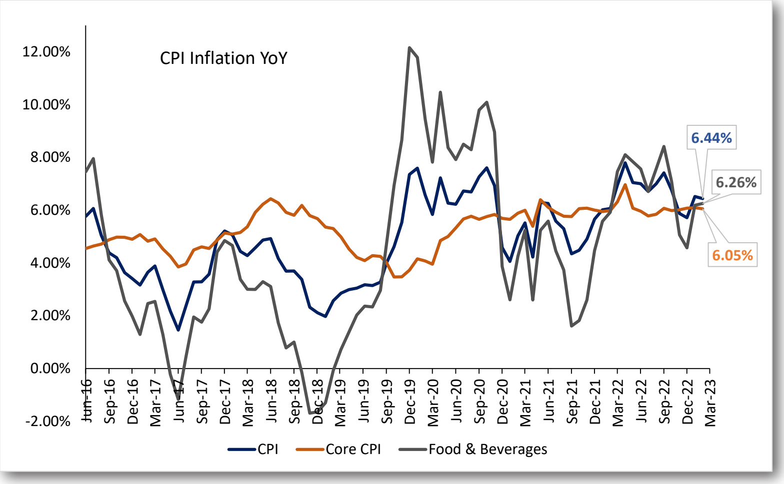
- In reaction to the developments in the US market, the domestic yield curve also moved southwards.
- The 10Y G-Sec traded in a band of 7.28%-7.44% and closed at 7.31% in March 2023 as compared to 7.43% in February 2023.
- At the primary auctions, the RBI did not accept bids for 91 DTB in the last T-Bill auction of FY'23. Yields on 182 DTB, and 364 DTB moved up by ~10 bps and ~5 bps, respectively due to tight liquidity on account of outflows related to indirect taxes, advance taxes and financial year-end considerations.



Source: FBIL, Cogencis, JM MF Research

INFLATION:

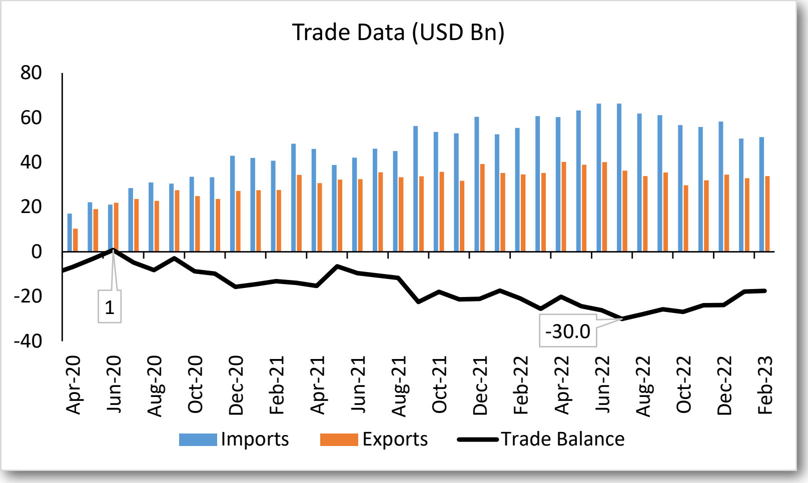
- Headline CPI inflation for February 2023 printed at 6.44%, marginally lower than previous month's reading of 6.52%.
- On a month-on-month basis, CPI index inched up by 17 bps however, the year-on-year reading decreased by 8 bps (6.44% vs 6.52%) due to a favourable base of ~24 bps.
- The moderation in sequential increase (0.17% vs 0.46%) was largely due to a fall in food & beverages inflation at -0.06% (0.45% previously). Other sub-components except fuel & light also observed a month-on-month fall in prices.
- Core inflation remained sticky, and printed at 6.05% in February 2023, as compared to 6.10% in the previous month.



Source: MoSPI, JM MF Research

TRADE DEFICIT:

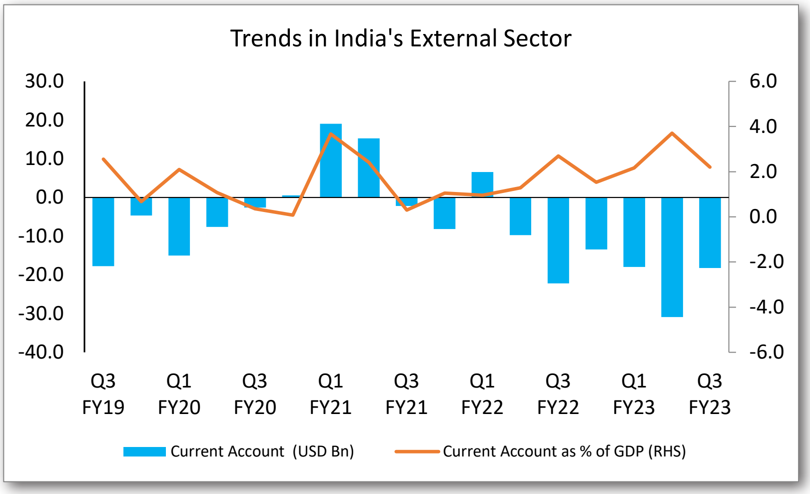
- India's trade deficit marginally narrowed in February 2023 to USD 17.4 Bn as compared to USD 17.7 Bn in January 2023.
- Both imports and exports increased during the month by USD 0.7 Bn and USD 1.0 Bn respectively.
- Coal, Coke & Briquettes, Petroleum, Crude & Products, transport equipment and pearls, precious & semi-precious stones were major contributors to the increase in imports. On the other hand, the rise in exports was attributable to gems & jewellery and engineering goods.
- The average trade deficit during April 2022-February 2023 stood at USD 24.0 Bn as compared to USD 16.5 Bn during the corresponding period of the previous year.



Source: Ministry of Commerce & Trade, JM MF Research

CURRENT ACCOUNT:

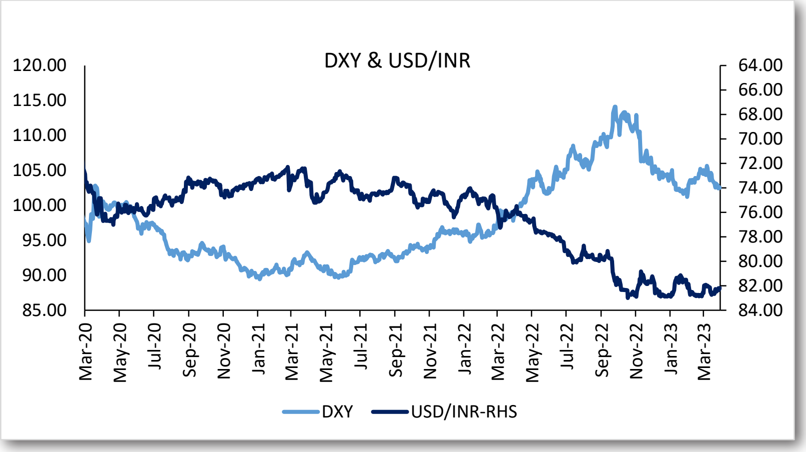
- The current account balance recorded a deficit of USD 18.2 Bn (2.2% of GDP) in Q3 FY'23 as compared to USD 30.9 Bn (3.7% in GDP) in Q2 FY'23.
- The substantial fall in current account deficit was due to a fall in merchandise trade deficit by USD 5.5 Bn (USD 72.7 Bn vs USD 78.3 Bn), along with a increase in services and private transfer receipts by USD 4.3 Bn (USD 38.7 Bn vs USD 34.4 Bn) and USD 3.7 Bn (USD 28.5 Bn vs USD 24.8 Bn) respectively.



Source: MOSPI, JM MF Research

CURRENCY:

- The recent developments in the US banking system led to a weakness in dollar index as the markets started factoring in a possibility of a dovish monetary policy. Dollar index moved down by ~2.3% (104.87 to 102.51) during the month.
- INR traded with a positive bias, appreciating by ~0.6% (Rs. 82.67/USD to Rs. 82.18/USD).
- Forex reserves stood at USD 579 Bn as on March 24, 2023 vs USD 561 Bn as on February 24, 2023.
- FPIs were net buyers in equity segment with an inflow of Rs. 79 Bn but were net sellers in debt segment with an outflow of Rs. 25 Bn.



Source: Bloomberg, JM MF Research

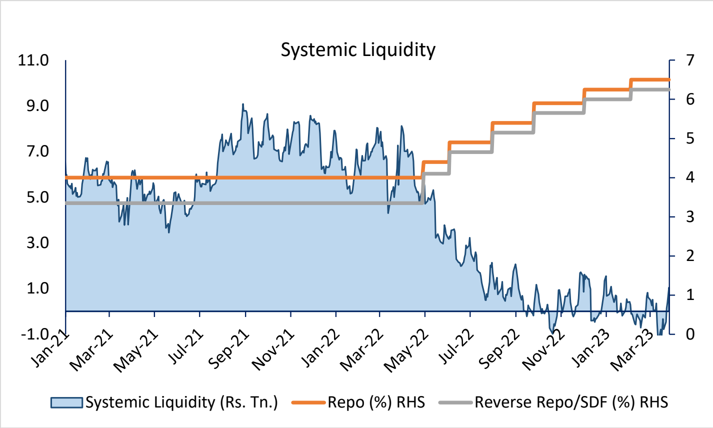
FIXED INCOME MARKET OUTLOOK

JM FINANCIAL
MUTUAL FUND

Details as on March 31, 2023

LIQUIDITY:

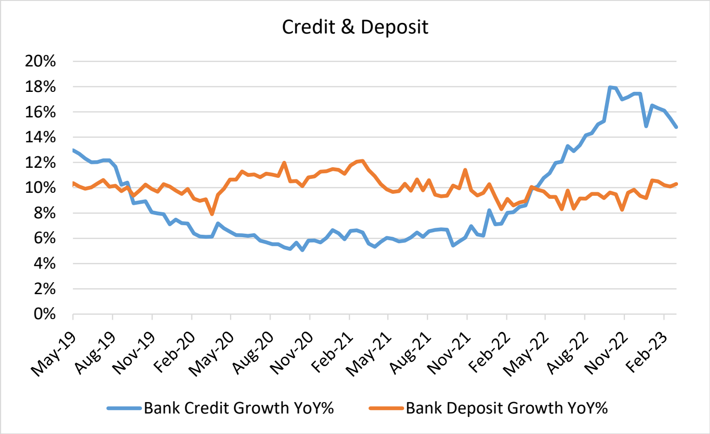
- Systemic liquidity slipped into deficit during the month due to outflows related to GST and advance taxes.
- The RBI conducted a variable rate repo auction for Rs. 1.0 Tn and Rs. 750 Bn on March 10, 2023 and March 24, 2023, respectively to alleviate liquidity pressures.
- Average systemic liquidity deficit stood at Rs 31 Bn in March 2023 as compared to a deficit of Rs. 58 Bn in February 2023.



Source: RBI, JM MF Research

CREDIT & DEPOSIT:

- Credit growth moderated to 14.8% as on March 10, 2023 as compared to 16.1% a month ago.
- Credit growth was led by personal loans, services, agriculture and industry, in that order, with average year-on-year growth of 22.4%, 22.1%, 15.8% and 12.6% respectively during April 2022-February 2023.
- Deposit growth stood at 10.3% as on March 10, 2023, with a marginal uptick over the previous month (10.1%).



Source: Bloomberg, JM MF Research

MARKET OUTLOOK

- The money market yields are expected to remain under pressure amid tightness in liquidity.
- We seem to be nearing the end of the rate hike cycle and expect the RBI to pause soon and the trajectory of interest rates is expected to remain dependent on the incoming macroeconomic data.
- We expect yields to trade in a defined range in the near future.