Market Commentary

PIONEER WEALTH MANAGEMENT

In January 2023, the S&P BSE SENSEX experienced a decline of -2% on a total return basis, while the S&P BSE Midcap Index and S&P BSE Small cap Index declined by -2.6% and -2.4% respectively. IT, Consumer Discretionary, Metals, Capital Goods, and FMCG sectors performed well and outperformed the index. Despite macro headwinds, IT companies reported decent numbers in a seasonally weak quarter with a stable order book. Major automobile manufacturers witnessed margin improvement due to price hikes and normalization in raw material costs. Metals rallied on the news of China reopening and lifting quarantine provisions. The capital goods sector showed a positive outlook on private capex revival with a healthy order book. Power, Energy, and Banks sectors declined, primarily due to negative news flows related to a specific conglomerate. Banks declined despite a good quarter due to concerns over their exposure to this conglomerate.

Globally, the S&P 500 advanced 6.28% in USD terms, while the tech-heavy NASDAQ grew 10.7% in January. European indices performed well, with the Euro Stoxx 50 up 11.5% in USD terms. The rally in these indices was driven by expectations of moderating inflation and a slower pace of rate hikes by the Federal Reserve. MSCI EM advanced by 7.9%, driven by a 9.9% return from China in USD terms. However, India underperformed other global indices with a decline of -0.96% (USD) during the month.

Foreign portfolio investors (FPIs) continued to be sellers in the Indian markets, amounting to USD 3.5 billion, while domestic institutional investors (DIIs) made purchases worth USD 3.53 billion. These trends align with what was observed in the calendar year 2022, where FPIs recorded a net outflow of USD 16.5 billion, while DIIs recorded a net inflow of USD 35.8 billion.

The current market backdrop of higher interest rates and broad-based growth favors the value style. India is believed to be in a broader economic upcycle driven by capex recovery, which will positively impact corporate earnings in the medium term. The recent Union Budget supports this thesis, with increased public capex in areas such as roads, transportation, railways, and defense. This increased spending should have a multiplier effect on the economy and stimulate private capex. The fund's portfolio is well-positioned to capture this economic upcycle. Financials are overweighted, including both lending and non-lending names. Consumer discretionary, particularly two-wheelers, is considered attractive, and IT services are also overweighted.

Key factors to monitor in the near future include the revival of capex, central bank interest rate actions, evolving geopolitical situations, the impact of China's opening up on inflation, and the trajectory of oil prices. Overall, a constructive outlook is maintained on Indian equities with a long-term perspective.