Market Commentary

PIONEER WEALTH MANAGEMENT

In March 2023, the S&P BSE SENSEX remained largely unchanged, with a minimal increase of 0.05% on a total return basis. However, the S&P BSE Midcap Index and S&P BSE Small Cap Index experienced slight declines of -0.3% and -1.3% respectively. The Utilities, Energy, FMCG, Capital goods and Healthcare sectors outperformed the index, while IT, Auto, and Realty sectors saw a decline compared to the index.

The rally in the utility sector was fueled by a specific conglomerate receiving a capital infusion from a global fund, leading to a bounce back in its stock. Certain stocks within the energy sector rallied due to tariff revisions by the regulator. However, the IT sector faced challenges due to its exposure to the BFSI vertical following the fallout of certain global banks. Auto stocks weakened in anticipation of lower numbers in the tractor and 2W segments. Within the broader financials, AMC stocks were impacted by the removal of taxation benefits for a certain category of funds, while the banking sector remained relatively flat despite the turmoil in the global banking sector.
Despite negative global news, global indices performed well, with the S&P 500, MSCI EM index and MSCI World Index all posting positive gains of 3.6%, 3.0%, and 3.1% respectively. The rally in these indices was driven by expectations of moderating inflation and the Federal Reserve adopting a slower pace of rate hikes, particularly in response to the ongoing banking crisis. However, compared to its global peers, India has underperformed year-to-date (YTD) despite a strong performance in CY22. The Federal Reserve continued to tighten by implementing a 25bps interest rate hike during the month, and it is expected that interest rates will remain elevated.

In terms of investment flows, foreign portfolio investors (FPIs) bought USD 1.5 billion, primarily attributed to a large investment in a specific conglomerate by a global fund. Domestic institutional investors (DIIs) also contributed to positive flows with purchases amounting to USD 3.7 billion. These trends, adjusted for the large investment by the global fund in March 2023, align with what was observed in the calendar year 2022, where FPIs recorded net outflows of USD 16.5 billion while DIIs recorded net inflows of USD 35.8 billion.

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The ongoing global interest rate hike cycle represents a fundamental shift in how risks are priced worldwide. During such periods, riskier and fragile business models are exposed, and valuations in expensive areas tend to moderate. In March, we witnessed the collapse of Silicon Valley Bank, Signature Bank, and the Swiss government-engineered takeover of Credit Suisse by UBS. These events led to the sell-off of global banking stocks until government interventions took place. Factors such as riskier clientele (startups), weak liability profiles, duration mismatches, and unchecked risk-taking contributed to these crises. The impact of this crisis on India is limited to startups that rely on foreign capital. The Indian banking system is highly regulated and in good health, with stringent reserve requirements serving as cushions to meet liabilities. Indian banks have stable funding profiles, with more than 60% of deposits coming from stable retail sources. The majority of large banks have strong balance sheets after multiple capital raises and the recognition of non-performing assets.

In the near term, Indian IT services may be more affected by the crisis than banks. Large Indian IT vendors rely on the BFSI vertical for over 30% of their revenues, and a slowdown in this sector can impact revenue growth. However, despite short-term weaknesses, these companies often gain market share and enhance their value propositions to clients during crises.

We maintain our belief that the current market environment, characterized by relatively higher interest rates and broad-based growth, favors a value-oriented investment approach. Our portfolio is positioned to benefit from the cyclical recovery in the Indian economy. We hold a positive outlook on consumer discretionary sectors, particularly 2-wheelers, which are attractively valued. We also favor financials, which can benefit from a capex recovery and IT services. Key factors to monitor in the Indian markets in the near term include private capex trends, rural recovery, inflation trajectory, and subsequent central bank actions. With a long-term perspective, we maintain a constructive view of Indian equities.