



PERISCOPE

YEARBOOK

FY23-24

FOREWORD

Dear Friend,

“The more things change, the more they remain the same”, a phrase used in 1849 by a French writer Jean-Baptiste Alphonse Karr, is a poignant reminder to those who fear change. Change may topple the apple cart at times, but with time it becomes familiar.

India’s economy is showing robust growth while globally there are concerns even as a war over territorial integrity is still on for over a year. The World Health Organisation declaring an end to Covid global health emergency has eased concerns but our preparedness for the next pandemic might still be up in the air.

Gold has had a dream run in 2022, but both Equity and Fixed Income continue to remain potent avenues for wealth creation and asset allocation. And what about FY 23-24? Will GDP growth slow down for the world and us? What will be the long-term themes driving the success stories for the next decade?

Periscope, our yearbook for FY 23-24 seeks to answer some of these questions. The pages that follow will give you a complete perspective on Macros and Markets, highlights of the year gone by and what we can look forward to in the year ahead. All this through the lens of our in-house experts!

A periscope’s utility in a ship is to enable the seamen to see their surroundings while navigating in the sea. Similarly, this Yearbook attempts to identify some of the critical factors to look out for as investors.

I sincerely hope that Periscope gives you an insight and I’d be happy to hear back with any feedback you might have.

Regards,
Shamsher Singh
MD & CEO
SBI Funds Management Ltd

INDEX

MACRO ECONOMIC VIEW

CHIEF ECONOMIST

1

FIXED INCOME OUTLOOK

CIO - FIXED INCOME

28

EQUITY OUTLOOK

CIO - EQUITY

40

ASSET ALLOCATION

CIO - ALTERNATIVES

50

LONG-TERM THEMES

HEAD OF RESEARCH

61



MACRO ECONOMIC VIEW

NAMRATA MITTAL - CHIEF ECONOMIST



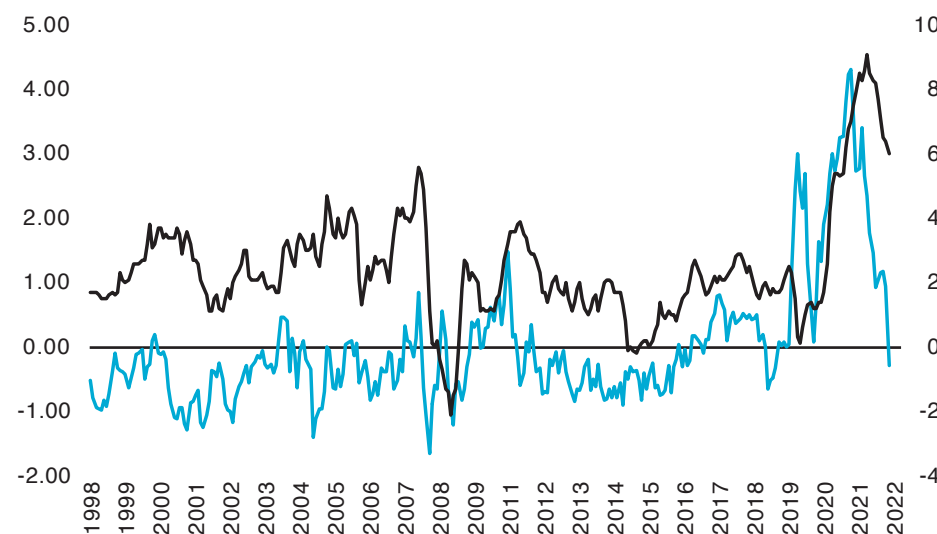
GLOBAL MACRO

OF INFLATIONS, RECESSIONS AND
FINANCIAL STABILITY



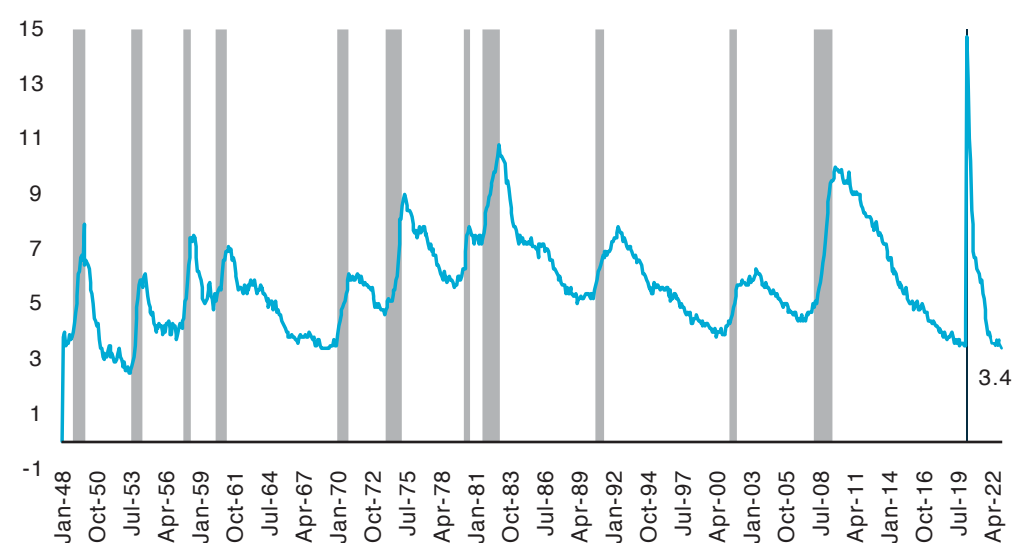
INFLATION: TOO HIGH FOR TOO LONG

Global supply chain pressures have reversed after three years of Covid and Russia-Ukraine war



— GSCPI, sigmas from long-term avg (LHS)
 — US CPI Inflation (% y-o-y)

Unemployment rate remains low

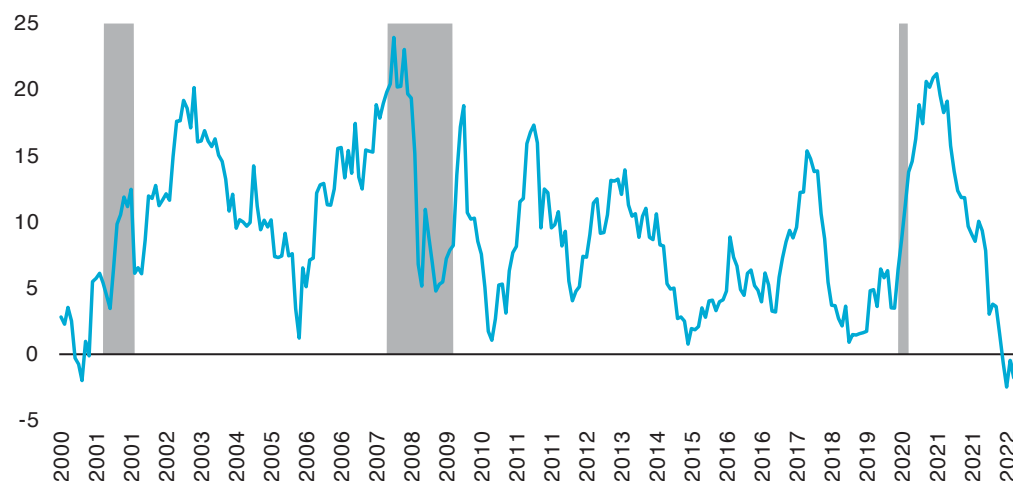


■ Recession
 — US Unemployment Rate (in %)

- Global inflation that spiked on the back of supply chain disruptions, caused due to Covid-19 and Russia-Ukraine war, has been stickier than expected.
- While global goods market supply pressures have subsided to pre-Covid levels, job market in US has remained resilient.

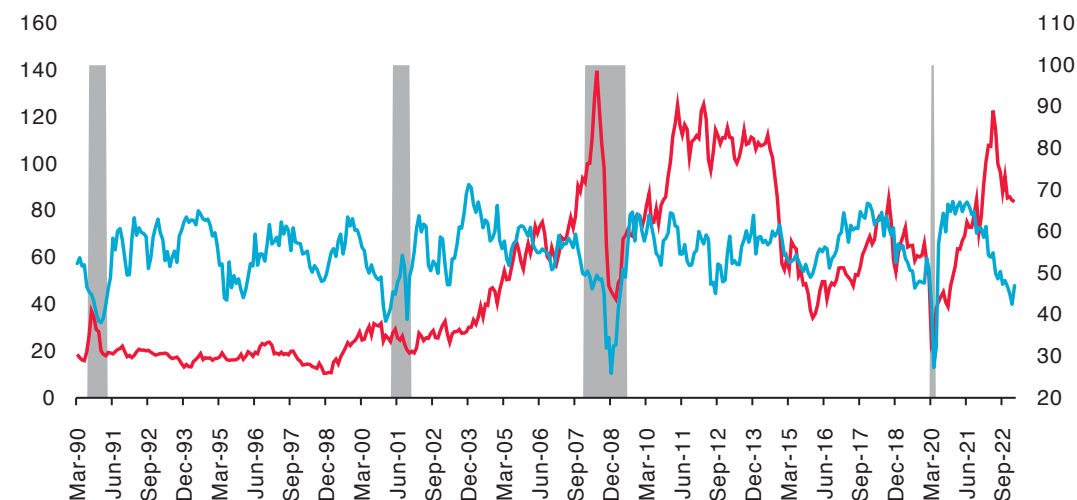
MONETARY TIGHTENING TO DRIVE CYCLICAL DISINFLATION; BUT COULD STILL STAY ABOVE 2% TARGET

Money supply contraction has begun, will contain commodity inflation and equity earnings



■ Periods of recession in the US
 — Global M2 (% y-o-y)

Thin commodity supply will keep a floor under commodity prices



■ Periods of recession in the US
 — ISM New Orders (RHS)
 — Brent Crude

- Monetary policy works with a lag.
- Aggressive rate hikes and reduced money supply growth will drive down cyclical inflation.
- On a structural basis, the disruption in energy market amidst transition to Green Energy, Geopolitics and thin commodity supply coupled with war will keep a floor under commodity prices.

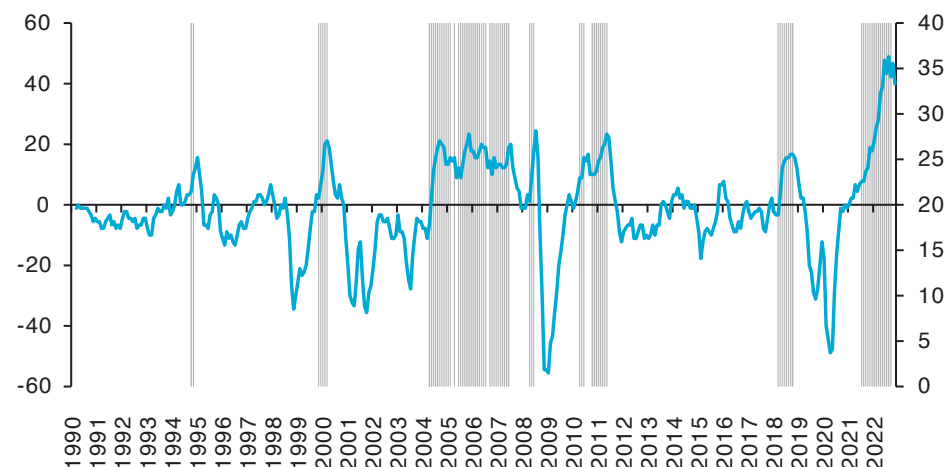
Source: Bloomberg, SBIFM Research.

SBI Funds Management Limited (A Joint Venture between SBI & AMUNDI)

04

GLOBAL GDP GROWTH SHOULD SLOW SHARPLY IN 2023

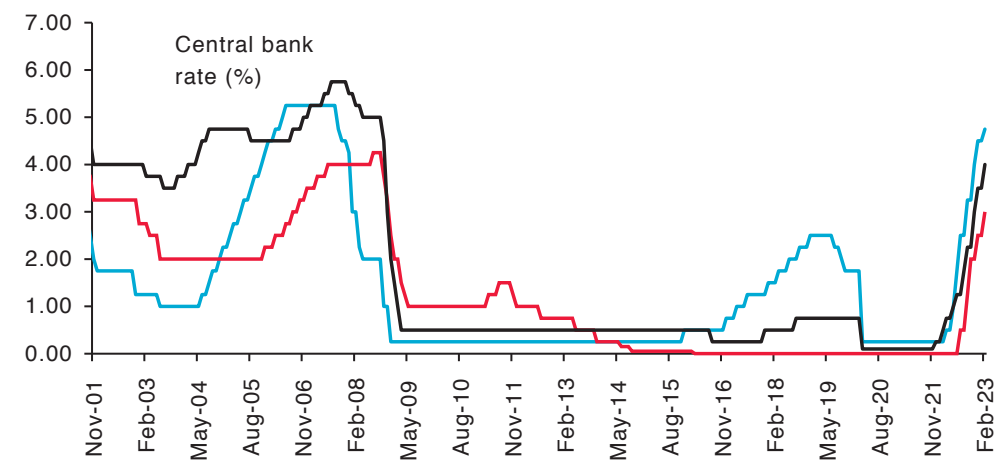
We are witnessing synchronised and aggressive monetary tightening at a time when industrial recession has already begun



■ Time periods of synchronous rate hikes
 — Global Central Banks Policy Diffusion Index

Value is % of central banks in our sample hiking rates-cutting rates

The rapid tightening in rates over a shorter time span makes a case for a significant slowdown in growth over time

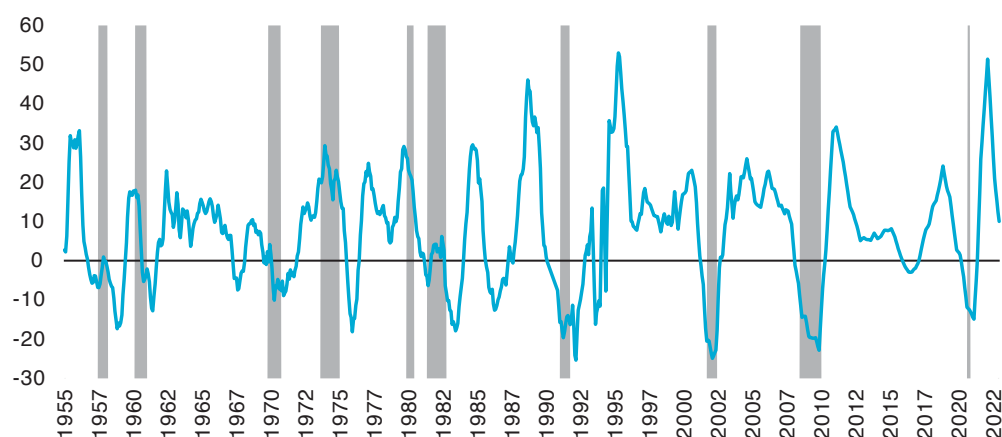


— US — Eurozone — UK

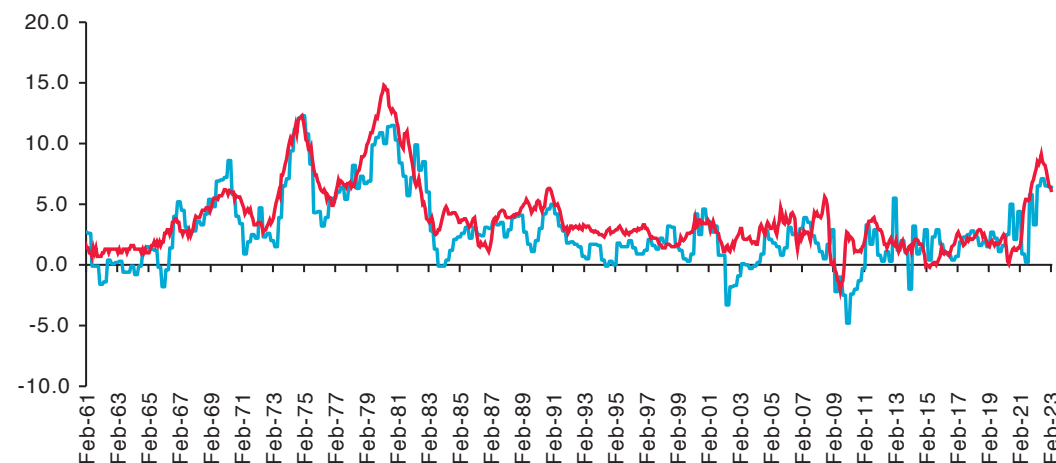
- Major central banks will end their tightening cycles.
- 2022 saw synchronous rate hikes which will drive down growth in 2023.

WEAKER CORPORATE PROFITS IN 2023 WILL DRIVE DOWN WAGE GROWTH & HIRING

US Corporate profit to moderate in 2023...



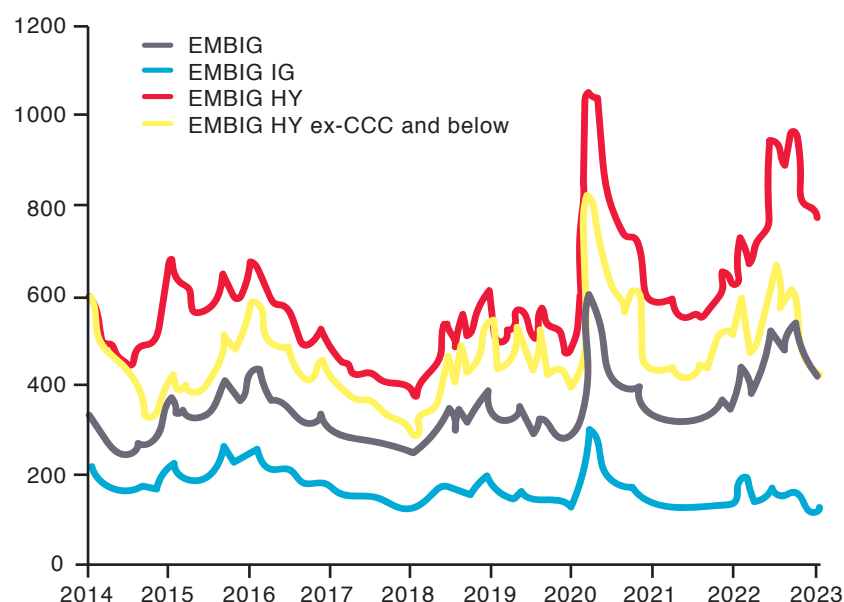
...will drive down job market strength



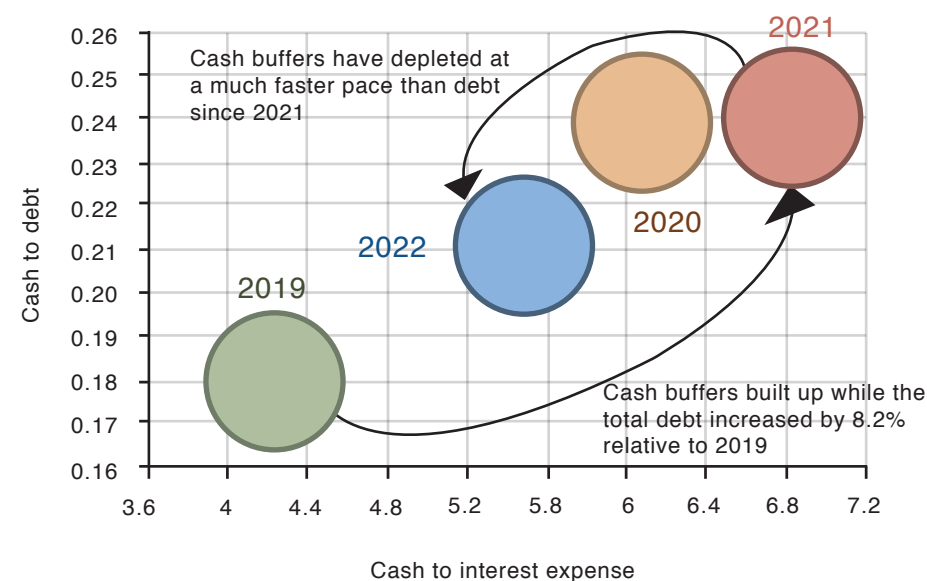
- Employment downturns can begin months after the start of the recession during inflationary periods as higher inflation leads to a delayed onset of loss in profitability.
- Corporate profit acts as a leading indicator of job loss and eventual growth slowdown.
- Business activity in US has started moderating and eventually moderation in corporate profits will likely drive down wage growth and hiring strength.

FINANCIAL SECTOR SO FAR RESILIENT TO TIGHTER MONETARY POLICY BUT RISKS ON FINANCIAL STABILITY EMERGES

Spreads of hard currency sovereign debt by rating (bps)



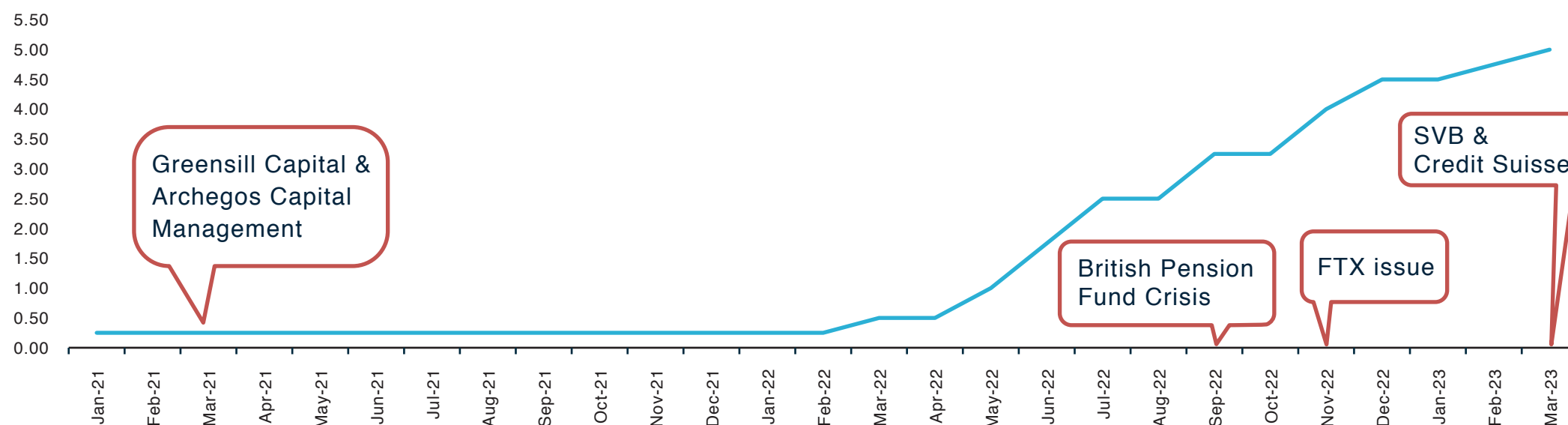
Average cash to interest expense v/s cash to debt



- Central banks across major emerging markets started rate hikes early to contain domestic inflation and spill overs from external pressures.
- Global economy appears resilient to this sharpest monetary policy tightening so far due to regulatory reforms that ensured larger systemically important banks being strong apart from savings and cash buffers amongst households and corporates.

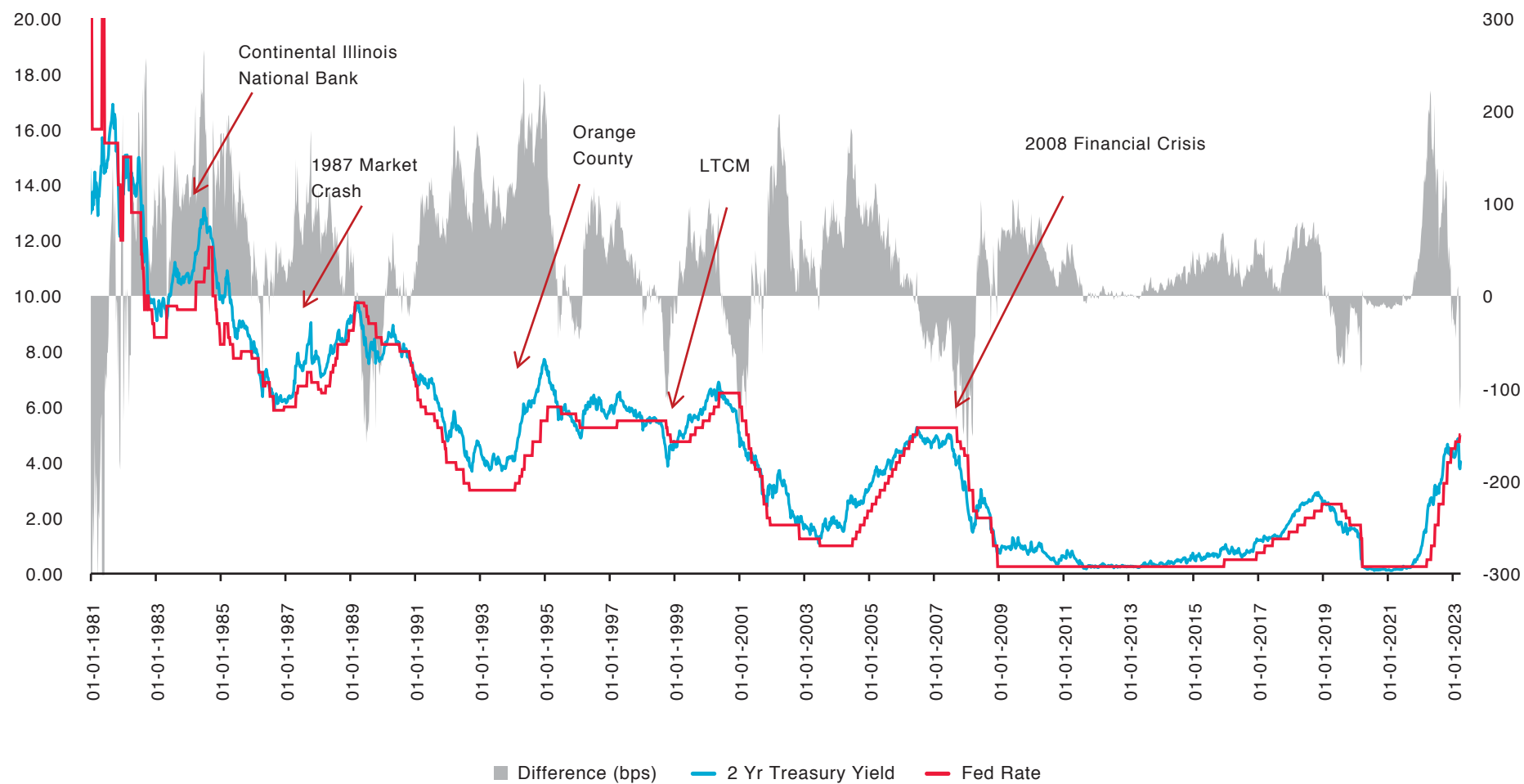
FINANCIAL STABILITY CONCERNS MAY CONTINUE TO REMAIN AT THE FOREFRONT IN CY23

Fed Rate



- Higher policy rates have again exposed leverage in the system.
- This happened last year when the UK government proposed a large fiscal loosening: markets didn't like it.

1980s OR 2008?



Financial sector turmoils do interrupt rate hikes but not necessary end them.



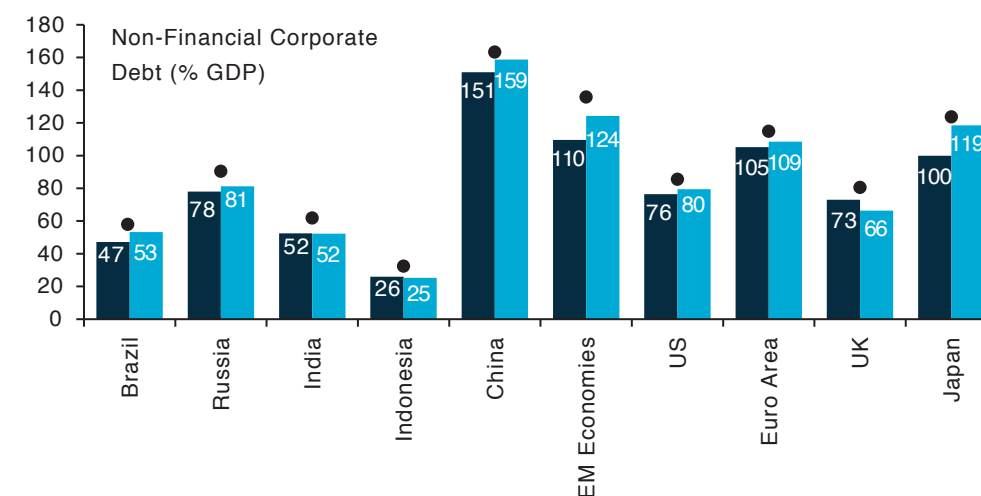
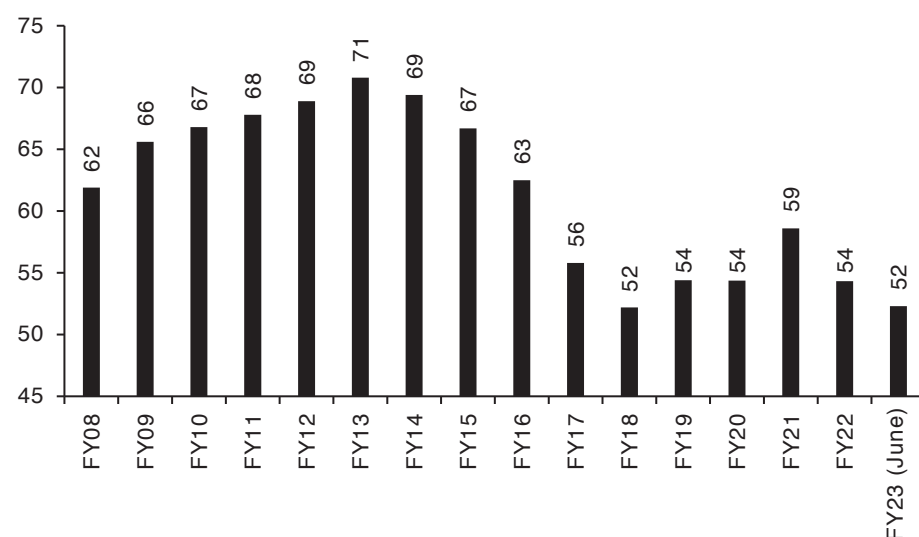
INDIAN MACRO

NO DECOUPLING!



INDIAN CORPORATES HAVE DE-LEVERAGED AT A TIME WHEN MOST COUNTRIES HAVE LEVERED UP

India's Non-Financial Corporate Debt (% GDP)



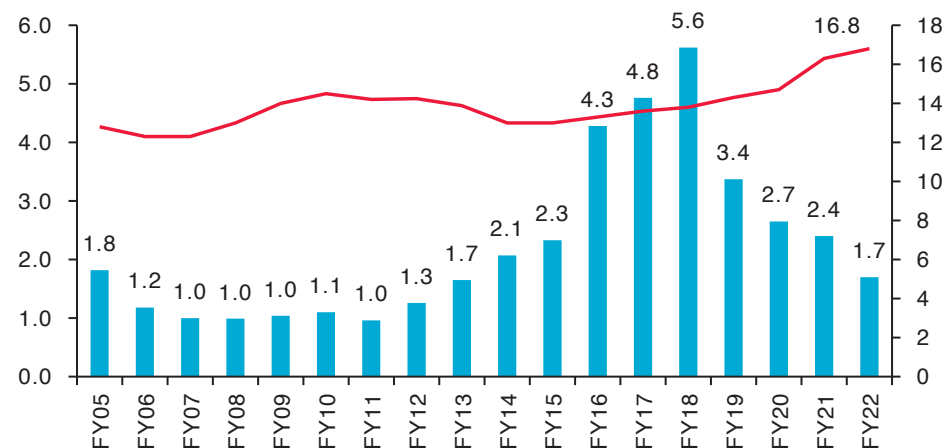
■ India's Non-Financial Corporate Debt (% GDP)

■ 2019 ■ 2022 ● Maximum in last 20 years

- Indian Corporates have deleveraged over last 7-8 years. Corporate debt to GDP has fallen significantly from 71% of GDP in FY13 to 52% in FY22.
- During the same time period, corporates in other key nations have increased leverage with debt position near multi-year highs.
- Contained private leverage increases the risk appetite to embark on growth opportunities.

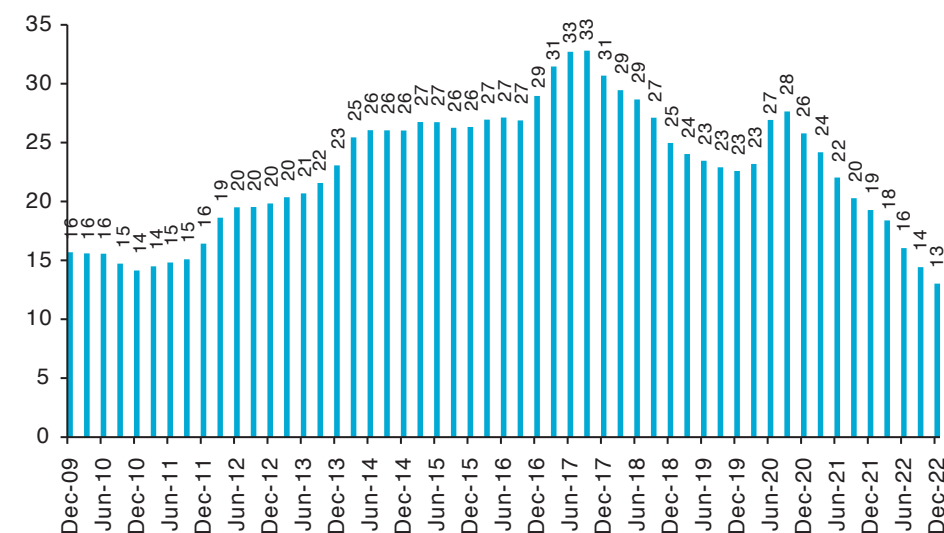
BANKS HAVE CLEANED UP THEIR BALANCE SHEETS & REAL ESTATE INVENTORY OVERHANG HAS REDUCED

Net Non-Performing Assets (% of total advances) & Indian Banking System Capital Adequacy Ratio (in %)



■ SCB's Net NPA (% of total advances)
 — Indian Banking System CAR (in %)

Unsold inventory has reduced materially in recent quarters



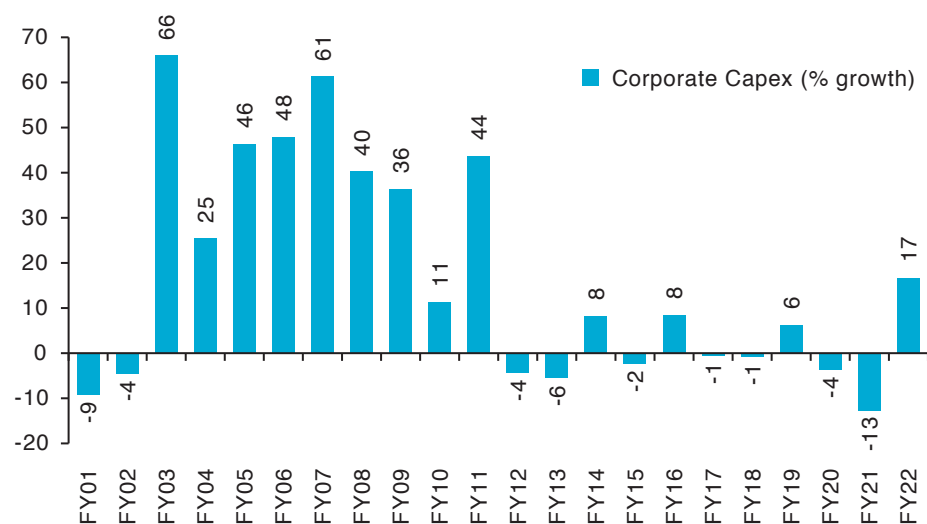
■ Residential Real Estate Inventory Overhang (in months)

- Issue of stressed assets in Indian banking system has ironed out and banks sit on a strong capital adequacy ratio (16%) with a significant risk appetite to lend.
- Significantly low interest rates, tax sops on real estate purchases in select key states, accumulated financial savings amongst the upper middle class and long periods of lackadaisical investment in property market had driven a healthy buying in residential real estate, thereby addressing the issue of excessive inventory.

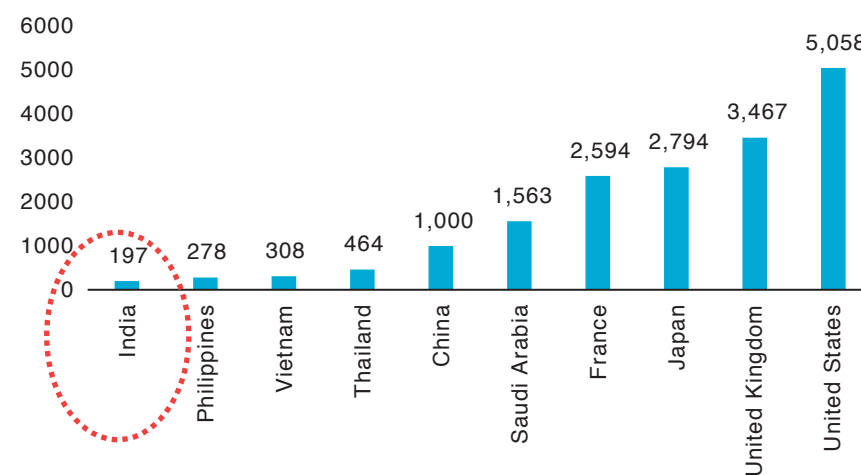
Source: RBI, PropEquity, JMFL, SBIFM Research; Note: Housing price index from CREDAI report;
 Data as on December 2022 For illustrative purposes only, may be subject to change without prior notice.

WE ARE POSITIVE ON CORPORATE CAPEX CYCLE IN INDIA IN THE MEDIUM-TERM

India has seen a long period of underinvestment, making a case for pickup in capex



India is expected to benefit by friendshoring, China+1 and cheap labour



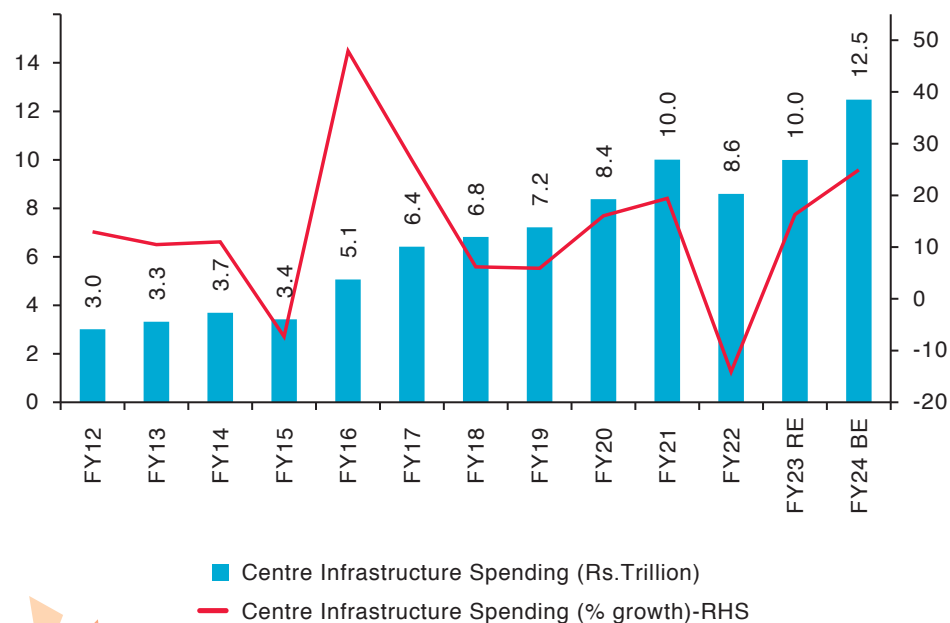
Data is based on ~9000 listed & unlisted companies

Average monthly manufacturing earnings of employees (2020) (US\$)

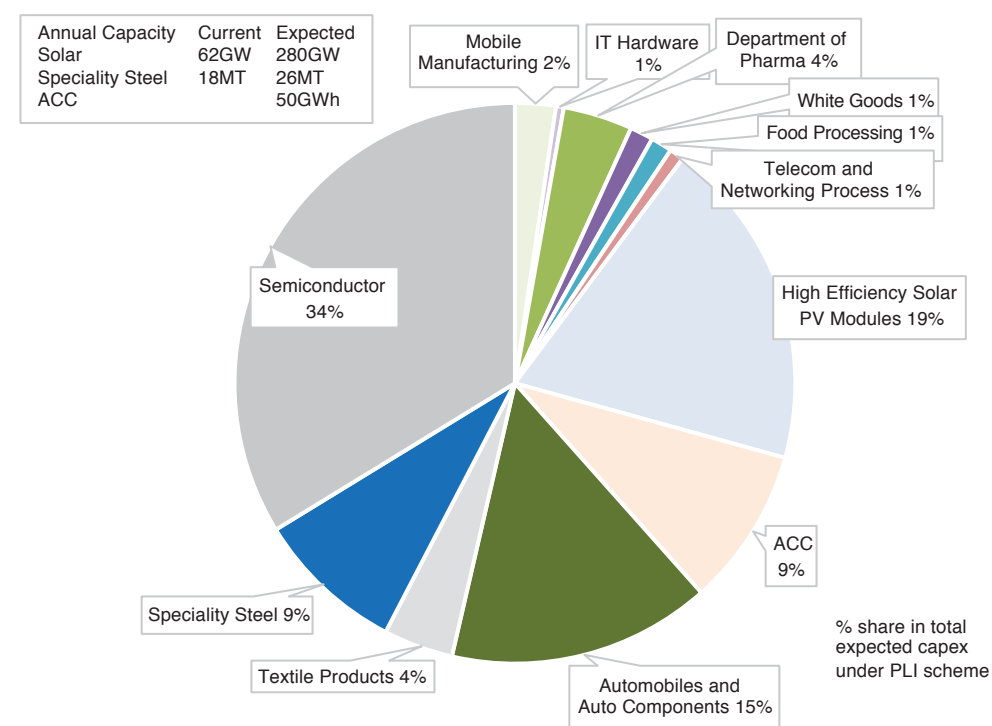
- India has witnessed a long period of underinvestment (since FY2012). Low investments along with higher capacity utilisation makes a case for a capex revival in India.
- Further, low labour cost and changes such as friendshoring and China +1 has started to work for India and has the potential to benefit many sectors.

TAILWINDS FOR INDIA'S MANUFACTURING & CAPEX CYCLE TO PICK UP

Infrastructure push by the government



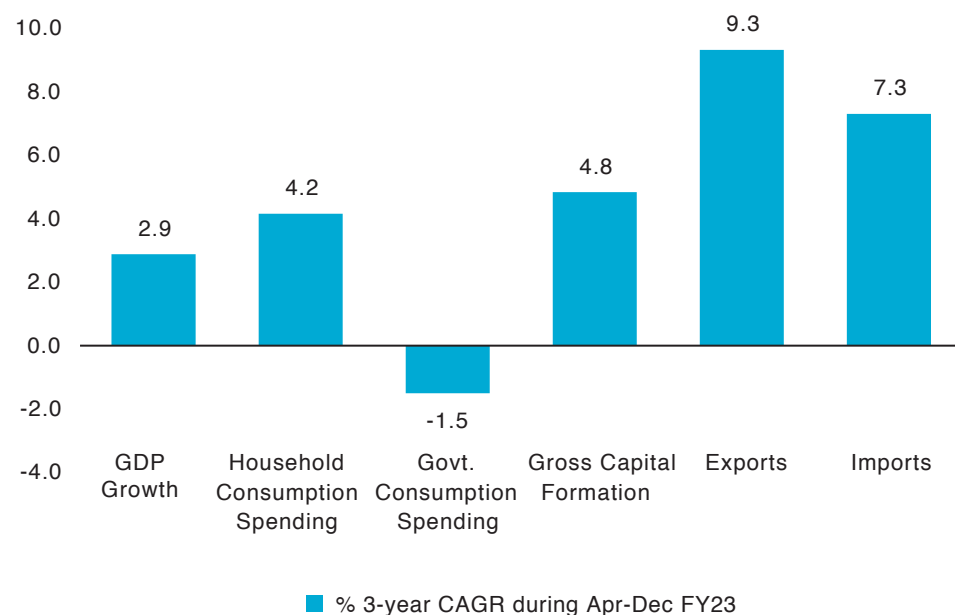
Thrust to newer sectors and new-age industries



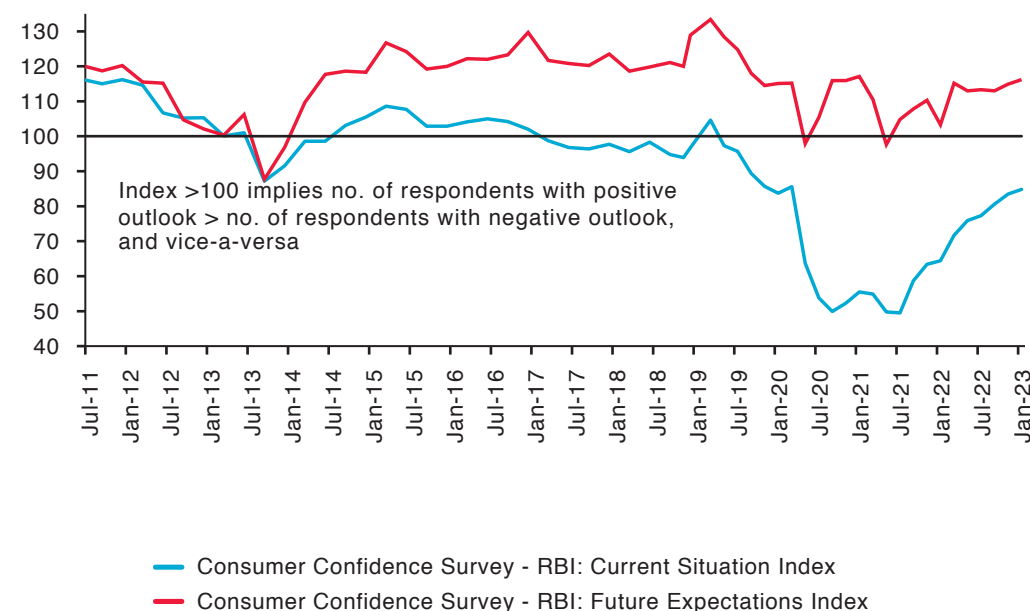
- Indian governments infra spending has grown by 16% y-o-y in FY23RE and is budgeted to grow by 25% in FY24BE.
- Further, government initiatives to support manufacturing growth via PLI schemes is providing thrust to newer sectors and new-age industries such as electronics/tech products, speciality steel, semiconductors among others. The expected capex from PLI scheme is ~US\$ 62bn (Rs. 4.9 Trillion) over FY22-FY27.

IMPROVING CONSUMER SENTIMENTS AND SOFTER INFLATION TO DRIVE CONSUMPTION RECOVERY IN 2023

Slow revival in household spending



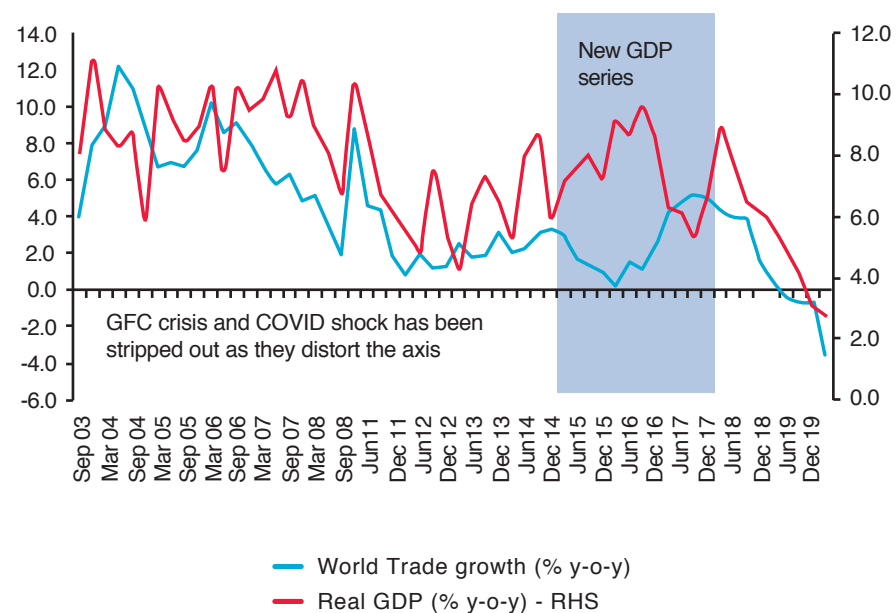
Improving consumer sentiments should aid pickup in household demand



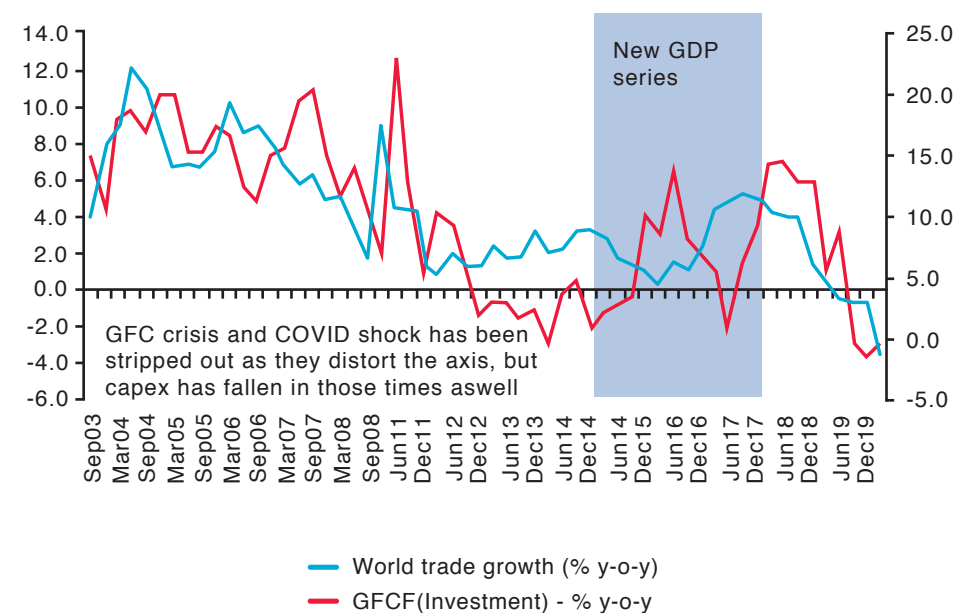
- FY24 likely to see cyclical pickup in household consumption spending.
- India's consumption demand growth is a multiple year phenomena benefiting from young population and urbanisation.

LONG-TERM FUNDAMENTALS INTACT - NEAR-TERM GLOBAL HEADWINDS POSE DOWNSIDE GROWTH RISKS

India's GDP moderates with moderating global trade



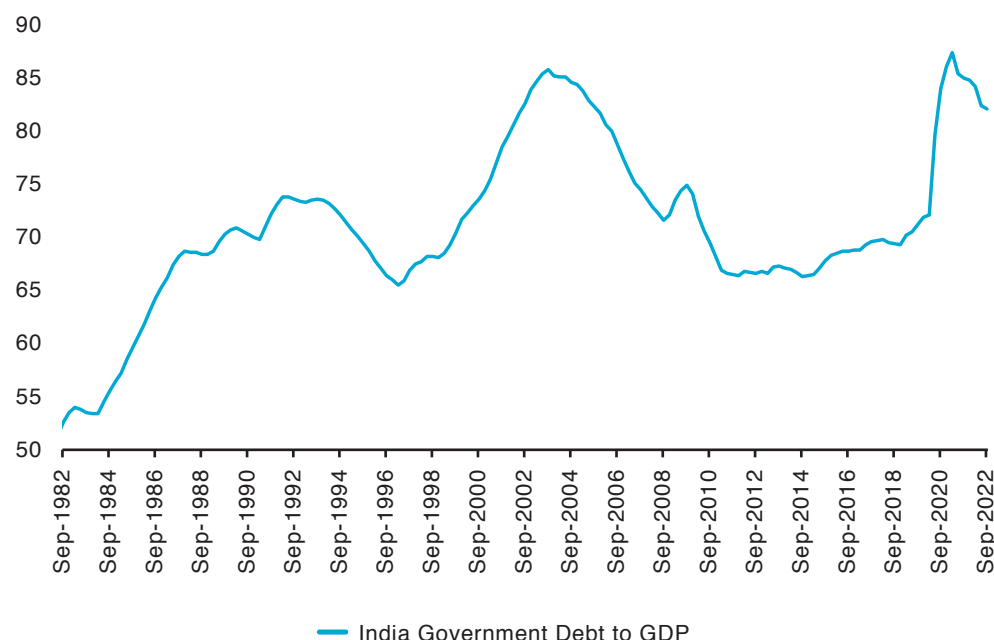
India's capex cycle has very strong linkage to global trade cycle



- India cannot be decoupled from global backdrop.
- Global growth headwinds could lead to some temporary pause in corporate capex cycle.

ELEVATED GOVERNMENT DEBT LIMITS COUNTER-CYCLICAL POLICY SUPPORT BUFFER

High government debt limits the ability to cushion the impact of global headwinds



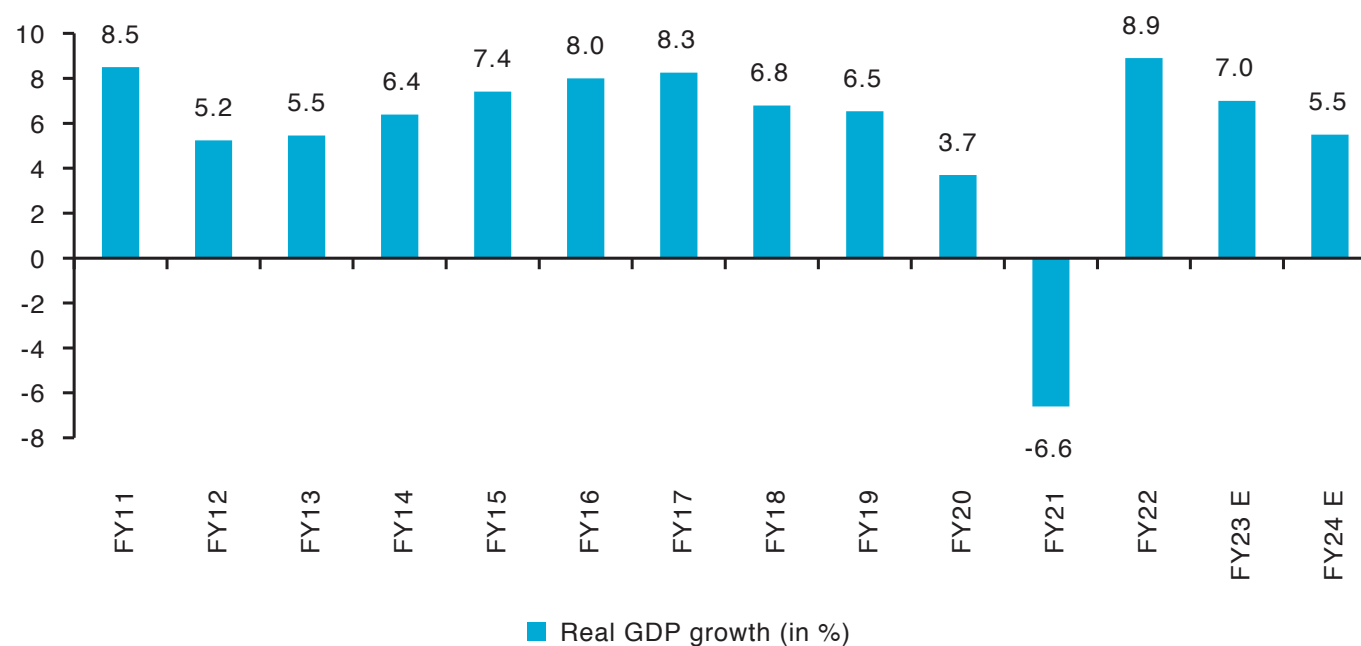
Tax buoyancy is the key in the near-term and beyond FY23 to keep government spending supportive



- Fiscal deficit consolidation in India is gradual. General government fiscal deficit is estimated at 9% in FY23 and is expected to consolidate to 7.6% by FY26.
- Tax buoyancy, which is expected to be at 1 in FY24 is the key now.

EXTERNAL FACTORS LIKELY TO DRIVE GROWTH MODERATION IN INDIA IN FY24

Real GDP growth for FY24 to be 5.5% y-o-y vs. 7% in FY23

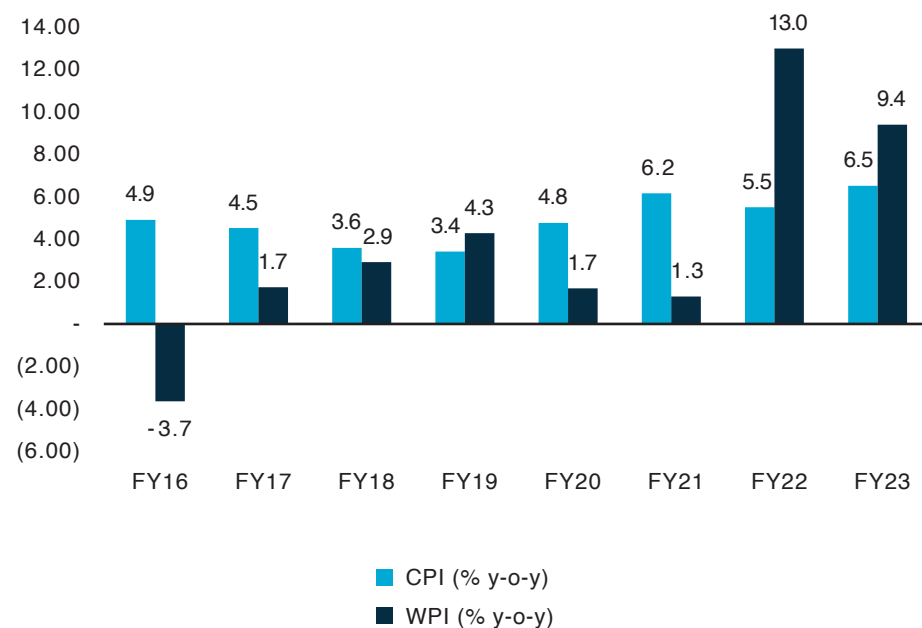


Weak global growth, lagged impact of tightening monetary and financial conditions could drive India's growth down to 5.5% in FY24.

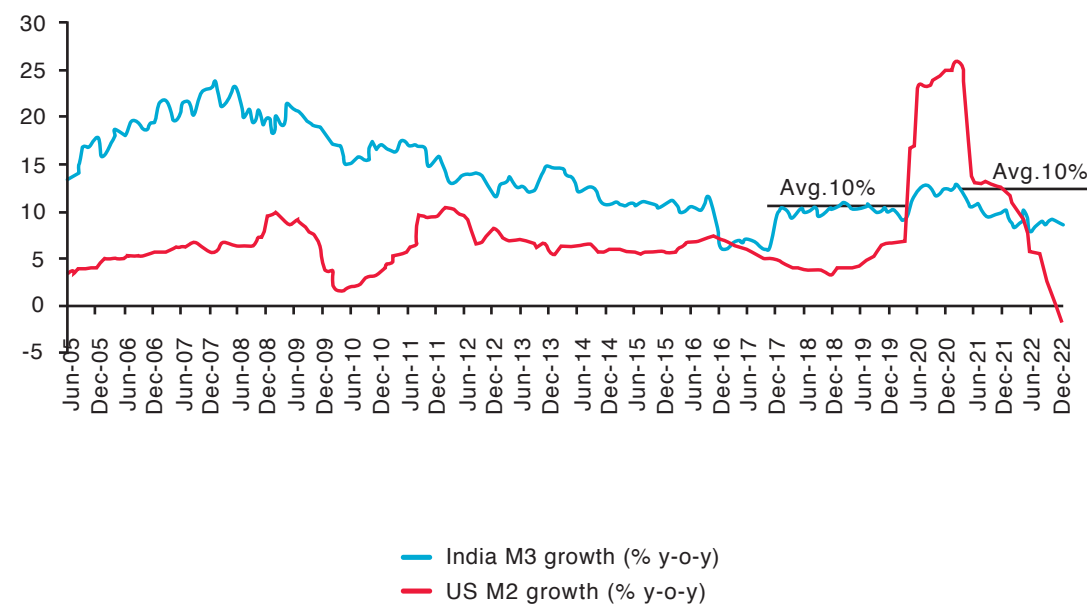
Source: CEIC, CMIE Economic Outlook, RBI, SBIFM Research; Data as on December 2022
 For illustrative purposes only, may be subject to change without prior notice.

CPI INFLATION ELEVATED TO NEAR 6% DURING FY21-FY23

Higher commodity prices post-Covid drove India's inflation high during FY21-FY23



Excessive policy stimulus avoided in India

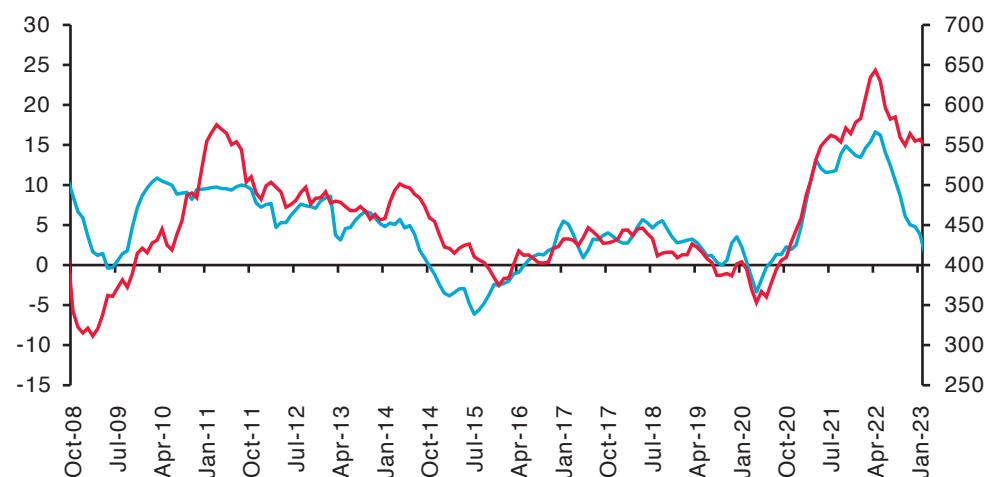


Higher commodity prices post-Covid drove wholesale and retail price pressures in India even as demand indicators (M2 growth, household consumption) were contained.

Source: Bloomberg, CMIE Economic Outlook, SBIFM Research; Data as on January 2023
For illustrative purposes only, may be subject to change without prior notice.

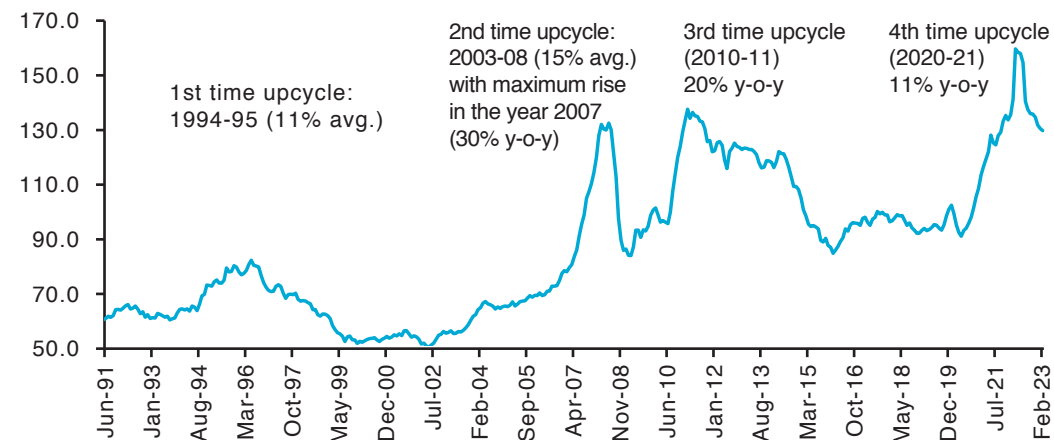
CPI INFLATION LIKELY TO MODERATE TO ~5% IN FY24 ON LOWER FUEL & CORE INFLATION

Moderating commodity cost will lead to disinflation in wholesale prices



— WPI Inflation (% y-o-y)
 — Bloomberg CRB Commodity Index - RHS

Global food inflation takes a breather though domestic weather challenges could keep food inflation elevated

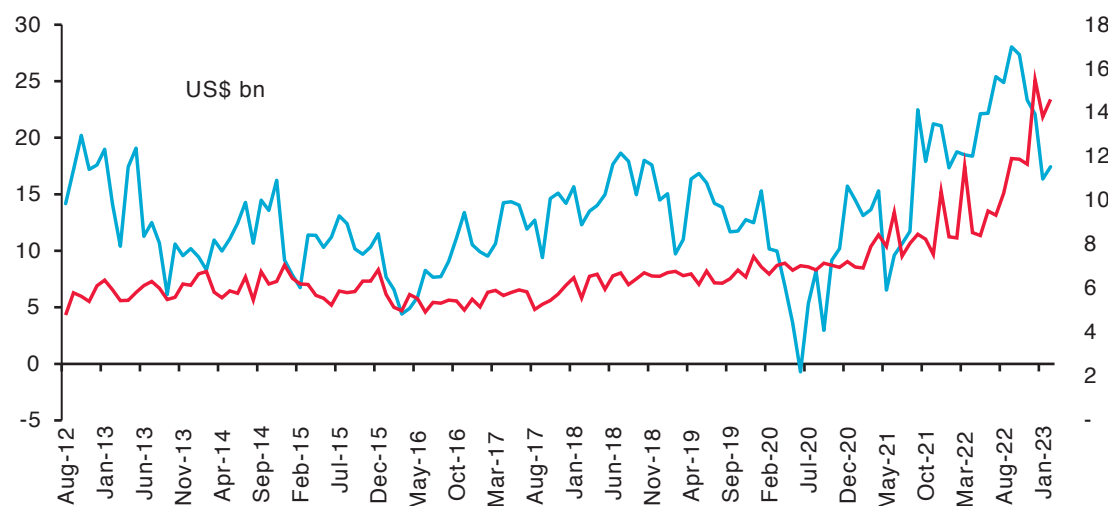


— FAO Global Food Price Index

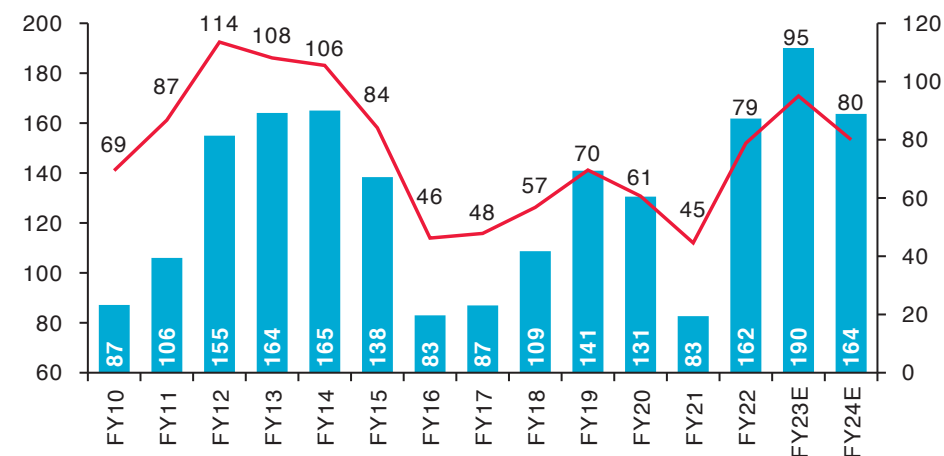
- CPI inflation likely to average ~5% print in FY24 on account of significant base effect kicking in fuel and core inflation.
- Weather risk to domestic food inflation, though receding global food price pressures and active government intervention could provide some offset.

FY24 LIKELY TO SEE CURRENT ACCOUNT DEFICIT UNDER 2%; BUT...

Sharp ascent in India's services exports



Fall in crude prices* will lead to fall in import bill



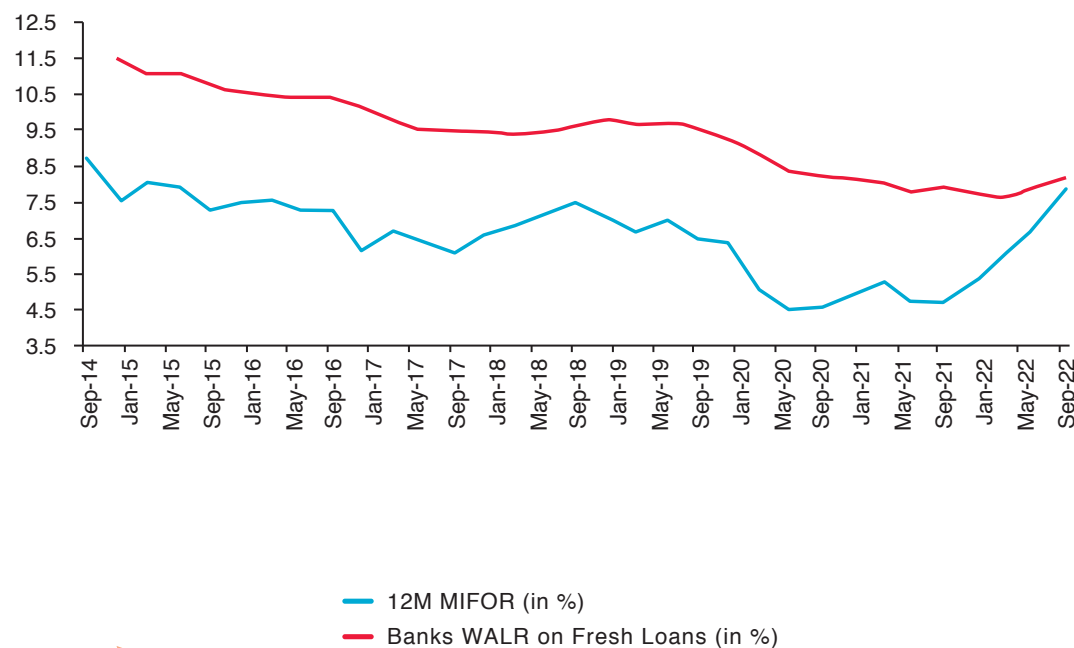
— Monthly Goods Trade Deficit (US\$ bn)
 — Monthly Net Services Receipts Surplus (US\$ bn)

■ POL Import (US\$ bn)
 — Crude Prices (US\$/barrel) - Avg Indian basket - RHS

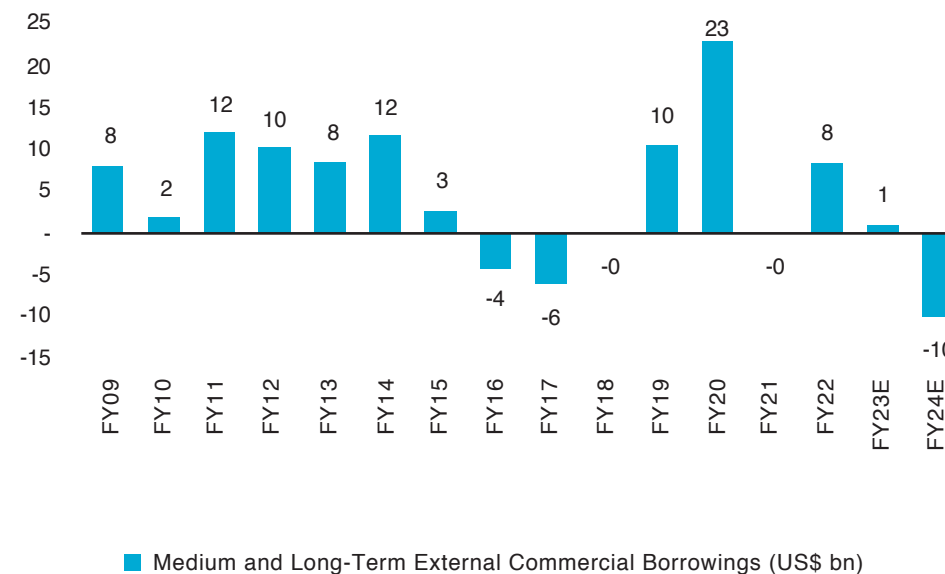
- While goods trade deficit is moderating, net services receipts is gradually scaling up.
- If oil prices are around US\$ 80/bbl in FY24, CAD could stay under 2% of GDP (every US\$ 10/bbl fall in crude prices lowers the annual CAD by US\$ 16bn). We expect monthly trade deficit run rate to narrow by US\$ 4bn in 2023, which alone lowers CAD by 1.4% of GDP.

...CAPITAL INFLOW AT RISK IN 1H FY24

Interest attractiveness for dollar borrowing has sharply reduced



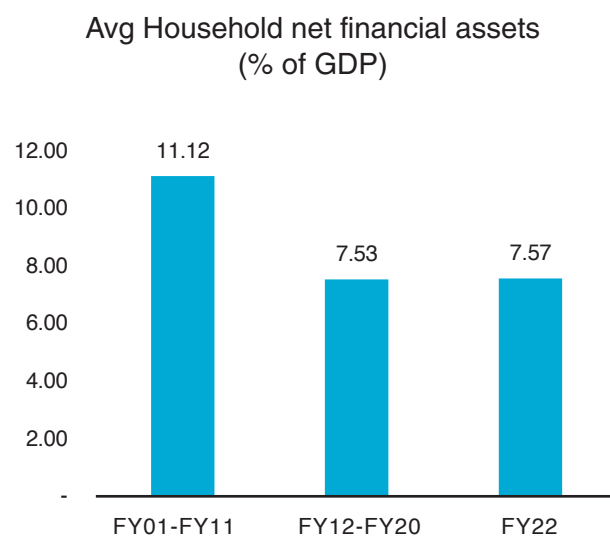
External borrowings reduced with a rise in Fed rates during FY16-18



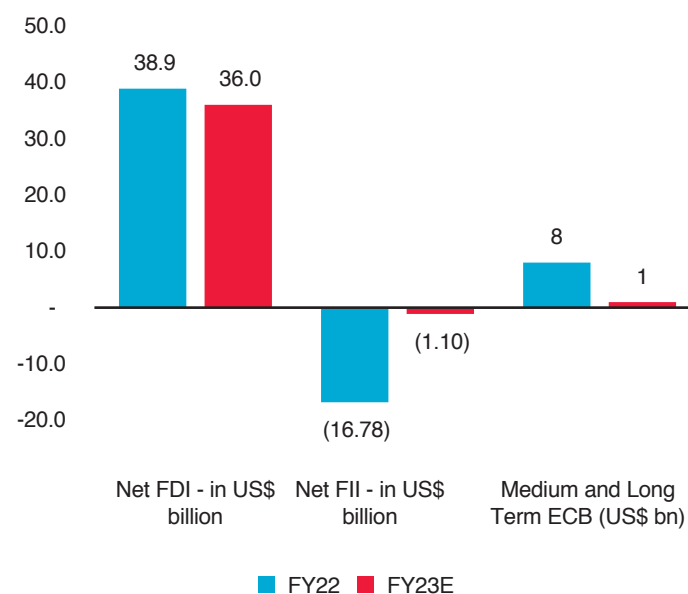
- Reduced arbitrage from dollar borrowings, tighter monetary conditions could weigh on near-term external capital inflow. FI inflow could also remain sideways.
- We expect external capital inflow to improve in 2H FY24.

FY24 LIKELY TO SEE HIGHER RELIANCE ON DOMESTIC SOURCES FOR OVERALL BORROWINGS

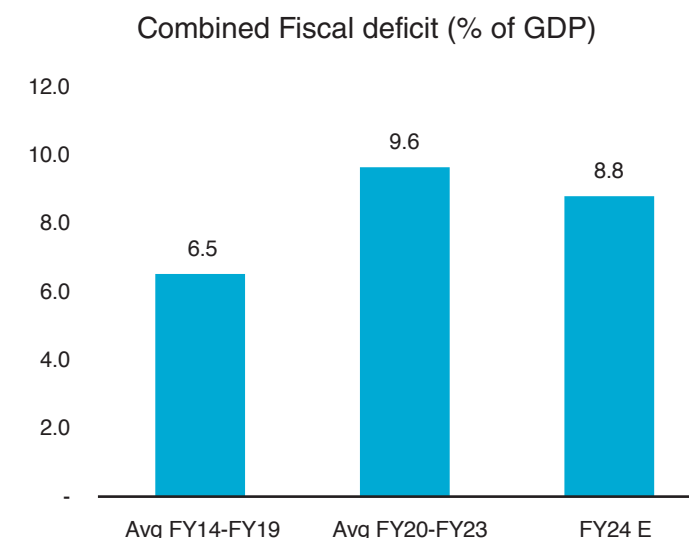
Limited availability of domestic savings



External Capital inflow at risk amidst global liquidity tightening



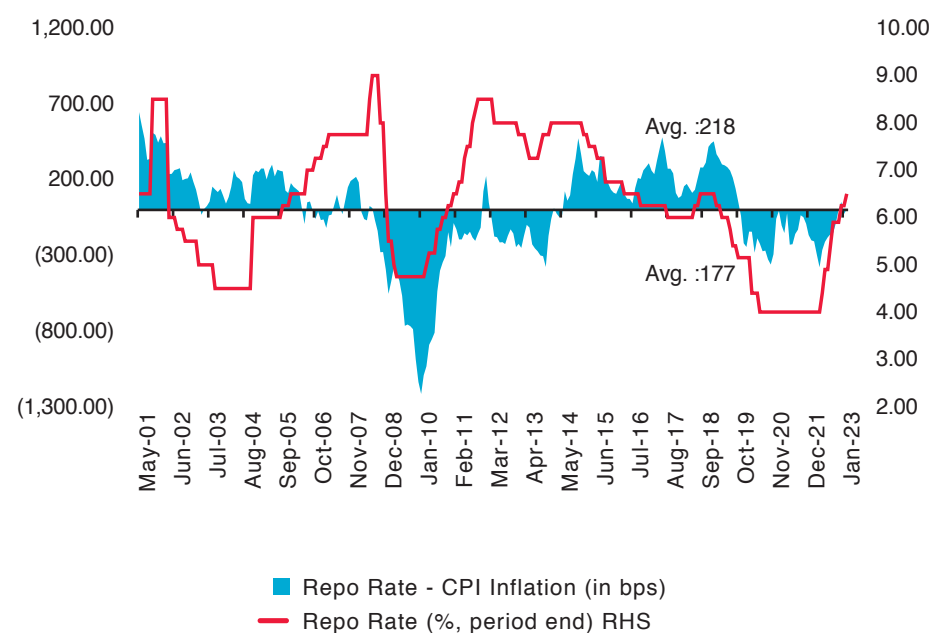
Elevated borrowing needs of the government



- External capital backdrop could stay unfavourable in 1H FY24 keeping broader borrowing costs elevated in the near-term.
- The pressure on rates could abate by end of 2023 as we expect.
 - > Growth moderation could temper down private sector credit demand.
 - > RBI could turn supportive.
 - > External capital backdrop to improve in later half of the year.

INDIA LIKELY DONE WITH RATE HIKES – LONG PAUSE AHEAD

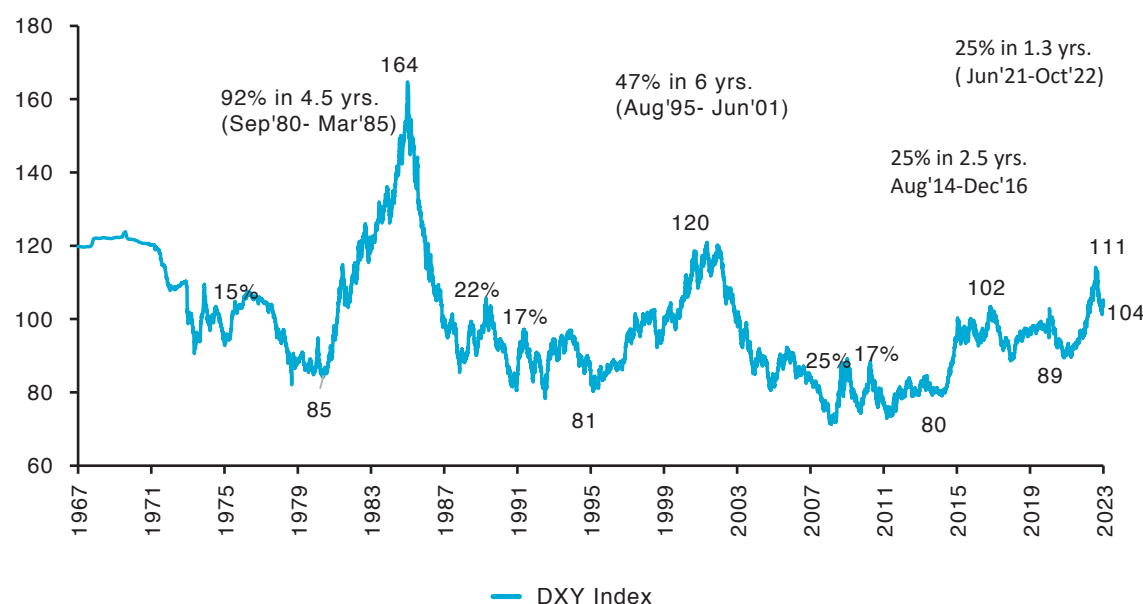
**Real rates likely to turn positive in 2023
as inflation moderates**



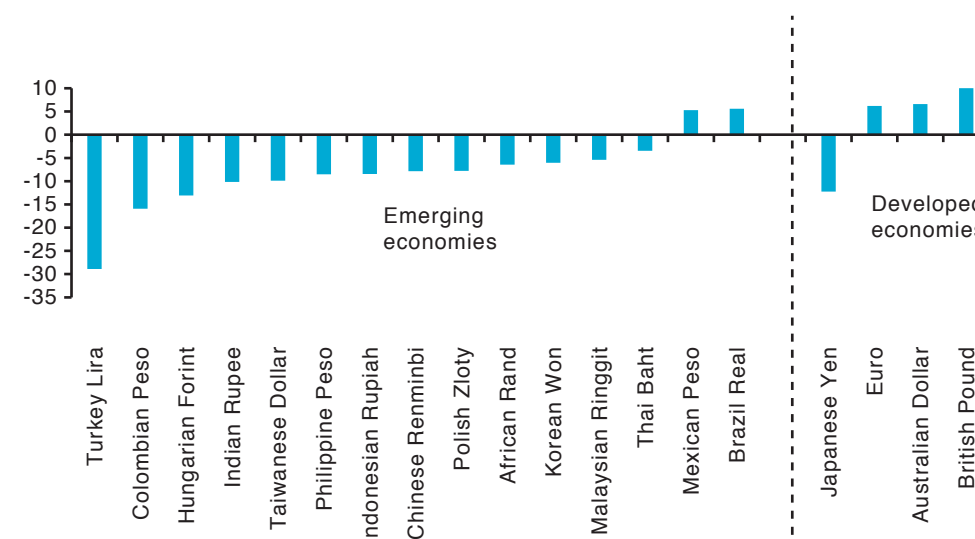
- Policy freedom constrained by elevated core inflation and persistence of inflation.
- The adherence to the current stance (‘withdrawal of accommodation’) could be interpreted as near-term tolerance for tighter systemic liquidity.
- But, given our inflation & growth projections considering the current global backdrop, we expect that the overall policy and liquidity stance could undergo a shift over the year.
- The base case thesis remains that of a long pause to assess the economic impact of earlier actions and to align inflation closer to the policy target of 4%, though RBI could turn more supportive on liquidity over the course of 2023.

US\$ WAS STRONG IN 2022

DXY index rallied 17.2% in nine months of 2022



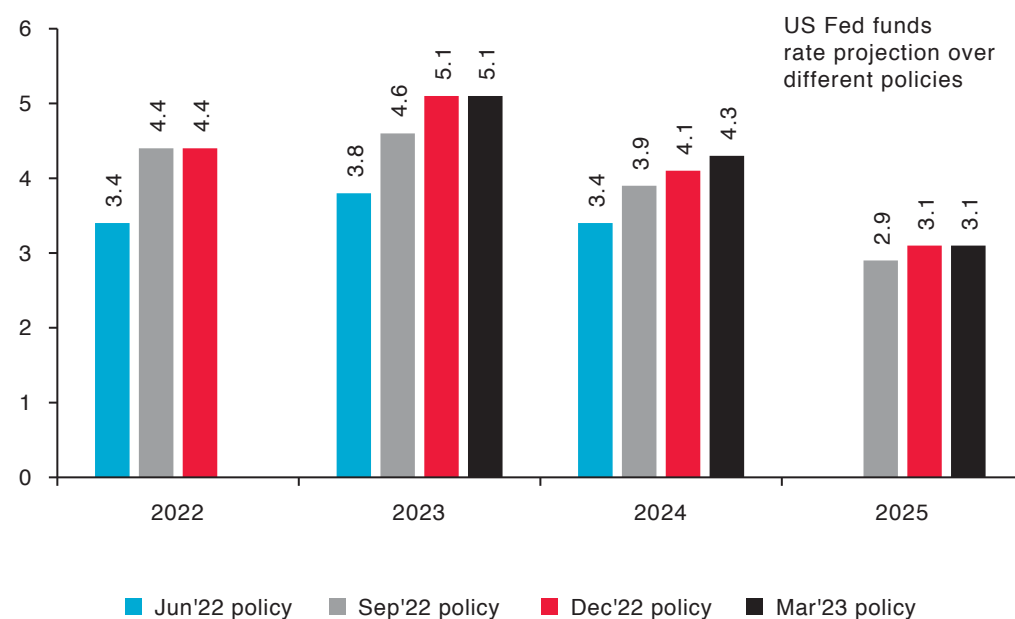
Most currencies depreciated against US\$



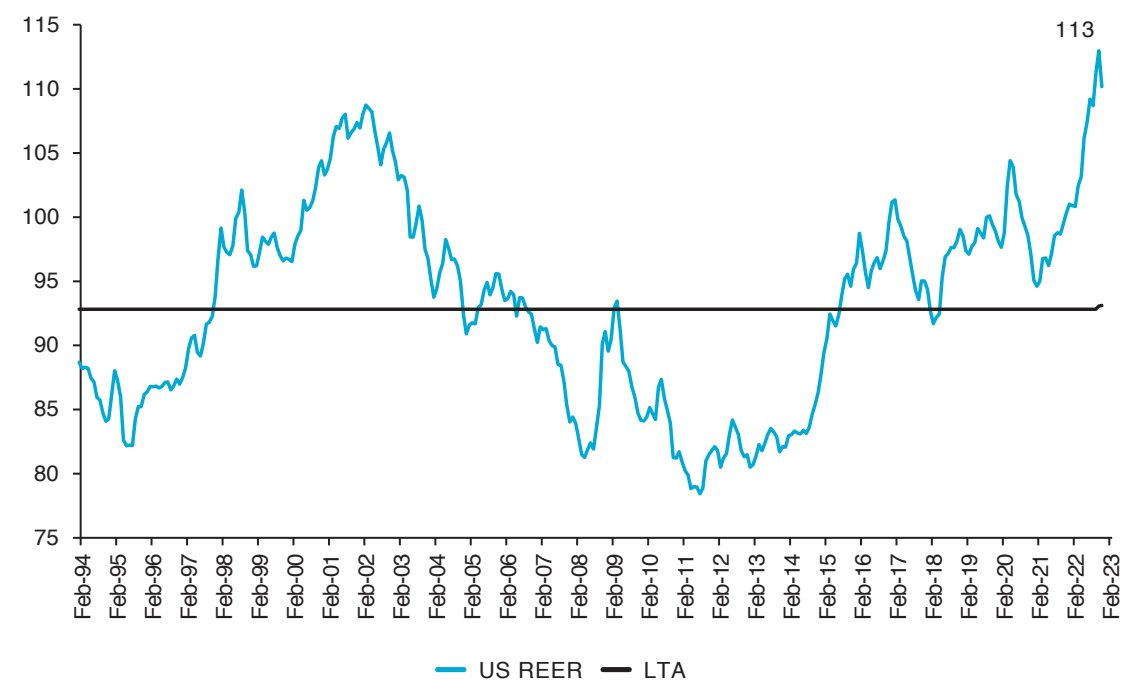
- US\$ (as measured by DXY) strengthened 25% between June 2021 and October 2022.
- Key currencies depreciated to multi-year lows. Chinese RMB fell to 2008 levels.
- Euro and Yen fell to levels last seen in 2022 and 1998 respectively. GBP moved to historic lows.
- Aggressive monetary tightening by the US Fed leading to elevated US yields, deteriorating economic outlook and consequent risk off sentiment drove the dollar strength.

US\$ LIKELY TO WEAKEN IN 2023

Monetary tightening comes to an end



DXY is significantly overvalued



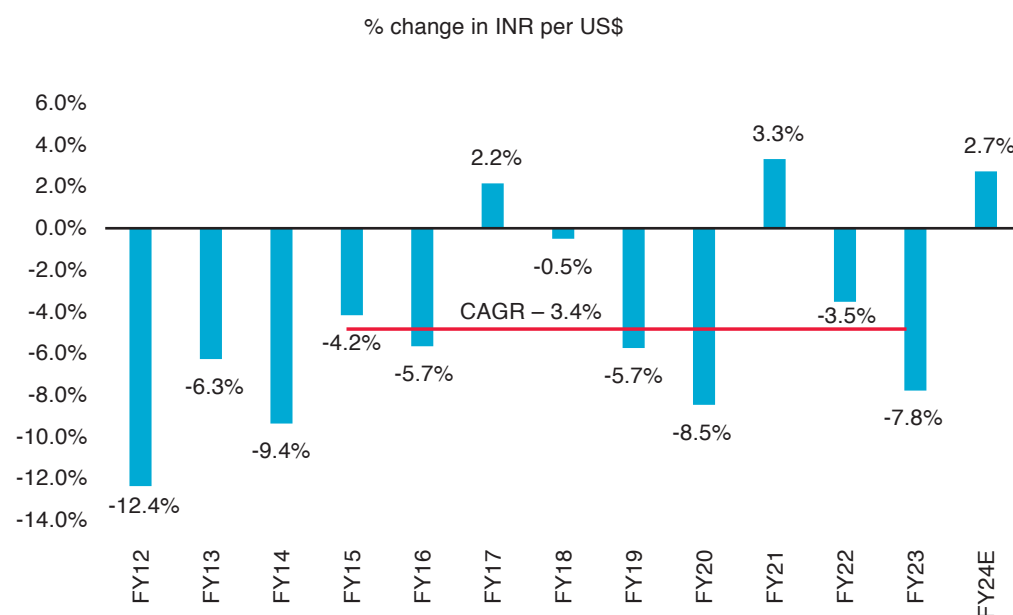
- **Uncertainties are high but a broader US\$ decline is likely an eventual outcome in 2023 as:**
 - 1) US growth could weaken much earlier than rest of the world
 - 2) Monetary tightening is likely on its last leg
 - 3) Rate cut argument will gather steam by end of 2023
 - 4) US\$ is still significantly overvalued as measured by REER (Real Effective Exchange Rate)

Source: BIS, FED, Bloomberg, SBIFM Research. Note: LTA is Long-Term Average.

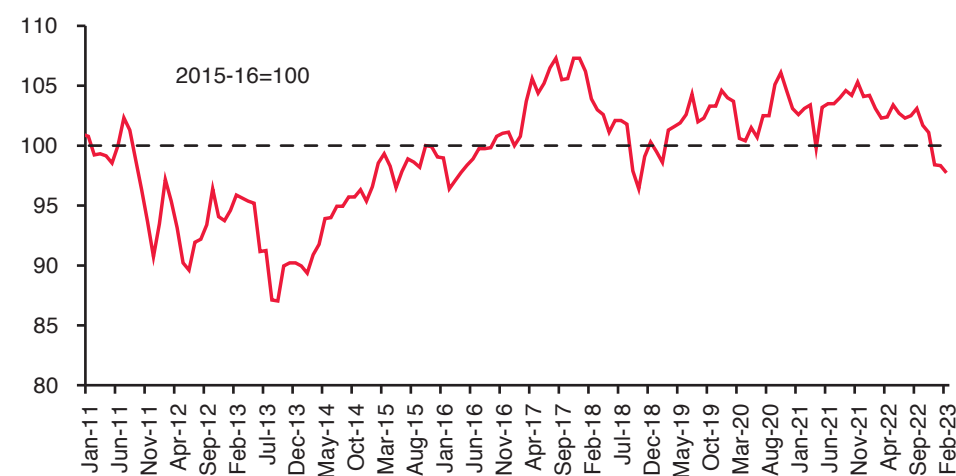
SBI Funds Management Limited (A Joint Venture between SBI & AMUNDI)

INR LIKELY TO APPRECIATE BY END 2023

Rupee likely to appreciate to ₹80 per US\$



Rupee is slightly undervalued



- Rupee will likely appreciate to ₹80/US\$ by end of 2023.
- While near-term risks remain, beyond two quarters, it could see a marginal appreciation based on sequential improvement in external account, falling inflation and relatively better domestic growth.
- RBI's active intervention has helped lower rupee volatility and hedging cost.



FIXED INCOME OUTLOOK

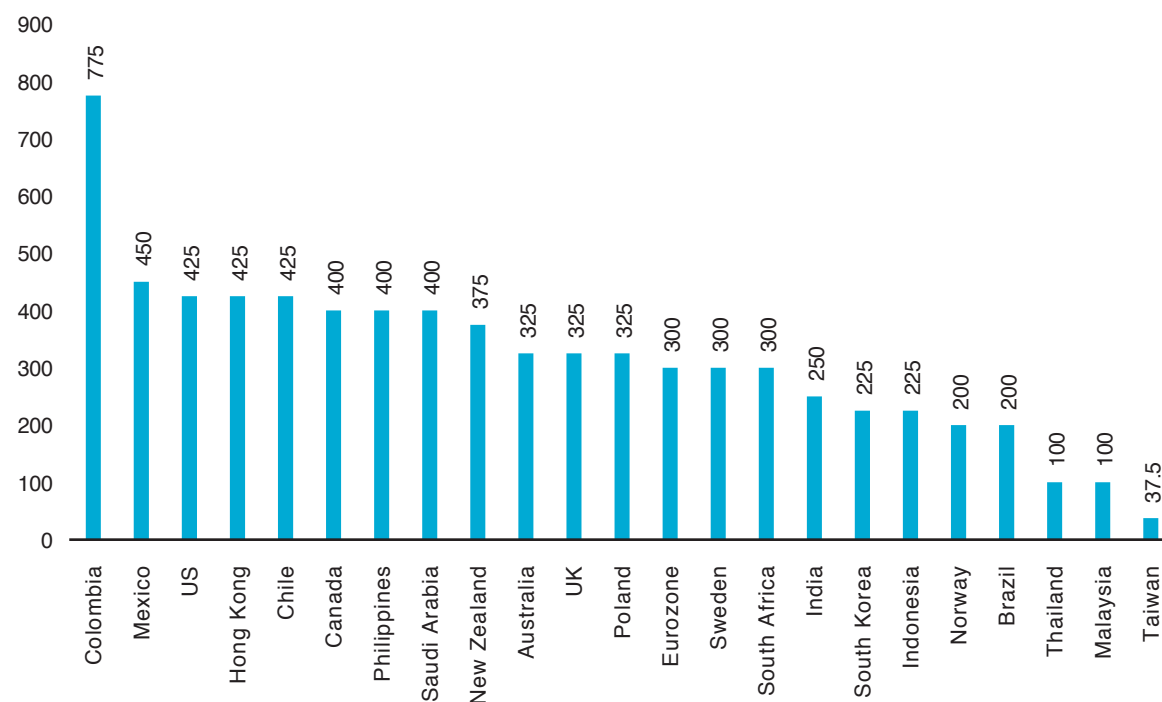
A PERIOD OF ASSESSING LAG EFFECTS

RAJEEV RADHAKRISHNAN

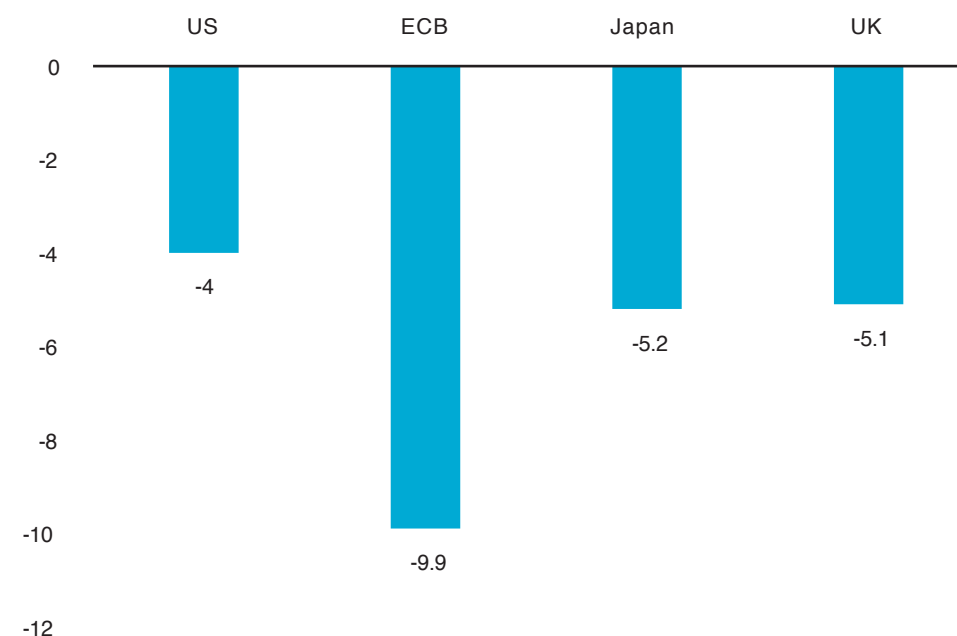
CIO, FIXED INCOME

PERSISTENTLY HIGH INFLATION LED TO A CHANGE IN MONETARY POLICY STANCE ACROSS KEY ECONOMIES IN FY23

Change in policy rates (March 2022 to March 2023) (in bps)



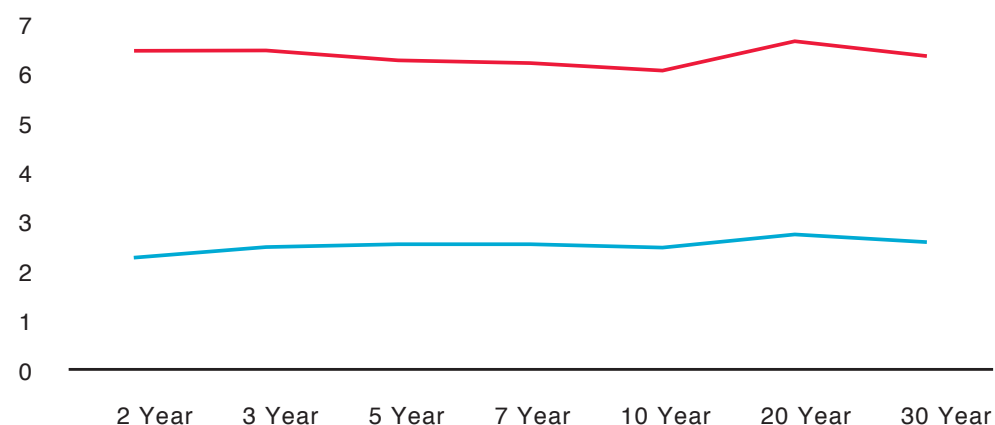
Change in Central bank balance sheet as a percentage of GDP (Dec 2021 to Dec 2022)



Rapid policy tightening has been accompanied with the end of QE as inflation stayed much above policy targets, especially in the developed markets.

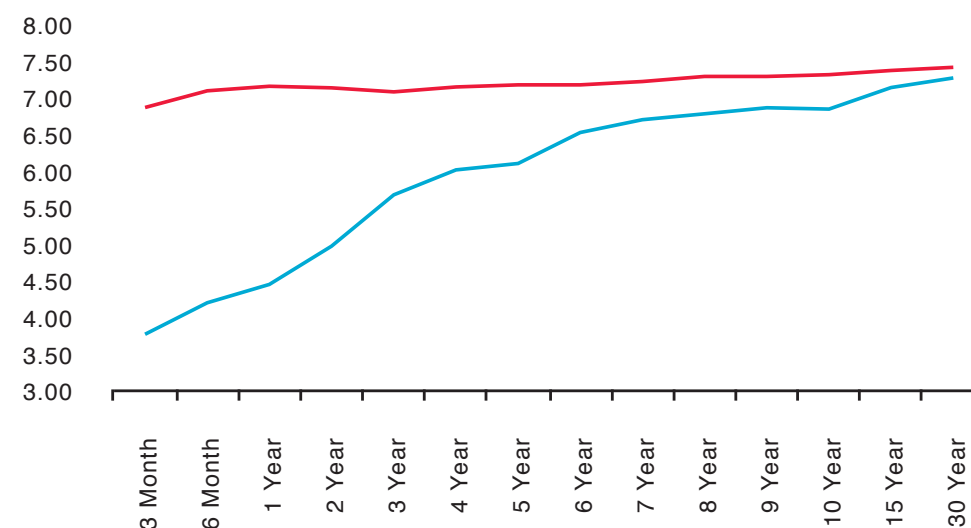
LEADING TO AN UPWARD SHIFT IN THE YIELD CURVE

US Yield Curve (%)



— 25-Mar-22
 — 31-Mar-23

India G-sec Yield (%)

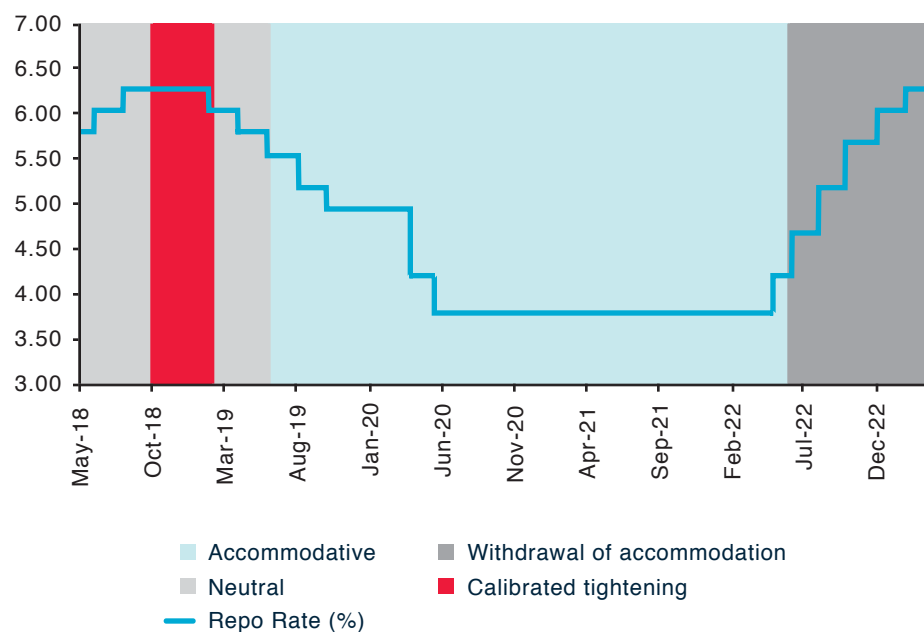


— 31-Mar-22
 — 31-Mar-23

- Nominal yields have shifted higher across jurisdictions alongside high degree of volatility.
- Shorter-end of the yield curve in India has seen a sharper increase as rate hikes have been accompanied with unwinding of surplus liquidity.
- Demand from Insurance and PF segment has kept the long end of the sovereign curve well anchored.

MONETARY POLICY CYCLE IN INDIA AT AN INFLECTION POINT...

Monetary policy in India has peaked



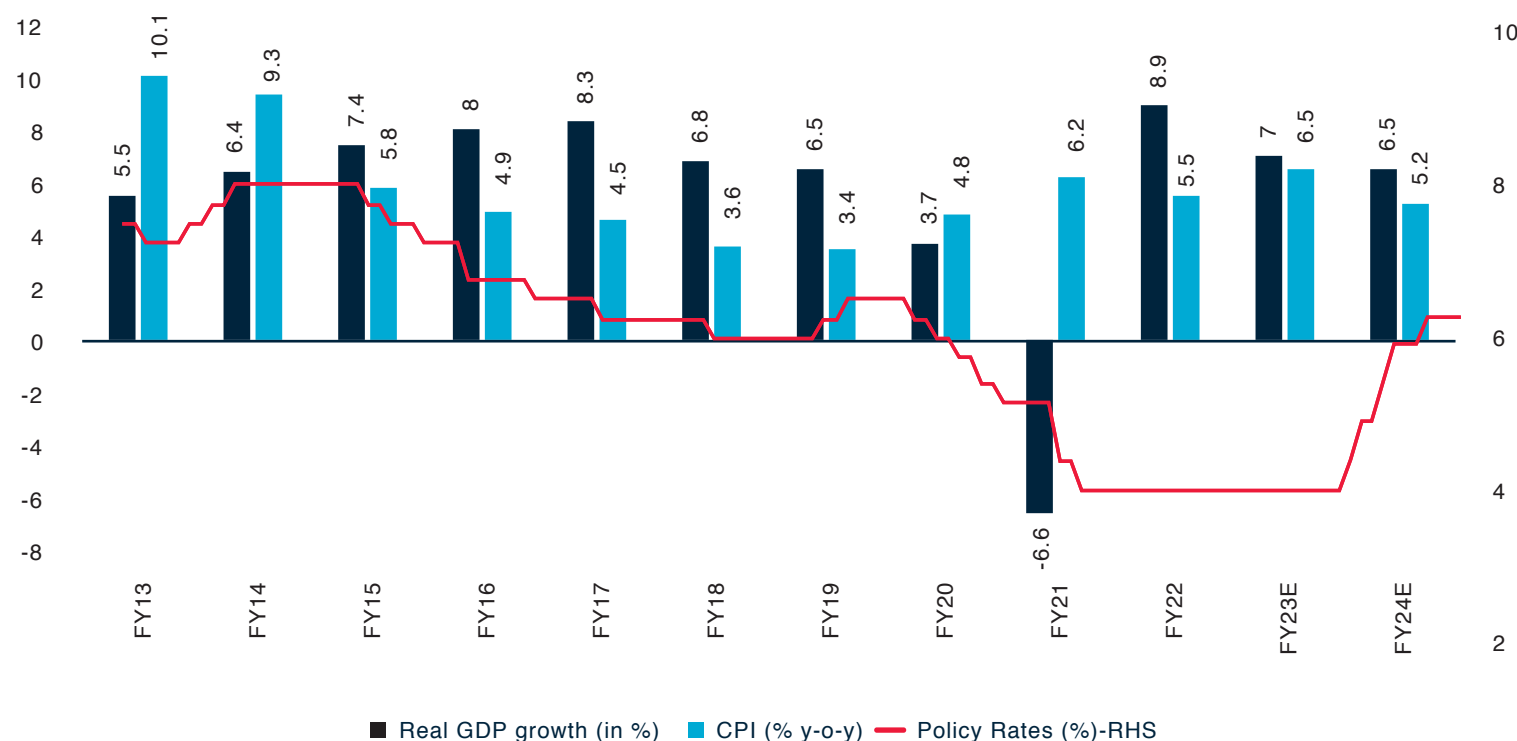
Effective tightening has been higher than increase in policy rates



- Even as policy rates have been hiked from 4% to 6.50% since May 2022, the effective tightening has been around 300 bps as the operating target has moved from below the reverse repo rate to closer to the repo rate.
- Policy cycle has reached a stage where assessment of lag effects is crucial.

...HOWEVER, THE PATH TO A TURN IN THE CYCLE REMAINS BUMPY AT PRESENT...

Current growth inflation dynamics provide less visibility on immediate rate cuts

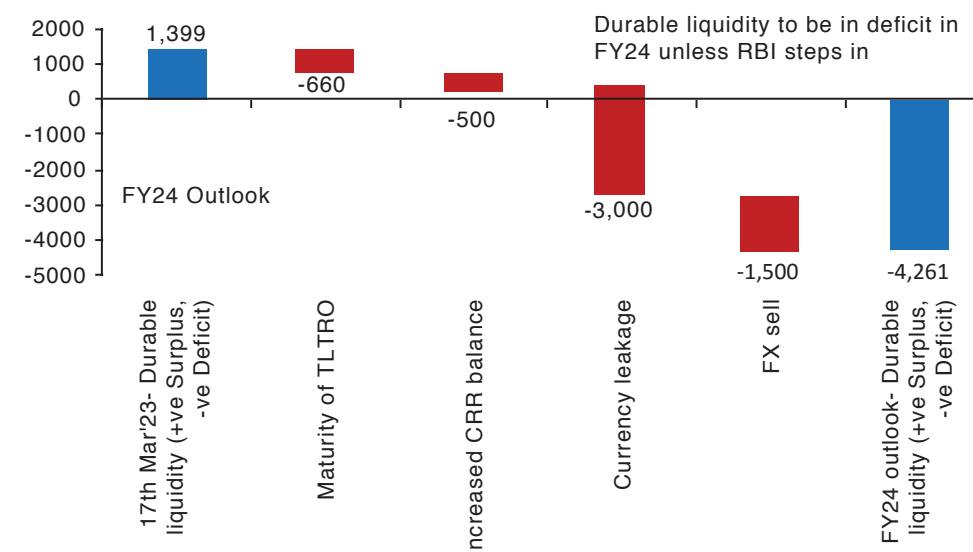
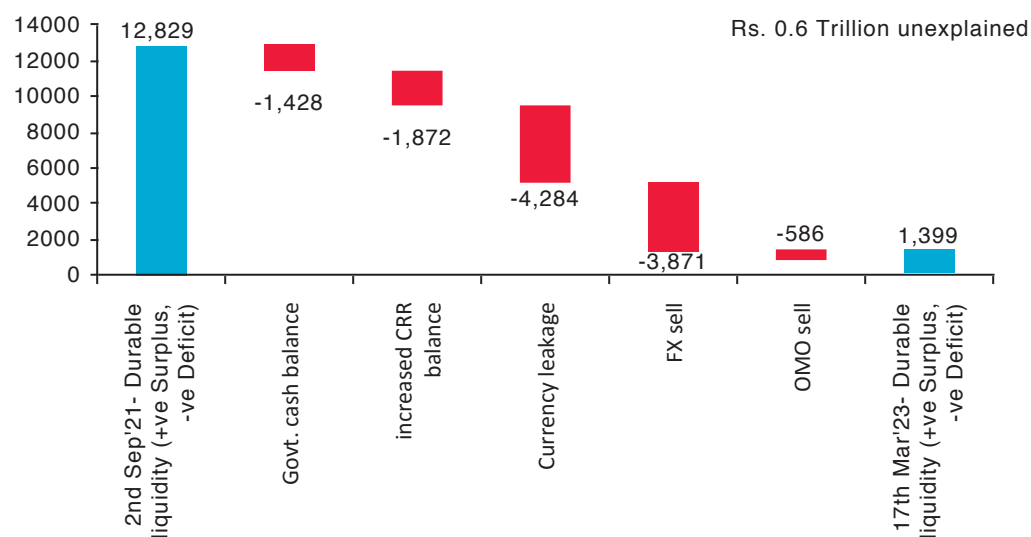


- Forward estimates on headline CPI average around 5% as against the policy mid point target of 4%.
- RBI estimates on FY24 growth remain fairly robust at 6.5% even as downside revisions could be anticipated over the year.
- A turn in the policy cycle is contingent on a material downshift in growth estimates or significant unanticipated financial stability shocks.

Source: Bloomberg, RBI, CEIC Economic Outlook, SBIFM Research;
 NB: FY24 GDP and inflation estimates are from RBI

...EVEN AS A POTENTIAL CHANGE IN LIQUIDITY STANCE OVER THE YEAR COULD ENABLE YIELDS TO MOVE LOWER...

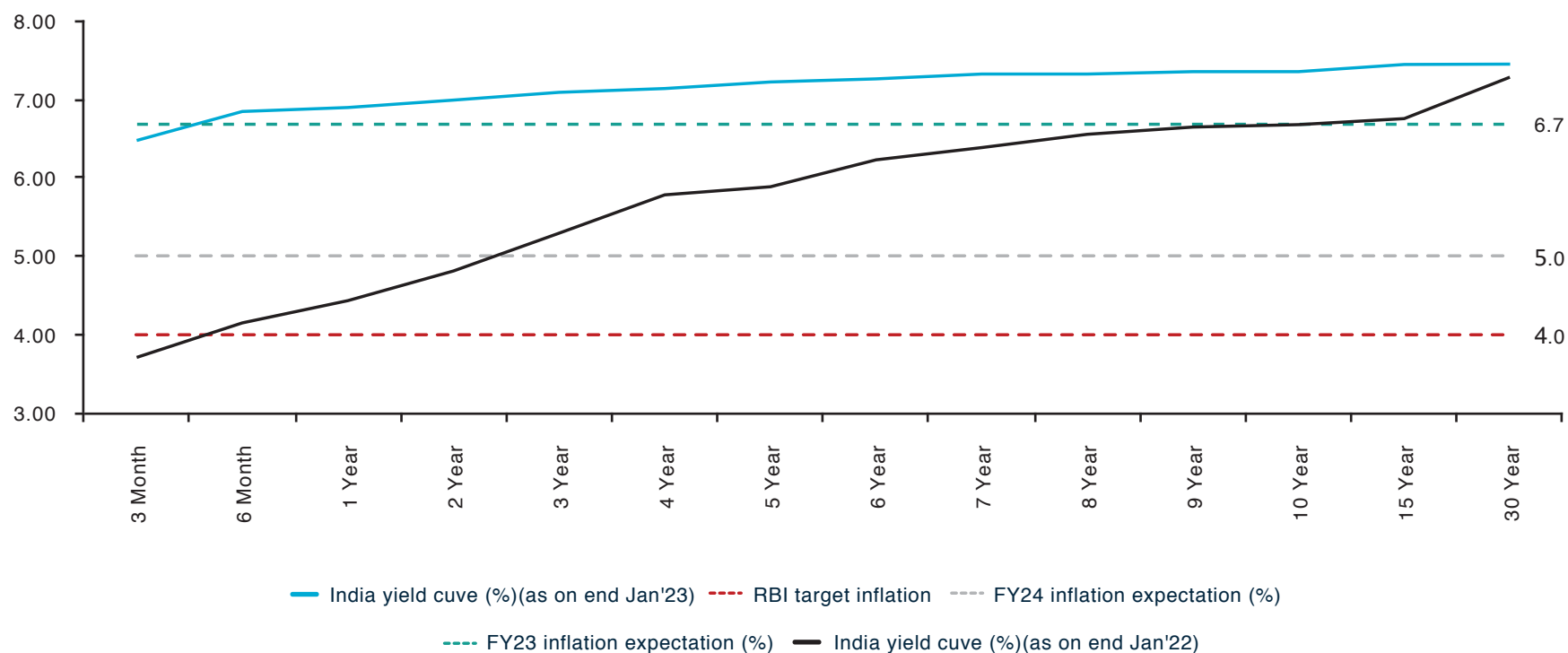
Sharp FX sell, CRR hike and discontinuation of OMO purchase explains fall in liquidity in FY23; FY24 liquidity to be in deficit without any RBI intervention



- As we enter the second half of FY24, we may see a further drawdown in liquidity. These factors may prompt OMO purchases in the latter half of the financial year.
- Moderation in inflation and expected softness in growth may warrant a shift in the liquidity stance as the year progresses.
- At the same time, elevated core and headline inflation, alongside likely spillover volatility from external developments would necessitate that both monetary and liquidity stance continues to remain conservative in H1 FY24.

Source: RBI, SBIFM Research; NB: Durable Banking system liquidity is LAF adjusted for excess CRR reserve and Govt. cash balance and is until March 17, 2023, OMO/GSAPs, CIC leakage, and Govt. cash balance data until March 17, 2023, FX intervention data available until January end.

MARKET YIELDS PROVIDE A POSITIVE REAL RATE ACROSS MOST TENORS

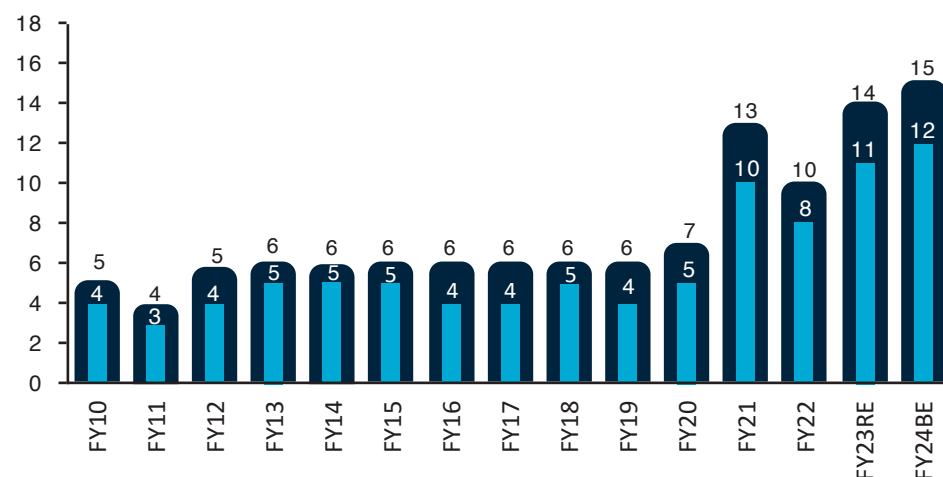


- The cumulative effects of earlier rate actions, alongside a forward-looking real neutral rate range of around 1% should enable policy rate actions to pause at 6.5%.
- Market yields provide a positive real rate across most tenors both on realised and anticipated forward measures of inflation.
- OMO prospects, alongside downward shift in CPI should enable curve steepness to re-emerge over the year.
- Relatively higher supply and recent tax amendments could impact demand at the longer end.
- The short-mid segment of the curve remains the preferred tenor to optimise carry and duration.

Source: Bloomberg, RBI, SBIFM Research.

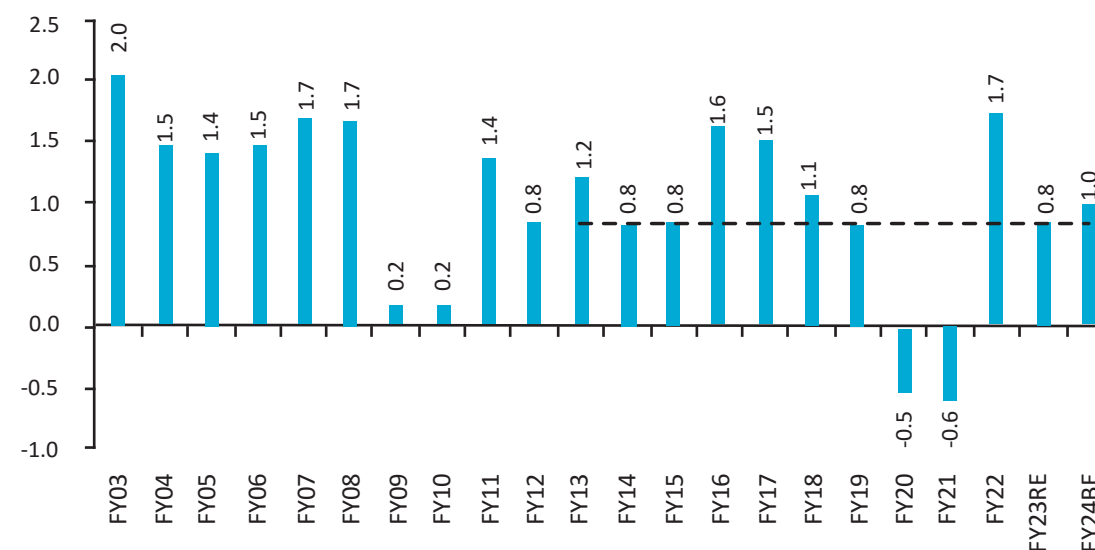
FISCAL CONSOLIDATION OUTLOOK LOOKS CREDIBLE

Government bond supply is in line with expectations



■ Gross Market Borrowing (Rs. trillion)
 ■ Net Market Borrowing (Rs. trillion) - Net of Buybacks

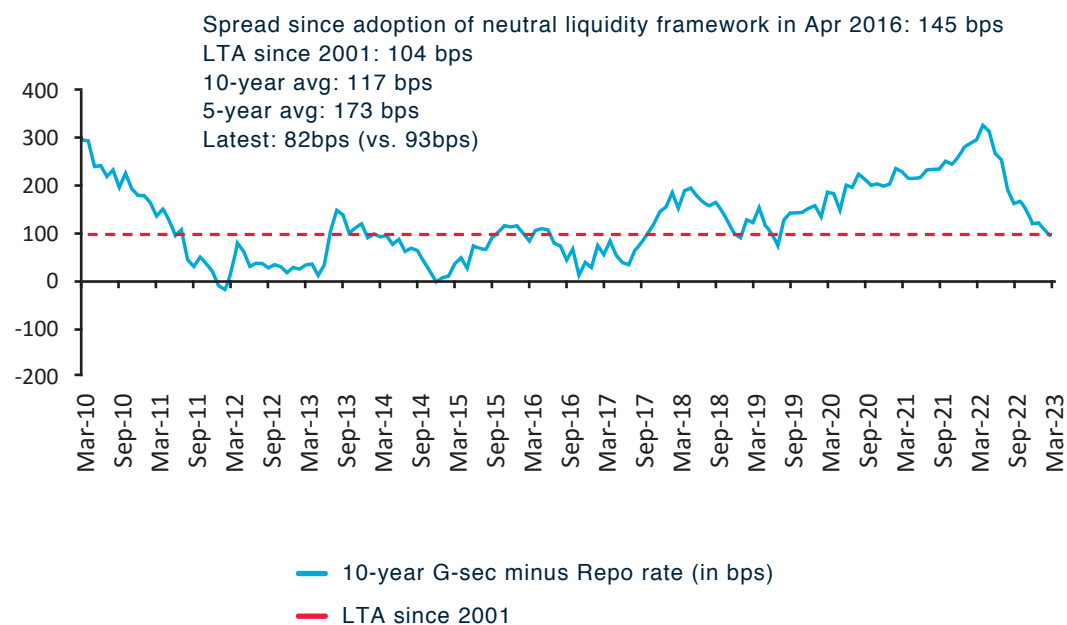
Tax buoyancy is improving



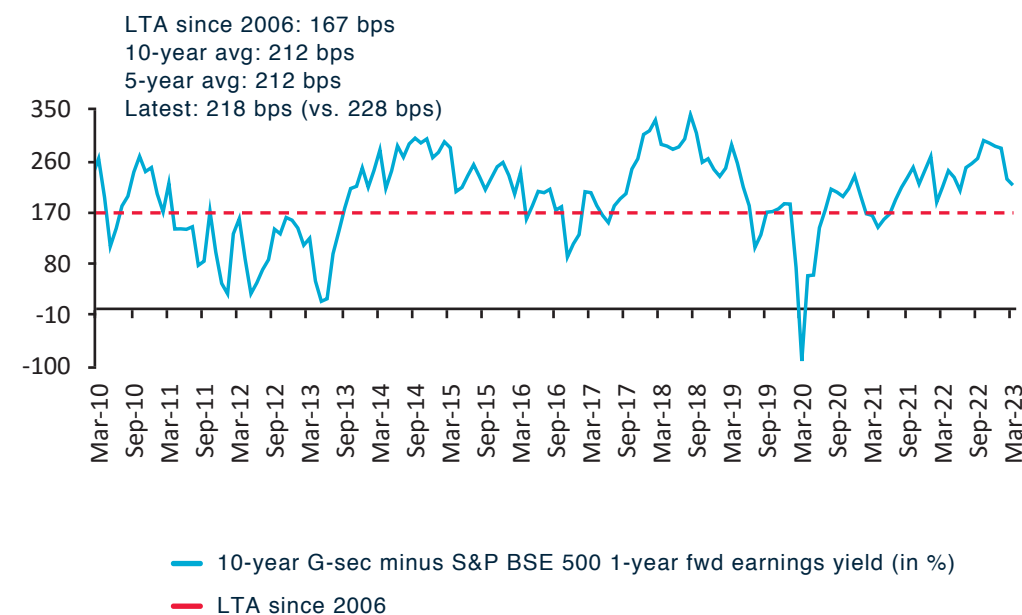
- Government bond yields remain attractive both on relative and absolute basis, notwithstanding near-term challenges.
- Tighter domestic liquidity, external volatility and larger supply are near-term challenges.
- Fiscal consolidation outlook is promising as tax buoyancy is improving led by better compliance.

G-SEC VALUATIONS TURNING FAVOURABLE ON RELATIVE PARAMETERS

10-year G-Sec relative to Repo lower than 10-year trend



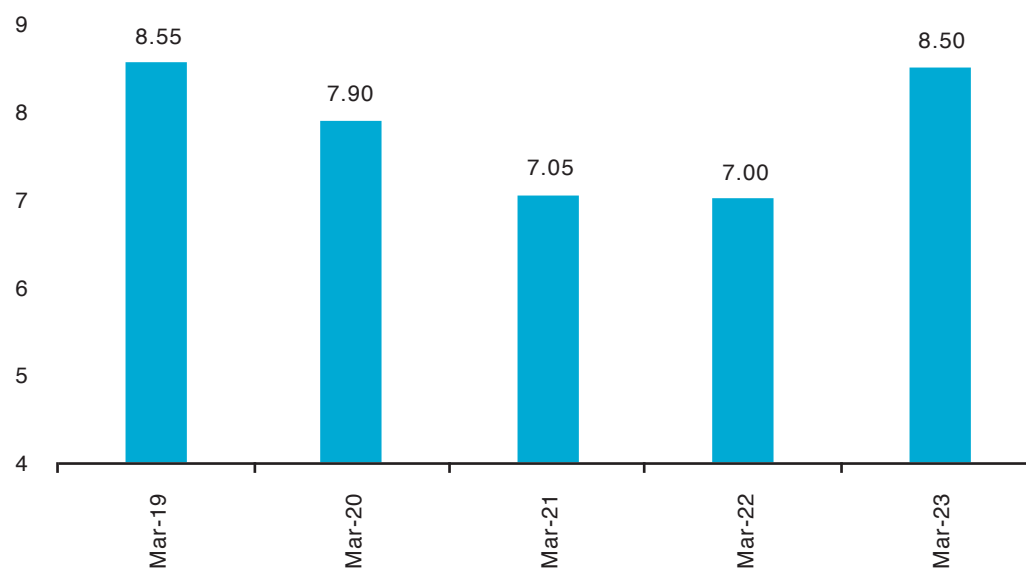
However, G-sec spread vs. equity turns attractive



Relative valuation turning attractive even as peak policy cycle approaches.

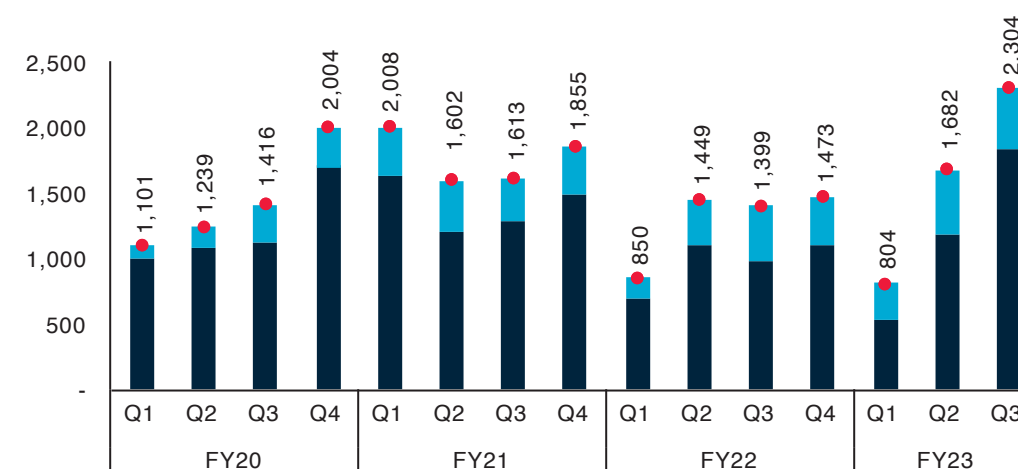
RELATIVE SHIFT IN ATTRACTIVENESS OF BANK BORROWING HAS LED TO HIGHER BOND ISSUANCE...

Cost of borrowing has risen



■ MCLR (Overnight) in %

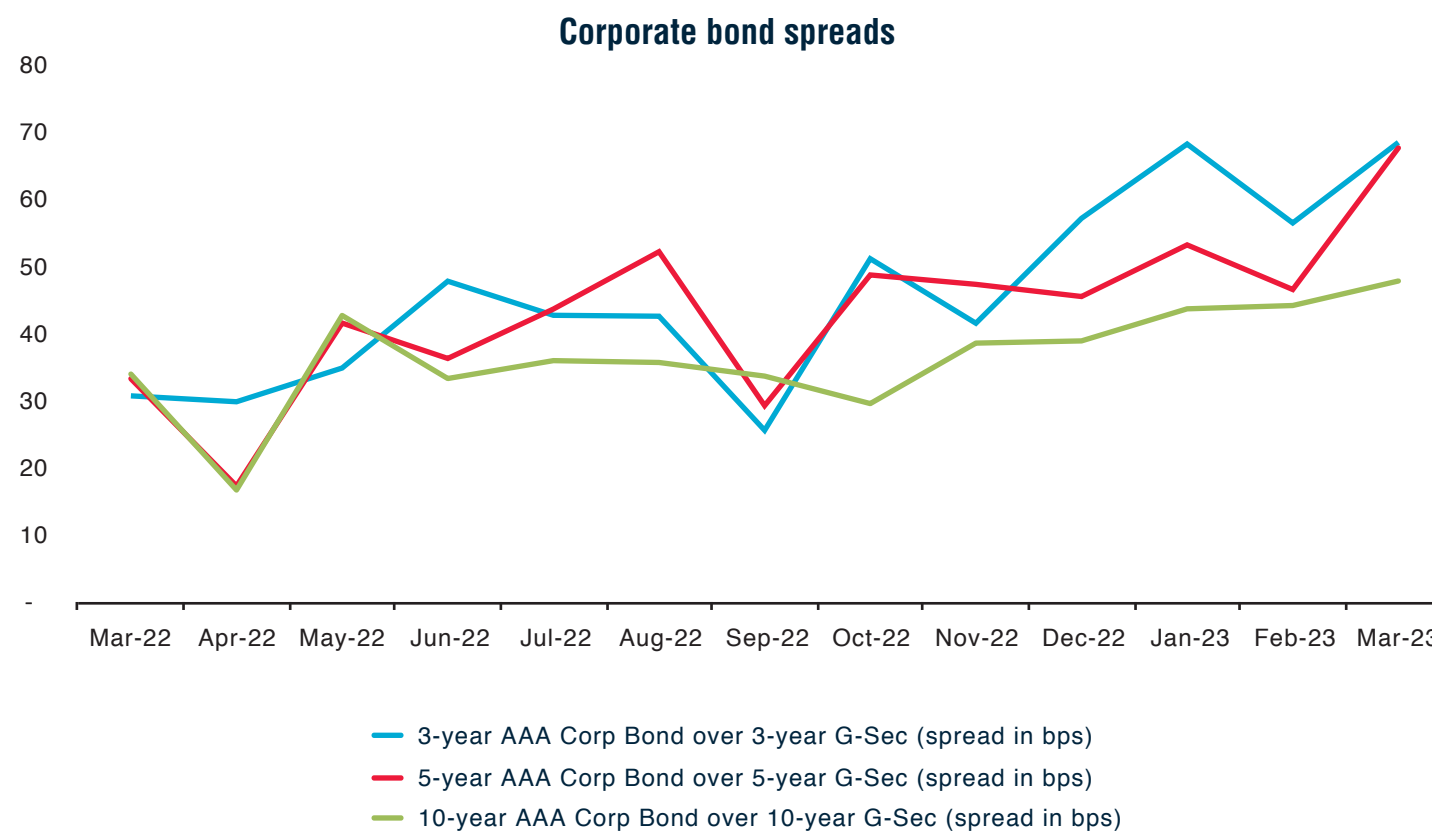
Corporate bond issuances have increased



■ Non-AAA Corporate Bond Issuances (Rs. Cr) ■ AAA Corporate Bond Issuances (Rs. Cr)
 ● Total Corporate Bond Issuances (Rs. Cr)

- Pick up in Bond issuances have been a natural outcome of increasing MCLR and EBLR rates as well as wider spreads on offshore markets.
- Bond spreads starting to align up in line with the changing dynamics.

...RESULTING IN WIDENING OF CORPORATE BOND SPREADS



- Corporate bond spreads have risen over the past year with 3 and 5-year segment seeing higher change.
- Increased bond supply along with moderating liquidity may lead to further widening of spreads in the coming year.
- Shorter end high grade bond spreads starting to turn attractive.

OUR VIEW

ON	STANCE	VIEW
Duration	Neutral to Positive	Peak policy rates favour a higher duration stance as compared to previous FY. An outright heavier positioning is currently constrained on account of low visibility on an immediate turn in policy stance.
AAA Spreads	Neutral to Positive	Higher relative supply and normalisation of liquidity have led to widening of spreads. Spreads remain tighter than long-term average and could reset higher over H1FY24.
Credit	Positive fundamentals, valuations need to improve	At an aggregate, credit spreads continue to remain rich.



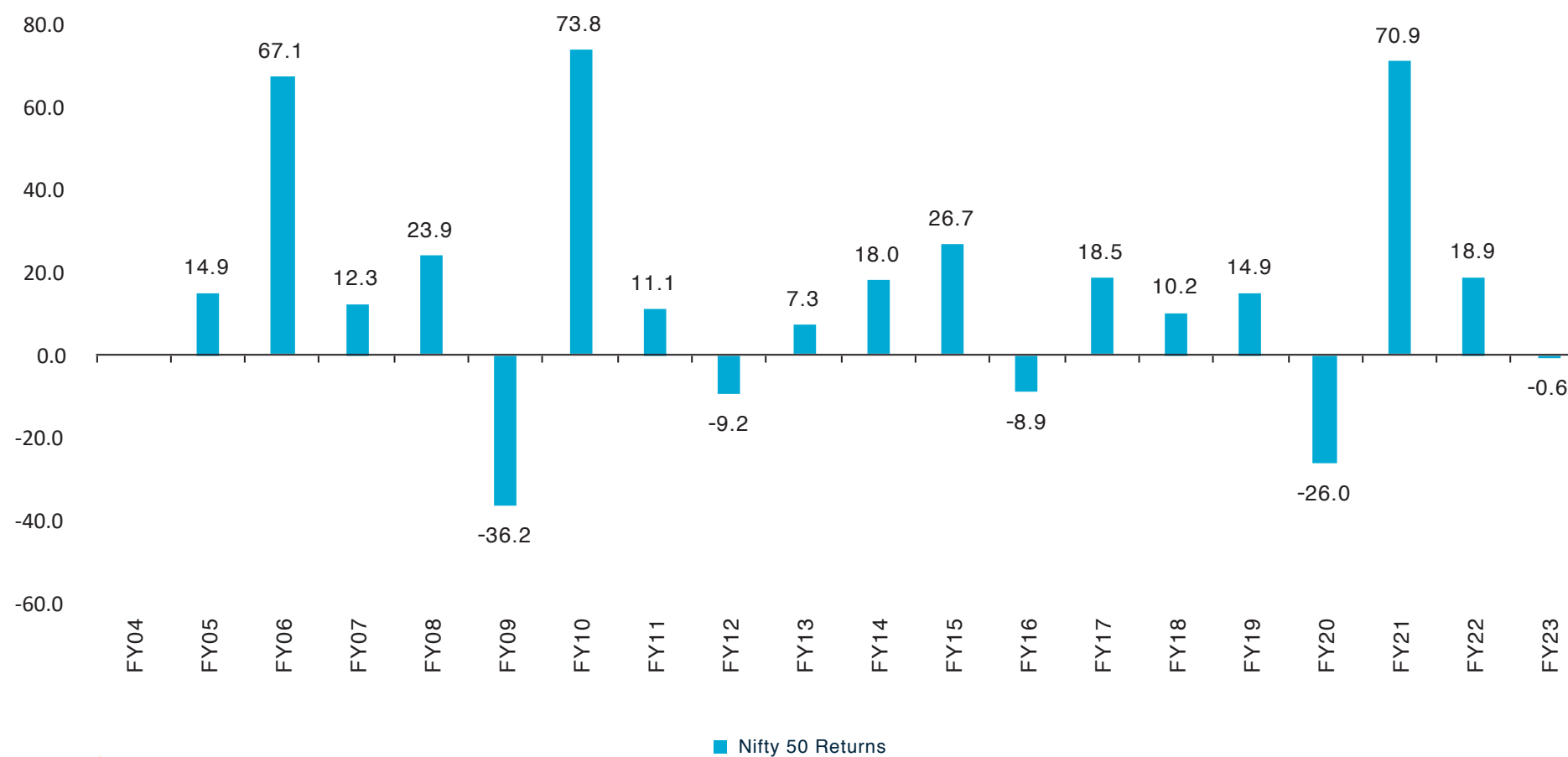
EQUITY OUTLOOK

VALUATIONS NEED TO CORRECT

R. SRINIVASAN - CIO, EQUITY

MARKETS ARE CONSOLIDATING

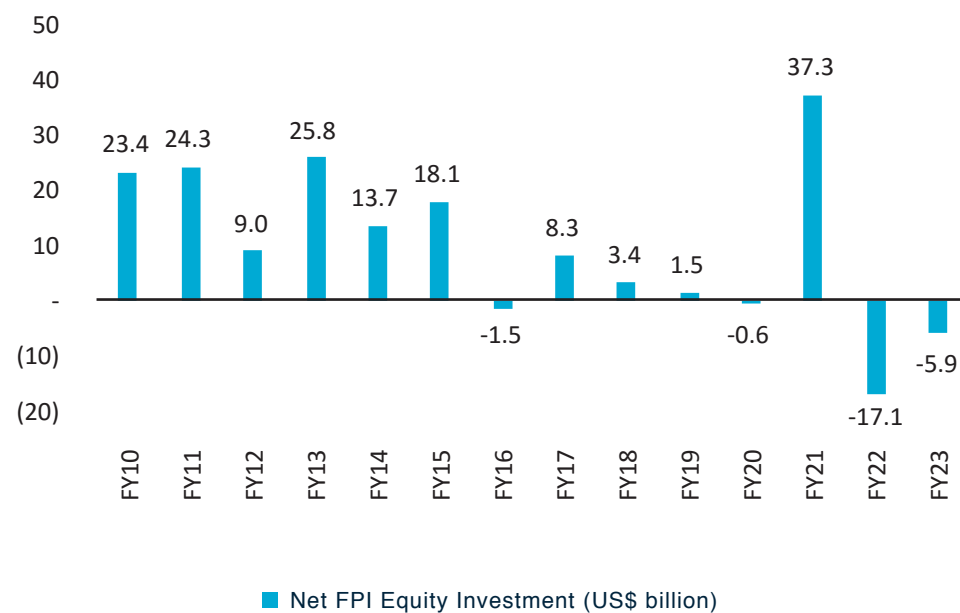
Equity markets delivered negative returns in FY23



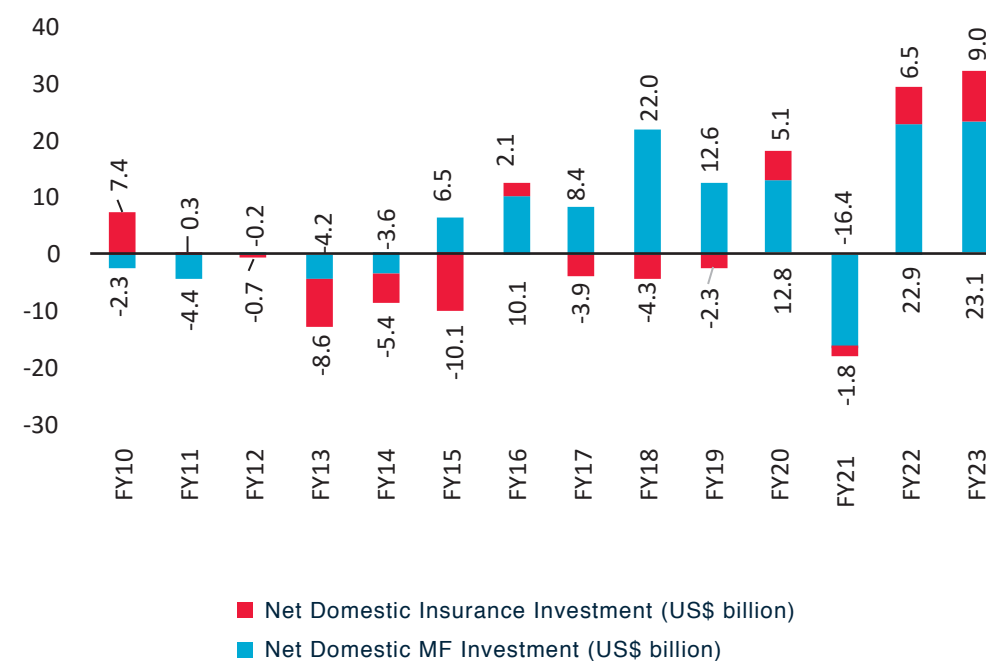
Source: Bloomberg, SBIFM Research.

FII FLOW REVERSING, DOMESTIC STRONG

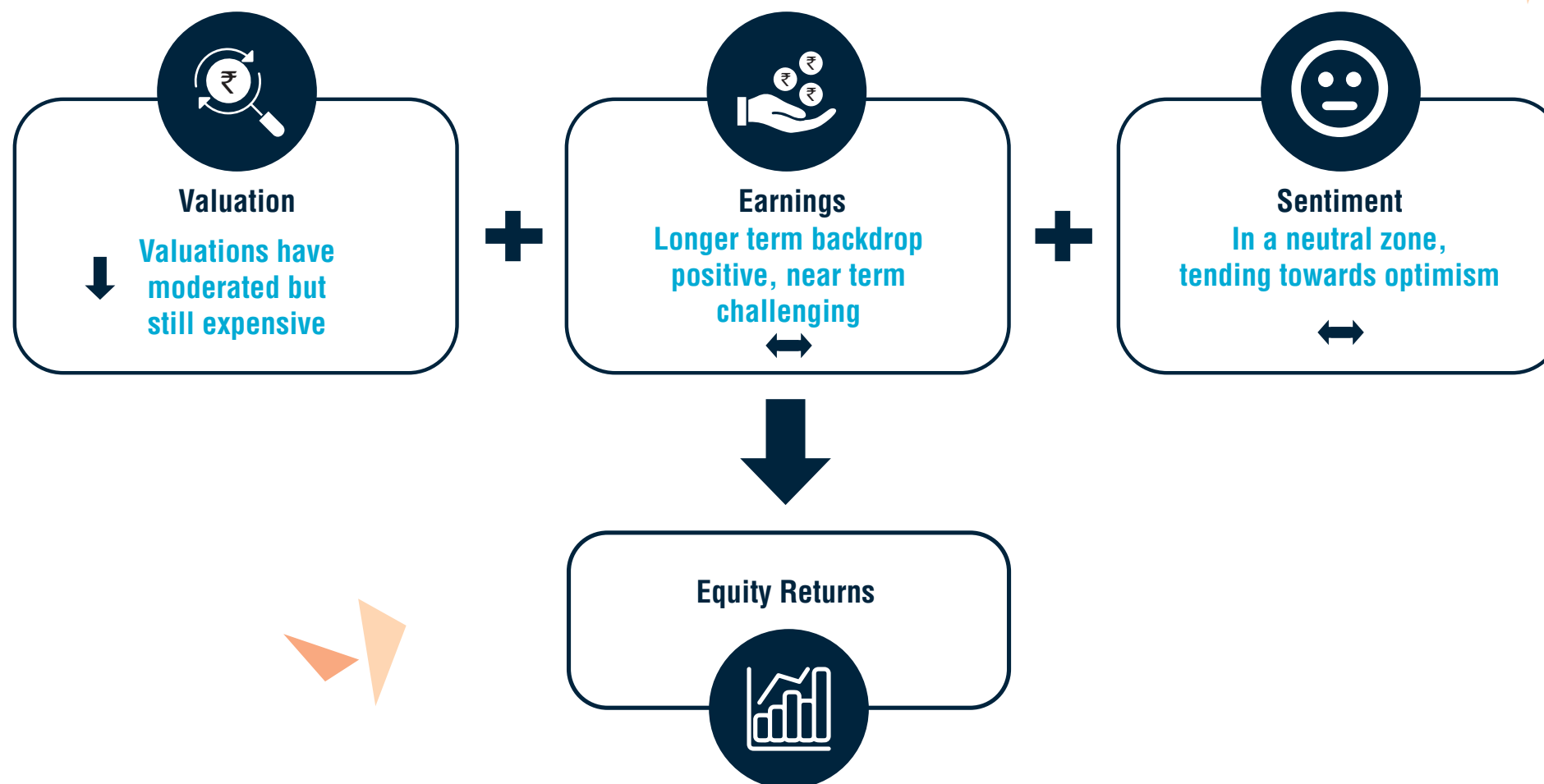
FPIs remained sellers in FY23



...while domestic investors were net buyers

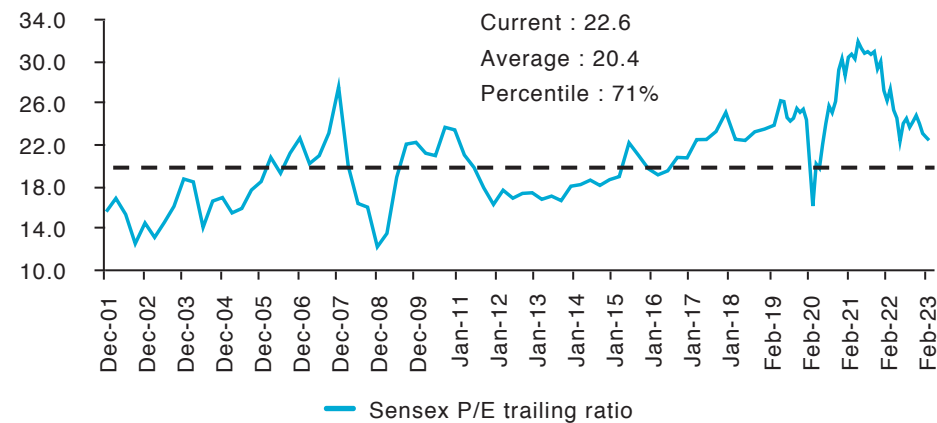


EARNINGS TAILWIND RECEDING, VALUATIONS STILL ABOVE AVERAGE

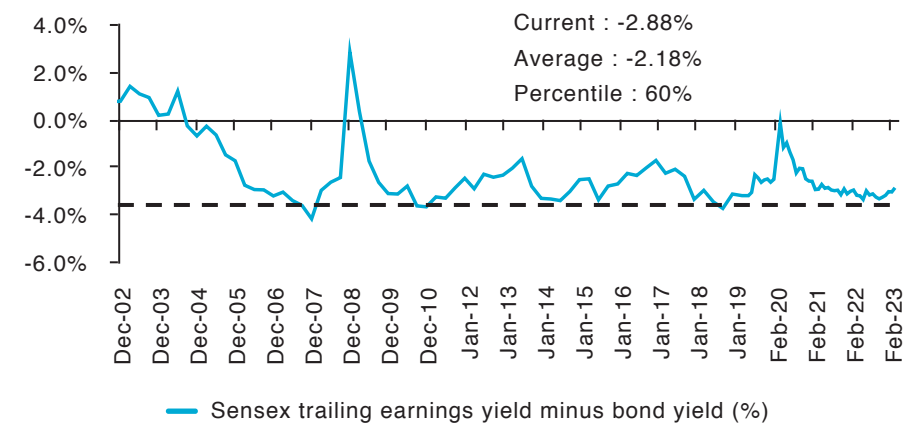


EQUITY VALUATIONS HAVE MODERATED BUT REMAIN EXPENSIVE

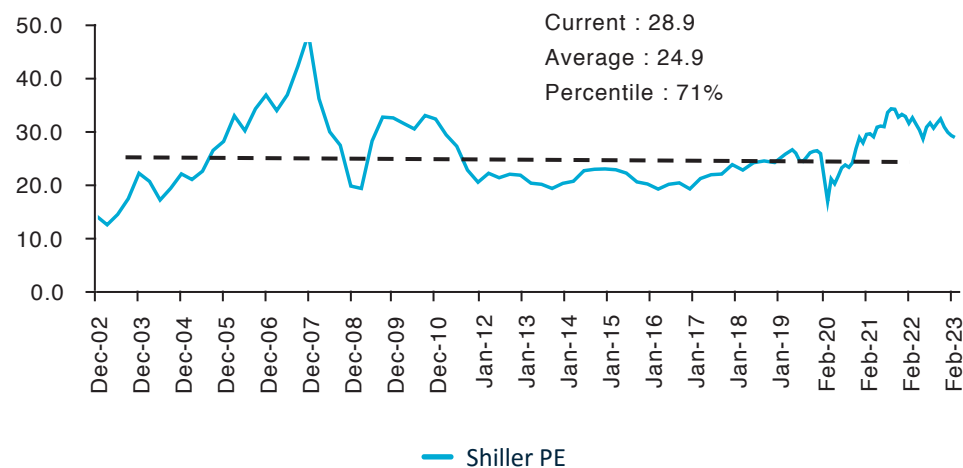
Sensex trailing PE ratio stood at 22.6 in Mar'23 vs. 22.9 in Feb'23



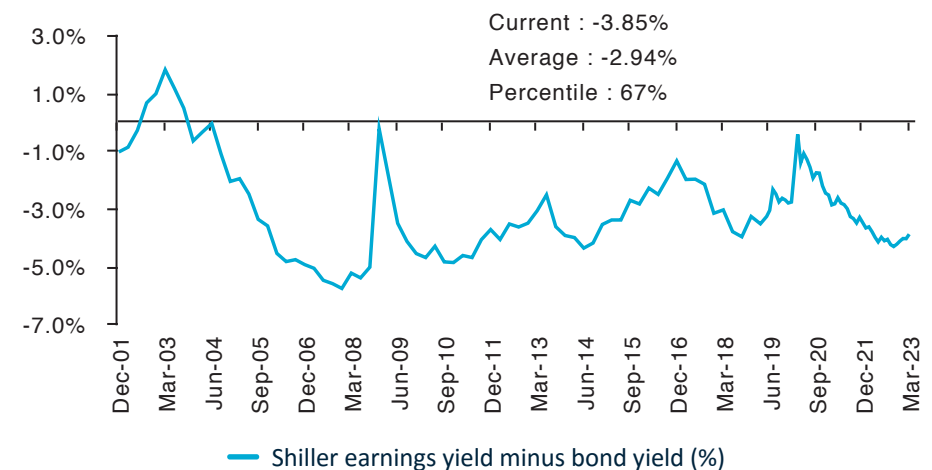
Earnings yield to bond yield spread expensive



Shiller PE ratio stood at 28.9 in Mar'23 vs. 29.2 in Feb'23



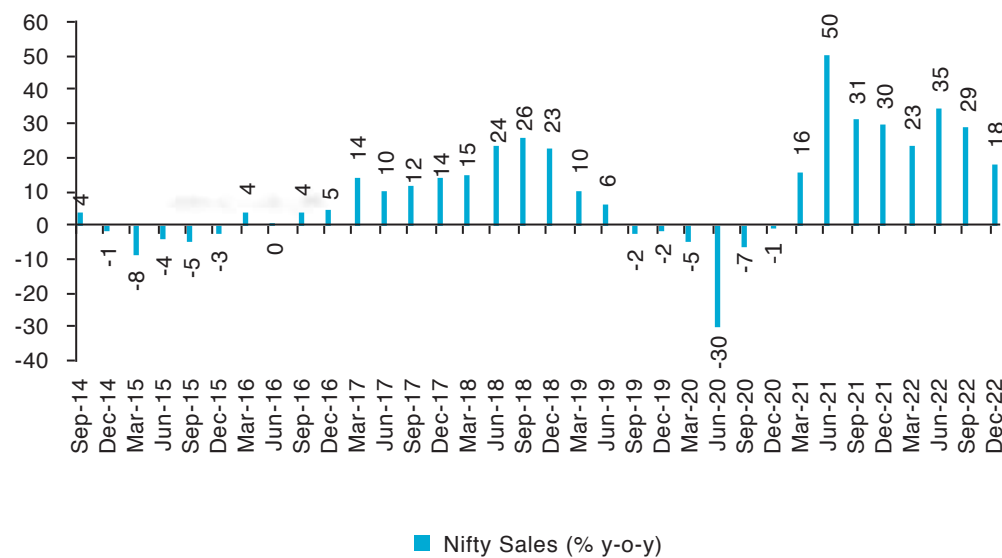
Shiller earnings yield to bond yield spread moderately expensive



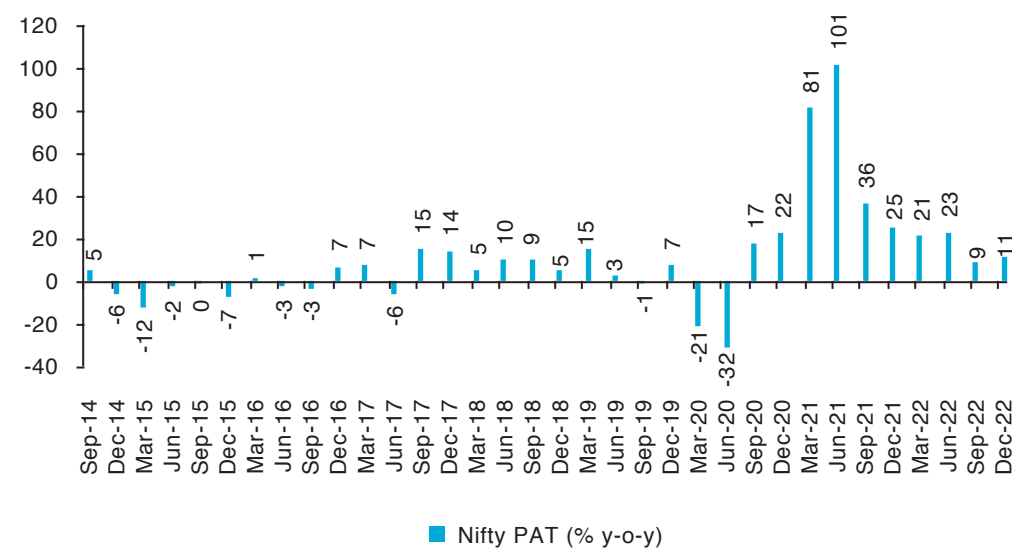
Source: Bloomberg, SBIFM Research. Shiller PE adjusts for cyclicalities in corporate earnings by taking past ten-year inflation adjusted earnings instead of current earnings base.

TOP-LINE GROWTH AND PROFITS MODERATE

Nifty sales continue to moderate for the 2nd consecutive quarter



Profit growth also moderated in line with top-line growth



EARNINGS REVISIONS HAVE FALLEN MEANINGFULLY

Earnings upgrades to downgrades ratio remains low



Sectoral breakup of NIFTY earnings outlook

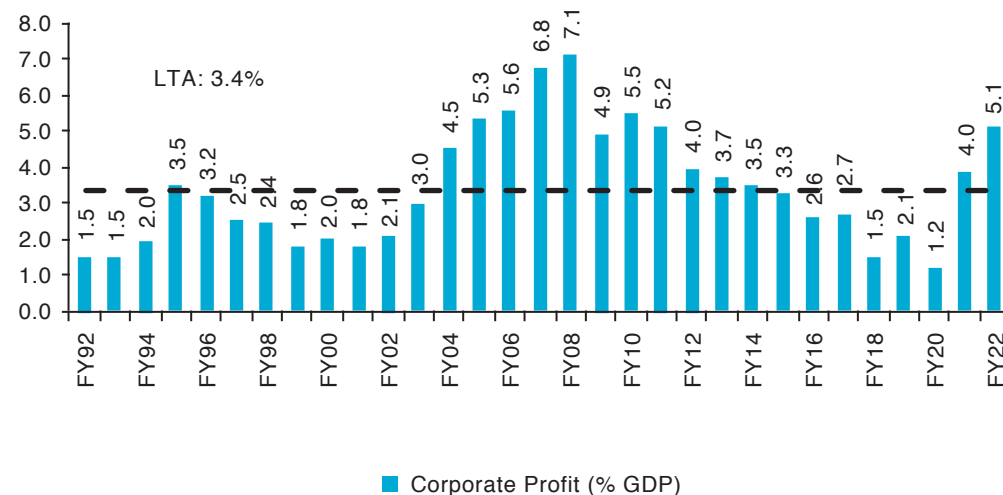
	No. of Cos.	EPS Change				
		FY20-21	FY21-22	FY22-23	FY23-24	FY21-24 (CAGR)
Nifty		20.0%	35.7%	10.7%	18.4%	21.1%
Consumer Discretionary	7	20.7%	-33.4%	172.6%	59.9%	42.7%
Materials	7	55.2%	222.9%	-53.0%	35.3%	27.1%
Health Care	5	5.9%	51.7%	12.8%	16.6%	25.9%
Financials	11	13.8%	27.3%	31.5%	14.9%	24.4%
Information Technology	5	9.6%	37.1%	7.7%	14.4%	19.1%
Energy	4	56.9%	11.4%	24.1%	12.4%	15.8%
Consumer Staples	5	-5.0%	-3.9%	6.6%	12.1%	4.7%
Utilities	2	18.0%	-9.7%	-0.7%	9.2%	-0.7%
Industrials	3	22.9%	-30.1%	6.6%	26.3%	-2.0%
Communication Services	1		NA*		70.0%	NA*

- FY23 growth is likely to end at just about double digits while FY24 continues to be revised lower.
- Earnings revisions stay weak with downgrades outnumbering upgrades by a 2:1 ratio.

Source: Bloomberg, FactSet, SBIFM Research. Note: *Data for Communication Services cannot be calculated due to negative number in the base year, Earnings Revision Index: There has been a revision in methodology of calculating Earnings' Revision Index. Earlier, 12 month forward estimate number of all S&P BSE 100 constituents as of the current month-end & 3 months back were taken. Now, new version considers FY23 consensus EPS for the current date and weighted format for history (1 month, 2 month & 3 months back with 1 month having the highest weight).

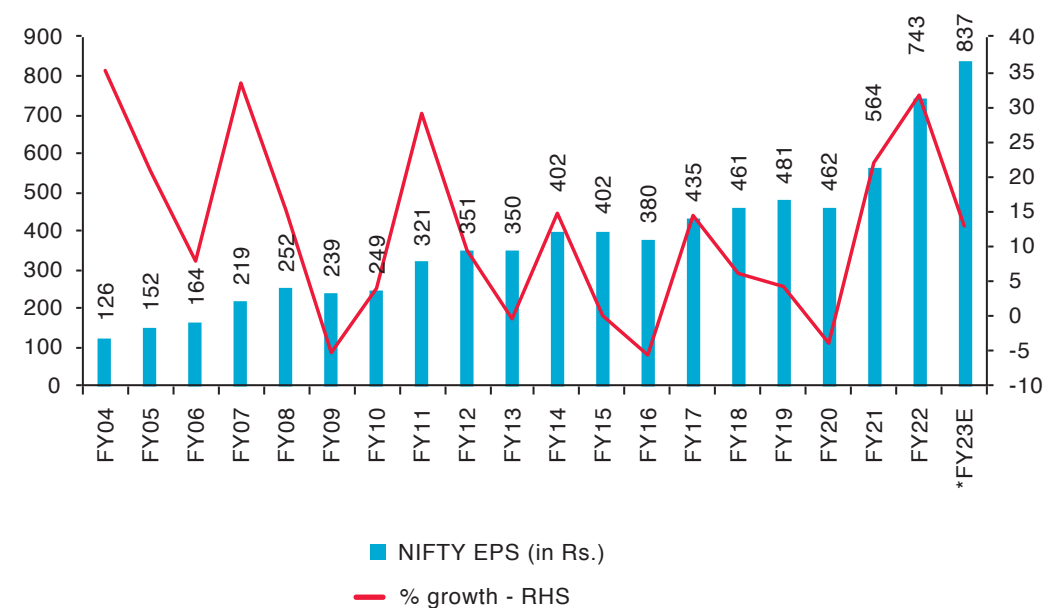
NEAR-TERM HEADWINDS TO EARNINGS FROM MACRO FACTORS

Corporate earnings have recovered from ultra-lows of FY17-FY20



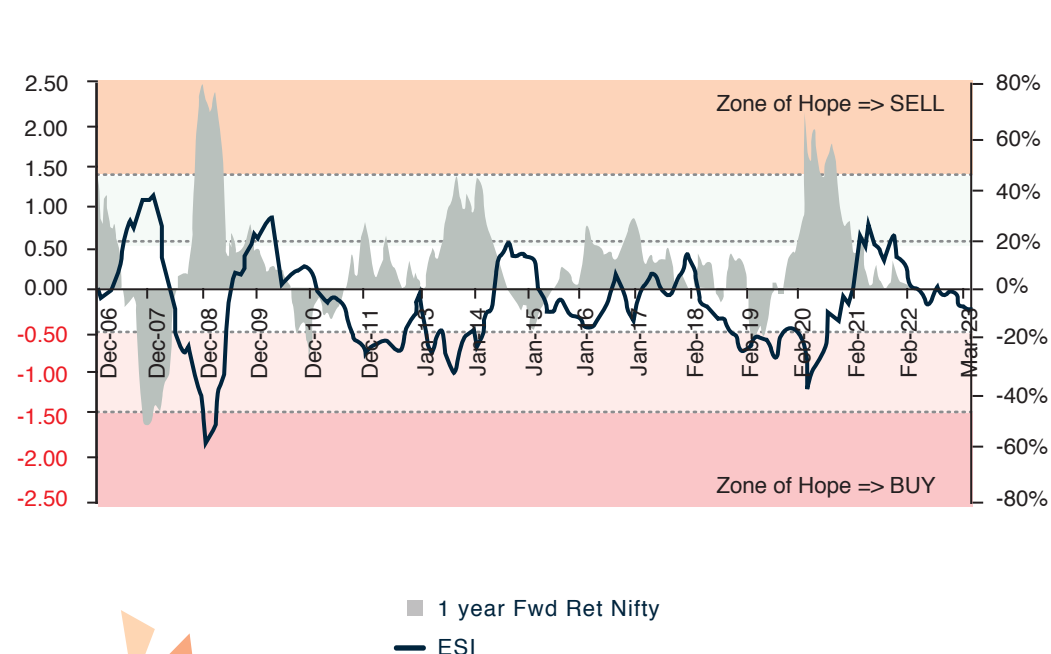
FY92-FY22 data is based on a sample of ~30,000 listed companies in CMIE (includes both financial and non-financial companies)

However near-term headwinds to earnings amidst slowing economy

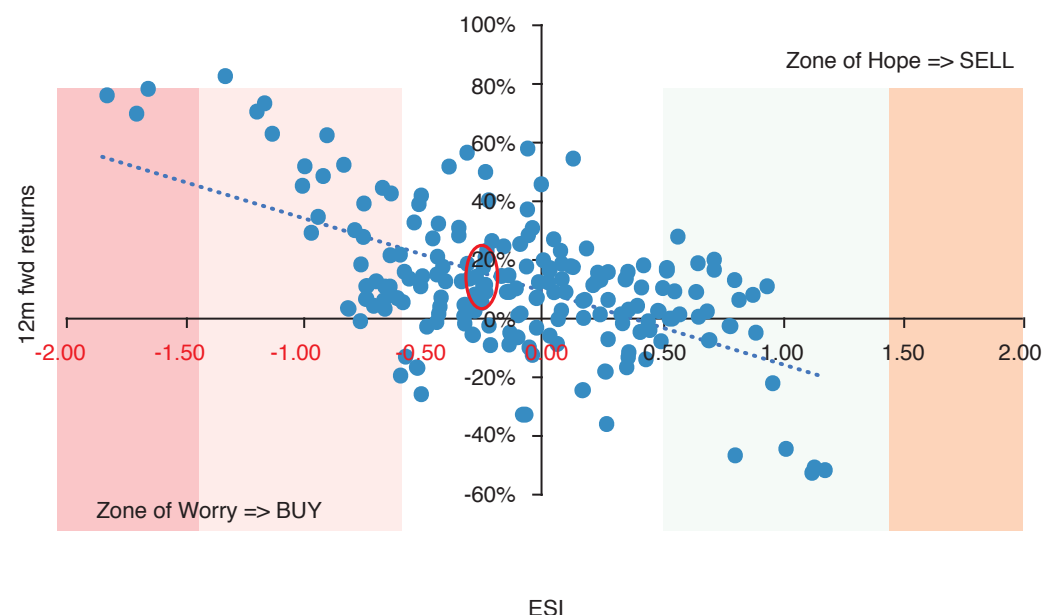


EQUITY MARKET SENTIMENT NEUTRAL, BUT NOT EXTREME ENOUGH YET

Equity Sentiment Index (ESI) has fallen into the zone of pessimism but not at climactic extremes yet to signal a contrarian BUY opportunity



Equity Sentiment Index (ESI) is a contrarian measure and has an inverse relationship with forward equity returns



- Be greedy when others are fearful and vice versa. Market sentiment is a good contrarian indicator at extremes.
- Our inhouse equity sentiment index has fallen back to readings reflecting pessimism from the exuberant readings of 2HCY21, suggesting that the corrective action of the past few months has helped clear the froth in equities.
- It however is not yet at pessimistic extremes that signal strong contrarian BUY opportunities.

OUR VIEW

ON	STANCE	VIEW
Value	Positive	Value has come back after a long period of underperformance. While this can be a year of consolidation, it looks like a multi-year catch up trade.
Growth	Neutral	Growth outperformed for more than a decade. Compared to value, it is unattractive given expensive valuations.
Large Cap	Neutral	Large caps have reversed their underperformance to mid and small caps. Directionally, there isn't any substantial argument in favour or against large caps.
Mid and Small Caps	Neutral	Mid and small caps have had sharp swings in performance, settling down to a neutral zone. We continue to favour a bottom-up strategy, focusing on long-term earnings compounders. Multi-baggers will continue to emerge from this space.



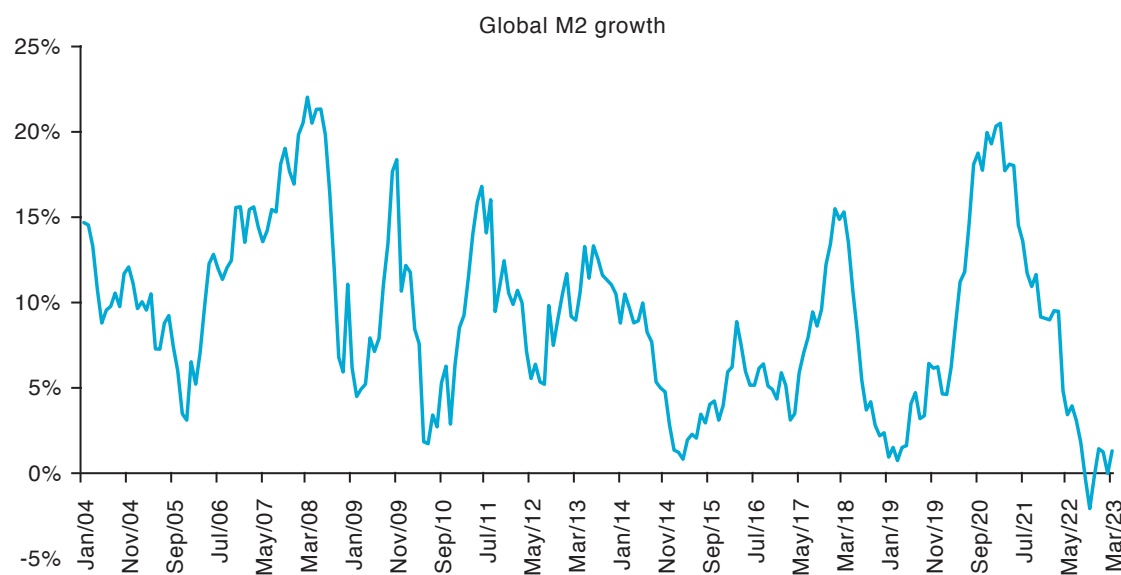
ASSET ALLOCATION

BONDS OVER EQUITIES

GAURAV MEHTA - CIO, ALTERNATIVES

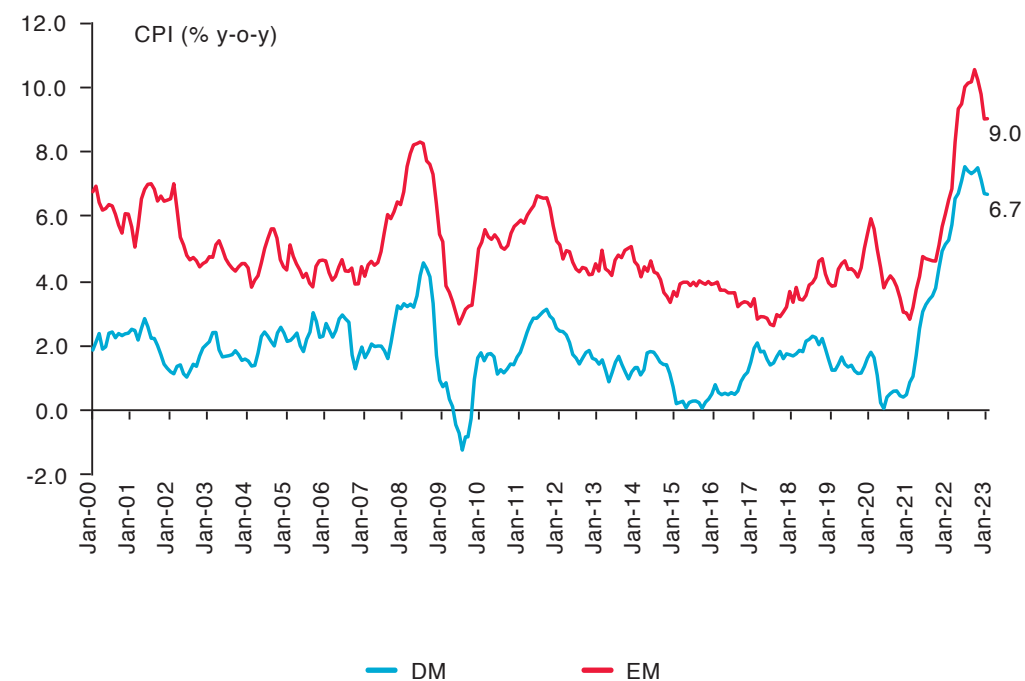
POLICY TIGHTENING WILL LIKELY LEAD TO INFLATION MODERATING...

Developed economies witness sharp moderation in money supply growth; US sees M2 growth contraction for first time since 1960



Note: Global money supply approximated by adding up US, Eurozone and China money supply measures.

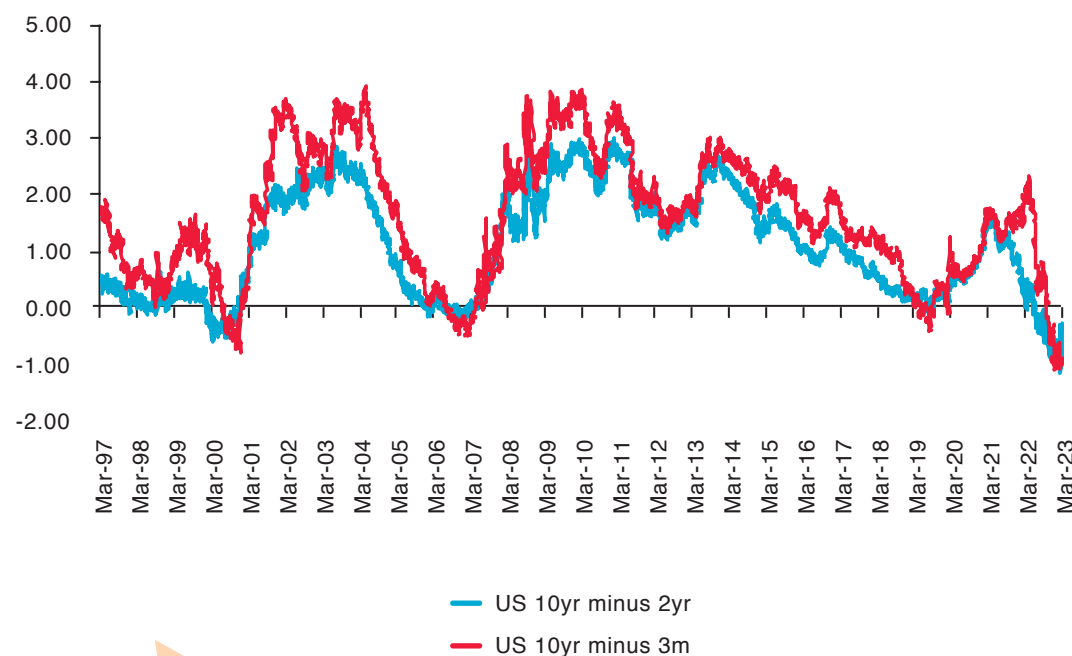
While still elevated, both EM and DM inflation prints appear to be reversing from peaks



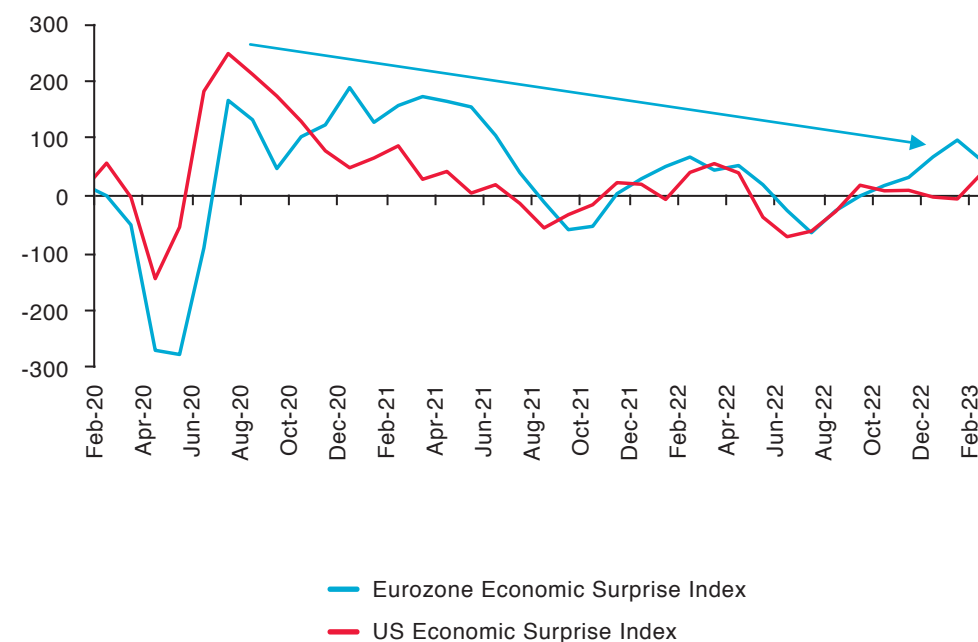
- Significant tightening from policy makers across the globe has resulted in sharp deceleration in global money supply growth.
- Policy tightening and lower money supply is expected to result in further moderation in inflation prints.

... BUT WOULD ALSO BRING GROWTH WORRIES

US Yield Curve strongly inverted, may be foretelling economic recession



Moderation in economic activity in developed markets has already begun



- Historically, an inverted yield curve i.e. shorter end interest rates being higher than longer end rates, signals a restrictive policy regime and a potential slowdown in economic growth.
- Yield curve in the US is currently inverted and economic activity in some of the key developed economies have already started moderating.
- We believe that investment narrative will change from inflation worries to growth concerns in the coming year.

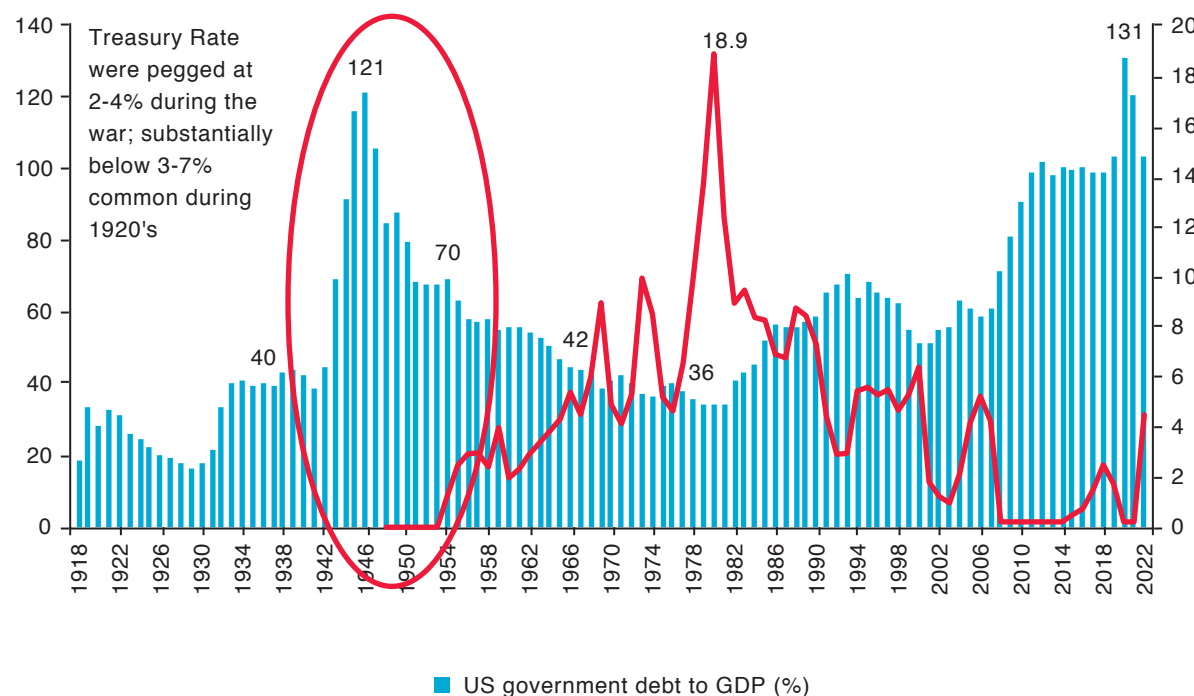
EXPECTATIONS OF GROWTH SLOWDOWN HAS LED TO SOME REVERSAL IN BOND YIELDS



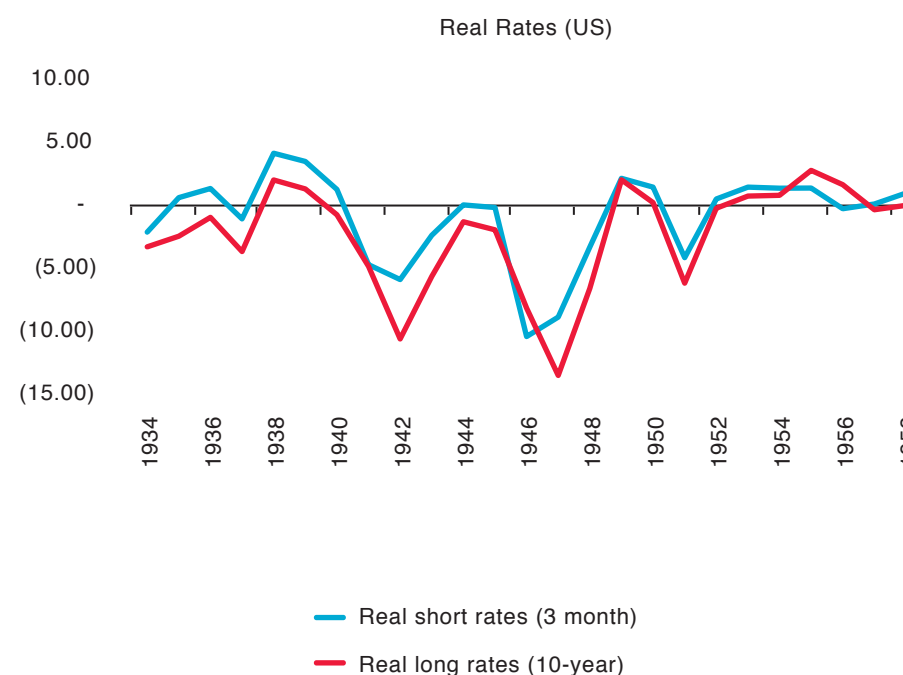
The growth-inflation dynamic is expected to keep nominal rates under check which should be supportive for bonds in the near-term.

HIGH GOVERNMENT DEBT BURDENS MAY NECESSITATE LOW/NEGATIVE REAL RATES IN THE LONG-TERM

US government debt levels near World War II levels



Historically high government debt burdens have necessitated keeping real rates low or negative to alleviate debt burdens

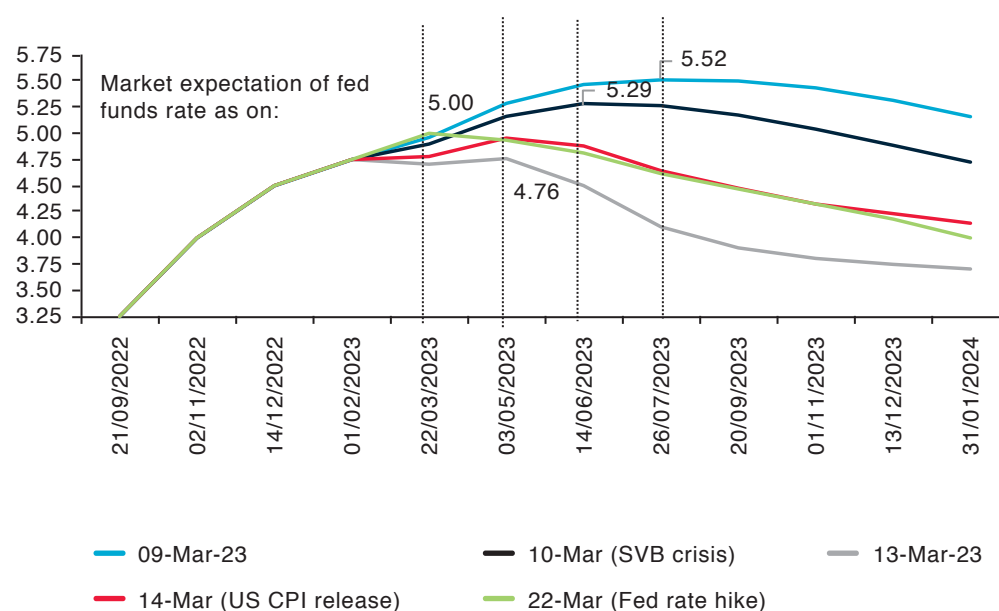


- Record high government debts may necessitate low real rates for long to keep debt servicing from becoming too onerous and for the debt-to-GDP ratio to stay sustainable. This would also mean tolerance for higher inflation to inflate the debt away.
- This would make debt instruments less attractive in long run as investors seek exposure to assets that have the potential to act as inflation hedges such as equities, commodities and real assets.



KEEPING REAL RATES LOW WHILE NOT LETTING INFLATION RUN AWAY MAY REQUIRE A FINE BALANCING ACT AND LEAD TO POLICY VOLATILITY

Market expectations on Fed action have swung wildly



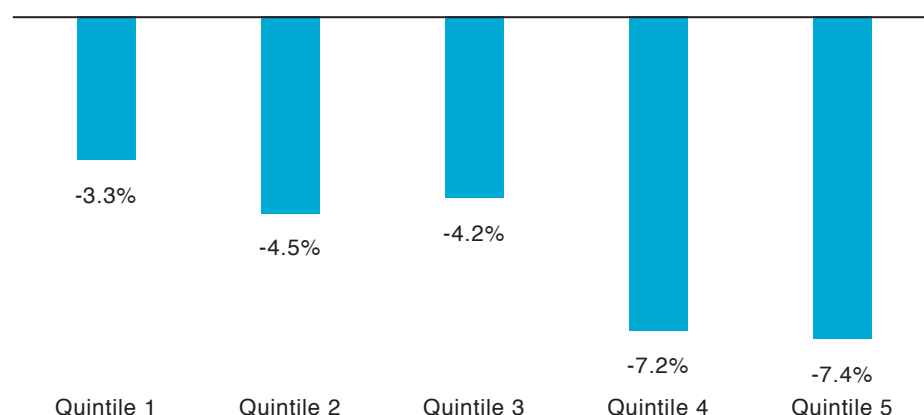
Also reflected in heightened US treasury market volatility



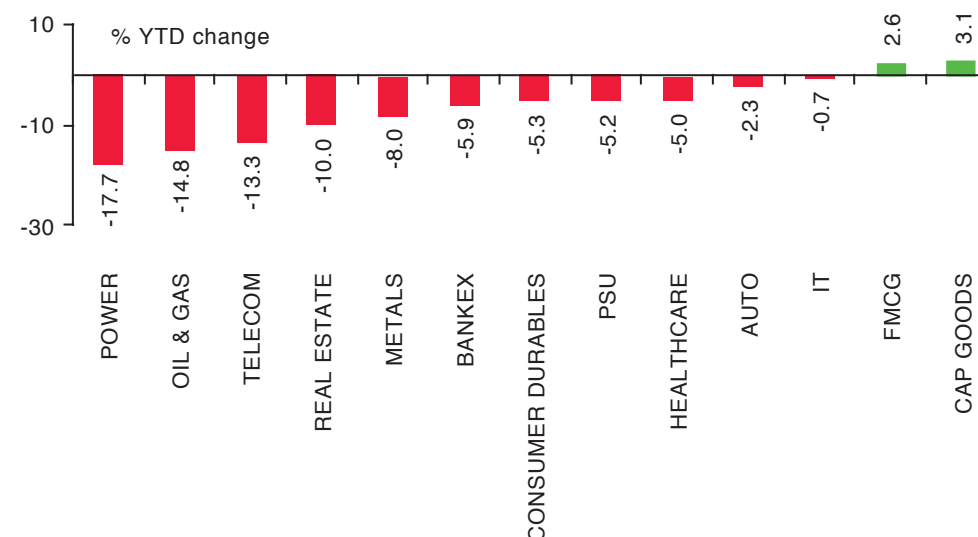
- Keeping real rates low and higher tolerance for inflation to alleviate high government debt burden on one hand and not letting inflation run away on the other may require a fine balancing act.
- This balancing act may imply shorter rate cycles and heightened policy volatility. The current swing in market expectations and treasury volatility may be symptomatic of this new regime.

MACRO UNCERTAINTIES LEAD TO DEFENSIVE MOOD IN THE NEAR TERM...

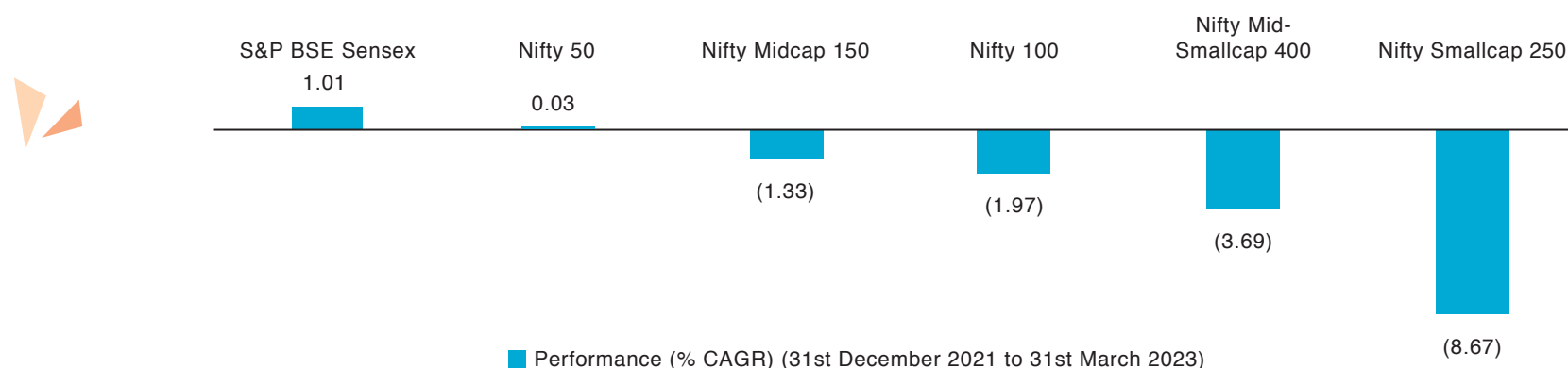
After underperforming in CY2022, quality stocks have outperformed in Q1CY23



Defensive sectors such as FMCG and Healthcare have performed well and may continue to do so in the near term



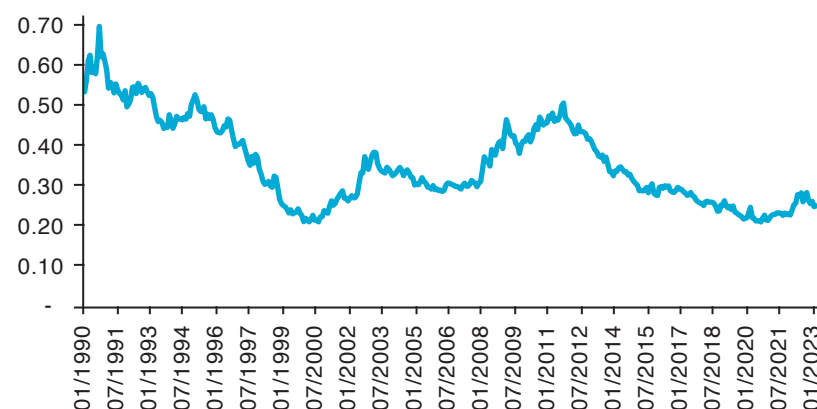
Market performance down the capitalisation curve has been weak



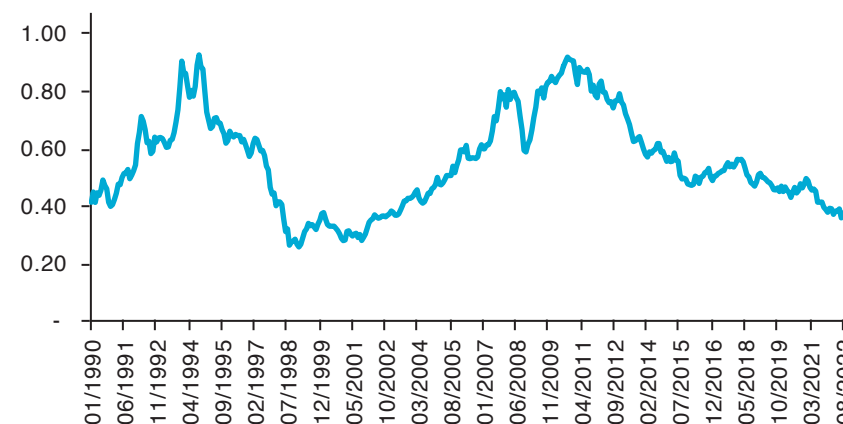
Source: Bloomberg, SBIFM Research. Note: Quintile 1 is the highest quality while Quintile 5 is the lowest quality on our internal definitions of quality. Universe is S&P BSE 100.

LONGER TERM, PRO GROWTH ASSETS STILL HAVE A LONG CATCHUP TO DO BOTH GLOBALLY AND IN INDIA (1/2)

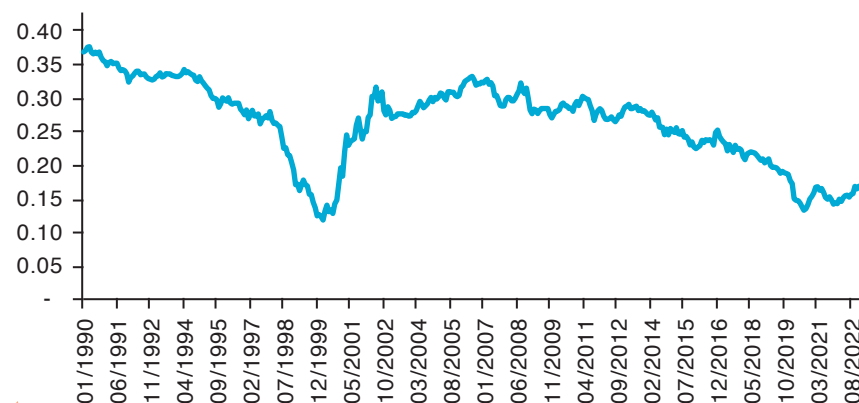
CRB Commodity to MSCI World



MSCI Emerging Markets to MSCI World



Russell 2000 to Nasdaq



US Value to Growth



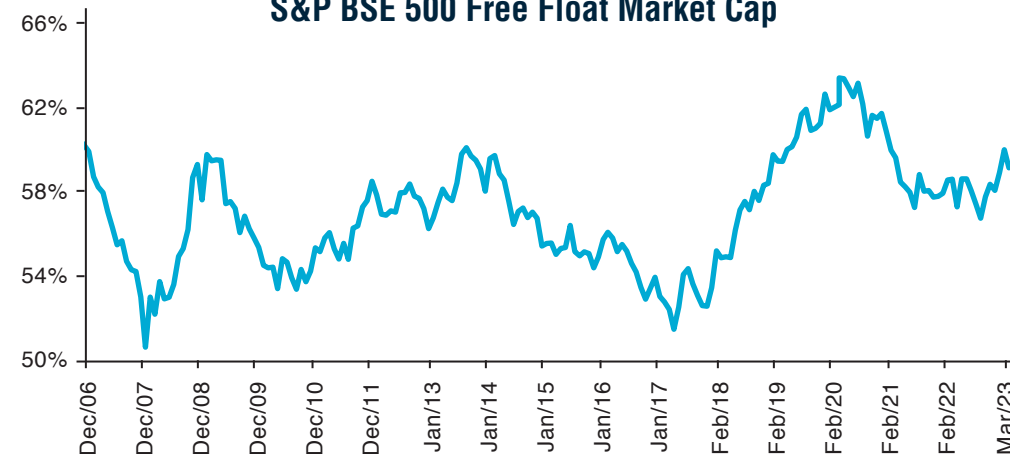
- The expected growth slowdown in the near term, should favour diversification across styles/market caps and sectors with a tilt towards defensiveness.
- However, pro growth assets have a long catchup to do on a multiyear basis and any near term weakness is an opportunity.

LONGER TERM, PRO GROWTH ASSETS STILL HAVE A LONG CATCHUP TO DO BOTH GLOBALLY AND IN INDIA (2/2)

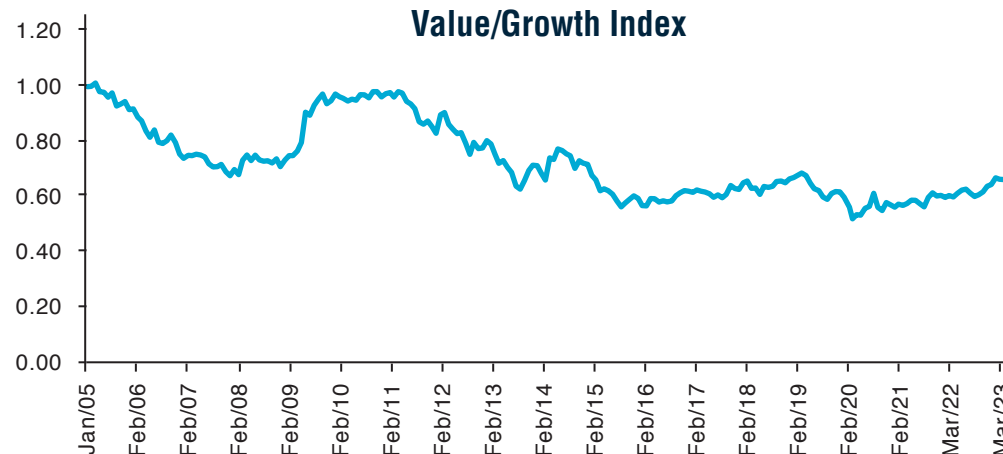
Defensive/Cyclical Total Market Cap Ratio



S&P BSE Sensex Free Float Market Cap to S&P BSE 500 Free Float Market Cap



Value/Growth Index

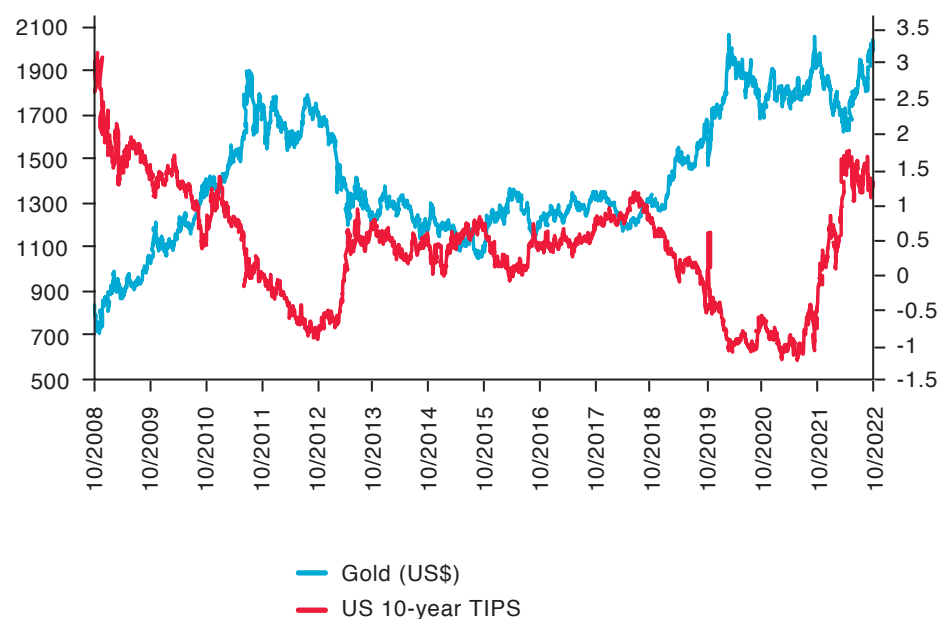


- The expected growth slowdown in the near term, should favour diversification across styles/market caps and sectors with a tilt towards defensiveness.
- However, there is still significant room for pro growth assets to outperform over the next decade.

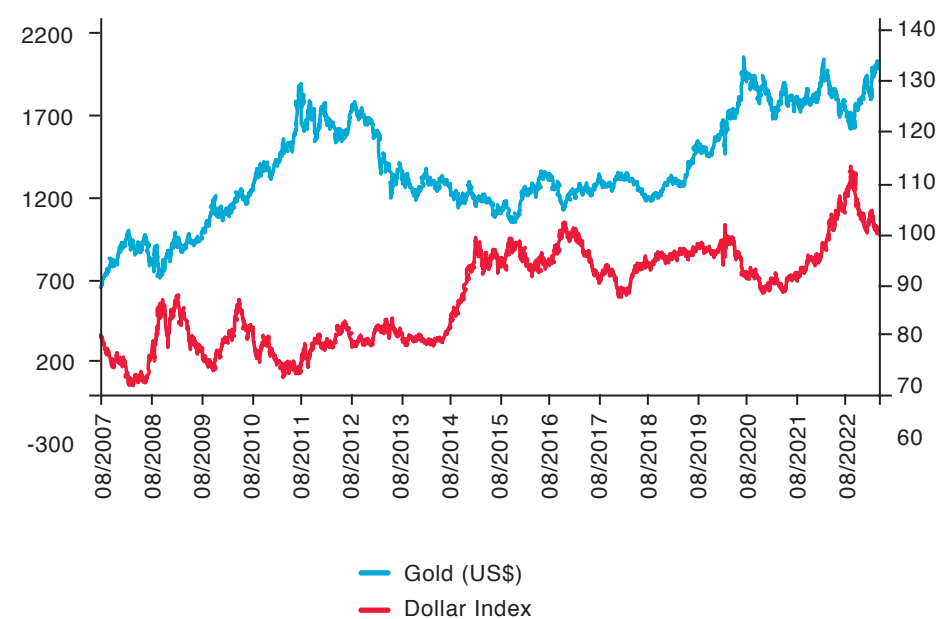
Source: Bloomberg, SBIFM Research. Note: Defensives include Technology, Consumer Staples and Pharma sectors while Cyclical include Consumer Discretionary and Industrial sectors.

A TAKE ON GOLD

US real yields retreat...



... as does the dollar



- Gold has a strong inverse correlation to real yields in the US. In the current environment with US Fed likely to pause at some point this year, yields may continue cooling off.
- Falling real yields is positive for Gold. Timing will be a function of how quickly policy stance changes from restrictive to stimulative, which in turn will be a function how economy narrative shifts from worrying about inflation to growth.

OUR VIEW

Asset Class	Current View	Short-Term	Long-Term
Equities	Underweight	Given the weak growth backdrop, we believe, investors may seek style diversification, quality and defensives may find favour again.	In contrast, the longer term environment should be characterised by low global real rates, tolerance for higher inflation and an expanding economy. Pro-growth themes such as cyclicals, value and small caps should be well placed.
Fixed Income	Overweight	Higher absolute carry, peak in tightening cycle and visibility on positive real returns make Fixed Income attractive as an asset class as FY24 starts.	Improving government finances and monetary policy's focus on anchoring inflation to mid point provides sufficient ingredients for lower nominal yields over the long-term.

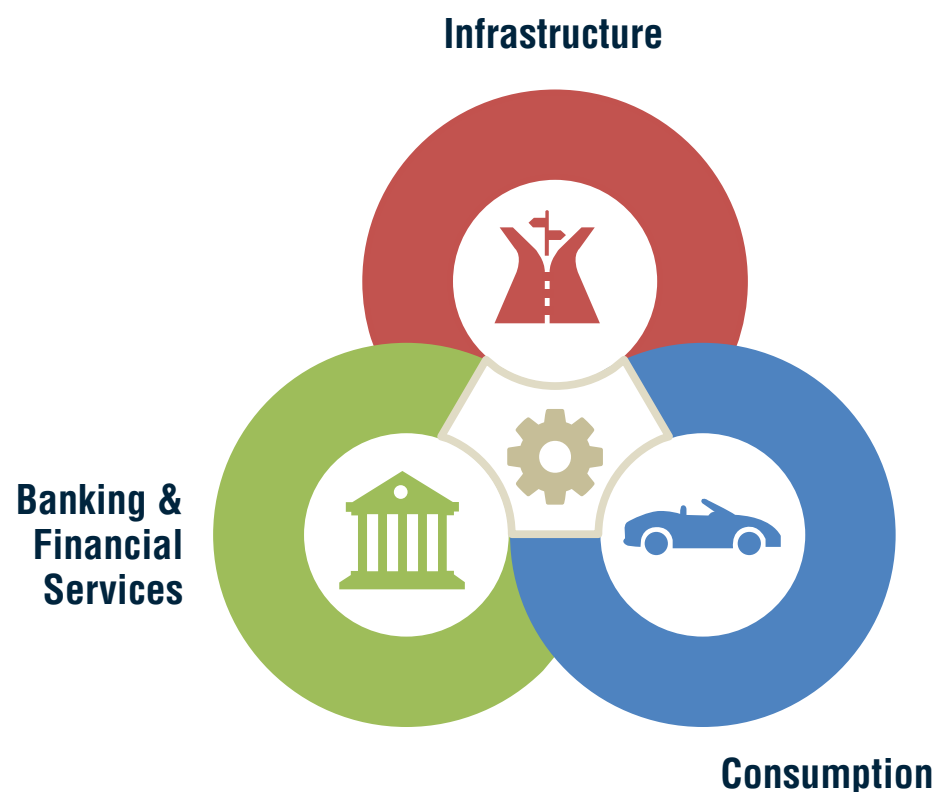
- High inflation and tighter monetary policy has led to concerns of global growth slowdown. We believe growth concerns will start to outweigh inflation challenges in the near term, making it positive for fixed income as an asset class.
- However, we expect the longer term environment to be characterised by low global real rates amidst high government debt burdens, tolerance for higher inflation and expanding economy. Given this view, we believe long-term investors should use the current market environment to build portfolios geared towards pro-growth assets.



LONG-TERM THEMES

RUCHIT MEHTA - HEAD OF RESEARCH

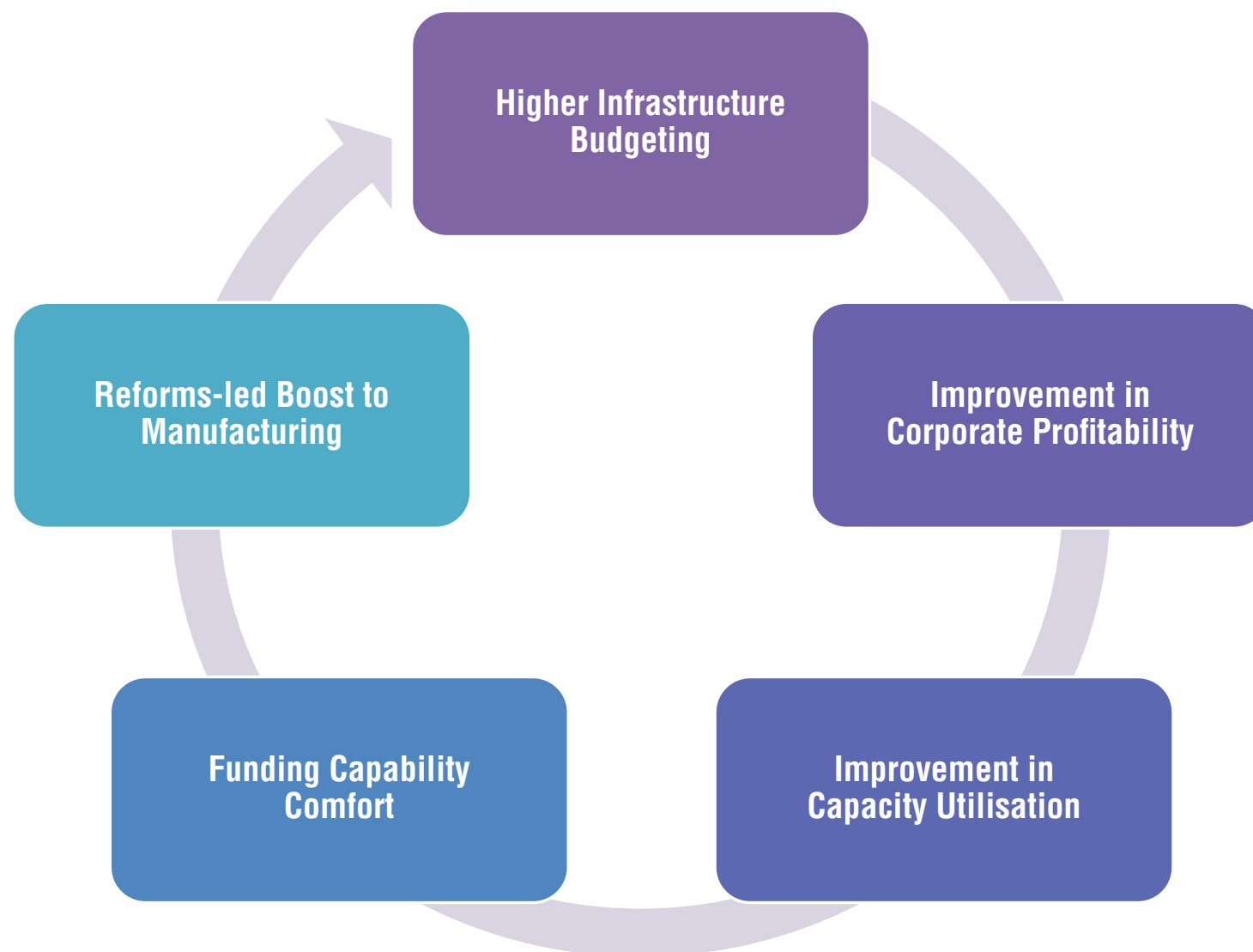
INDIA TO WITNESS INVESTMENT-LED GROWTH IN THE NEXT DECADE



- Covid and geo-political issues led to supply chain disruptions, leading to significant rise in inflation. As a result, key consuming countries are looking to diversify their supply chain and near/friend source their supplies.
- Government's focus on infrastructure projects along with global demand will create higher demand for resources, leading to new capacity creation.
- Further, after a decade of pain, Indian banking system is in good shape. The banks today are better positioned to cater to the loan demand for long-term projects. This, along with higher lending rates will lead to improved profitability for the sector.
- Affluent and middle households are expected to grow at a CAGR of 9.6% till 2030. This, combined with low penetration of most consumption items, will aid growth in Consumption.
- We believe that a combination of these factors make Infrastructure, Banking & Financial Services and Discretionary Consumption the preferred themes in the long-term.

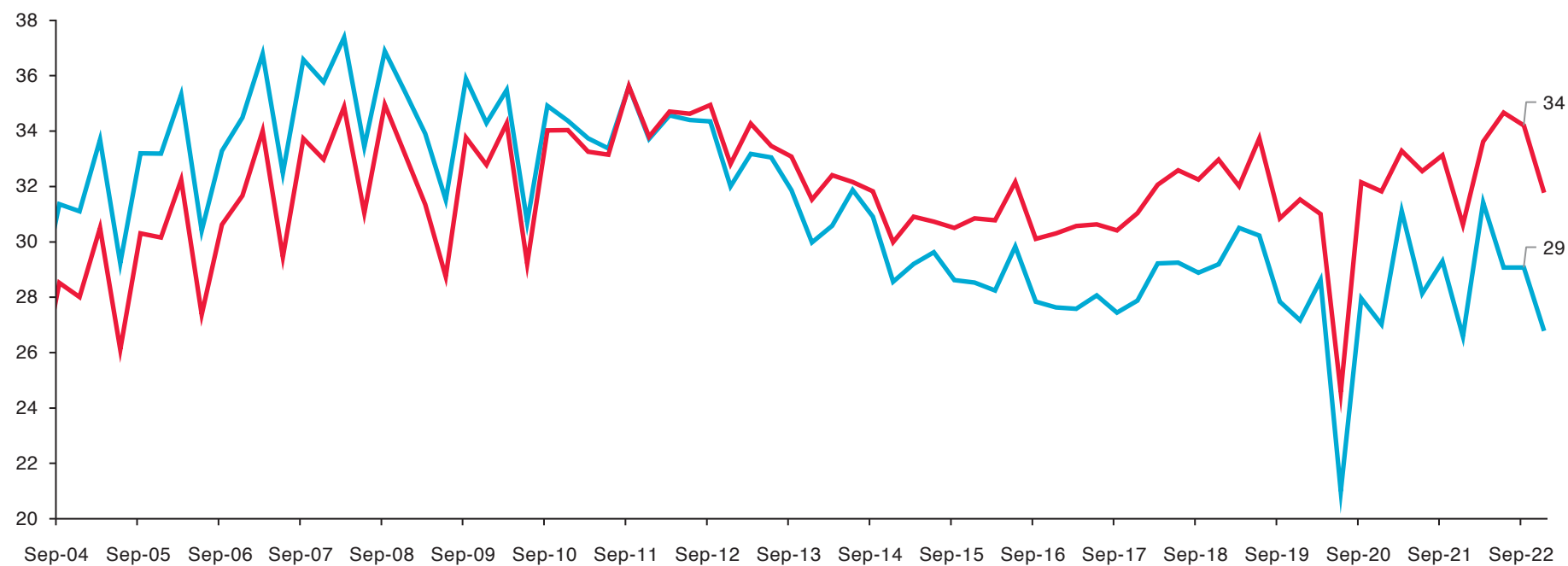


DRIVERS FOR STRUCTURAL PICKUP IN CAPEX





LOST DECADE FOR INDIA'S INFRASTRUCTURE SECTOR IS NOW REVERSING



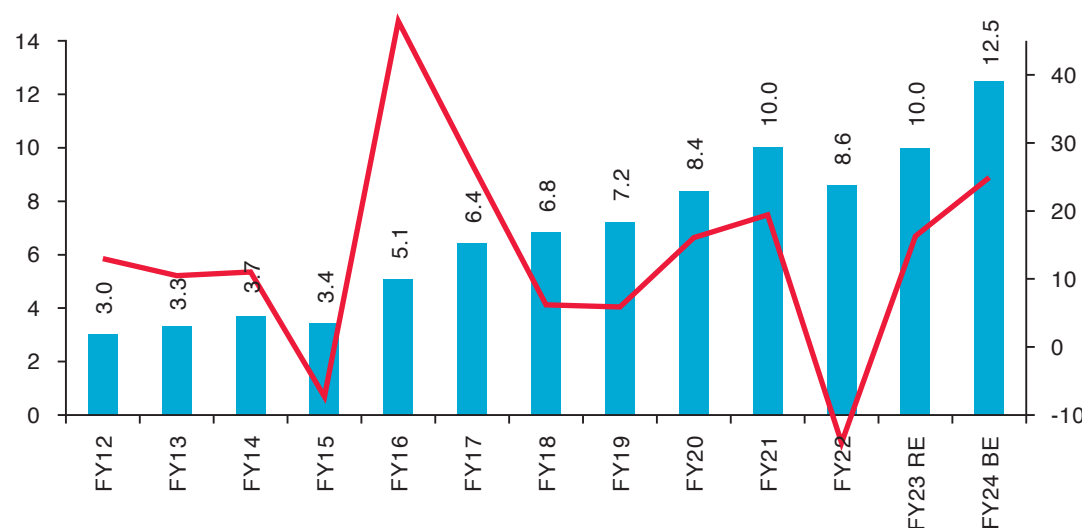
— Nominal GFCF (% of nominal GDP)
 — Real GFCF (% of real GDP)

India's capex cycle which saw a decade of underinvestment on absence of profit pool, high leverage, both of which are now reversing and showing signs of revival.



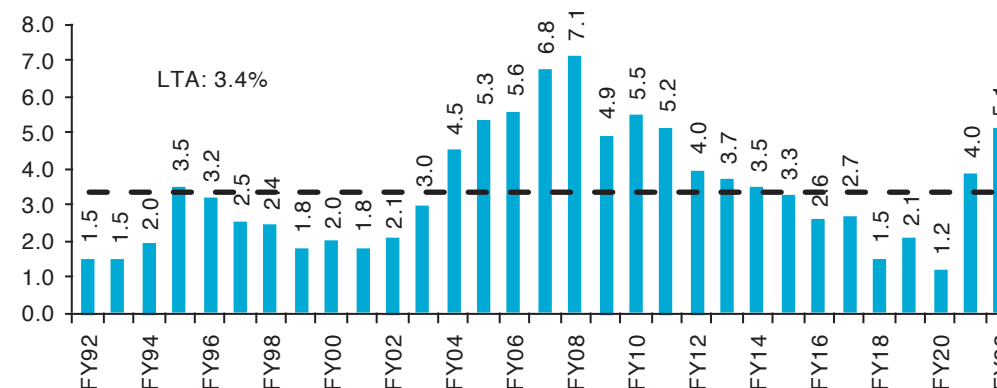
STAGE SET FOR A CAPEX REVIVAL: GOVT CAPEX KICK-STARTED THE CYCLE AND NOW PRIVATE CAPEX IS ALSO SET TO GROW

Strong growth in government capex leads the revival in cycle.
 4-fold increase in Union Government Infra spend over the last 12 years



■ Centre Infrastructure Spending (Rs. Trillion)
 — Centre Infrastructure Spending (% growth)-RHS

India Inc. went through a long period of underinvestment in the absence of profit pool which is now reversing



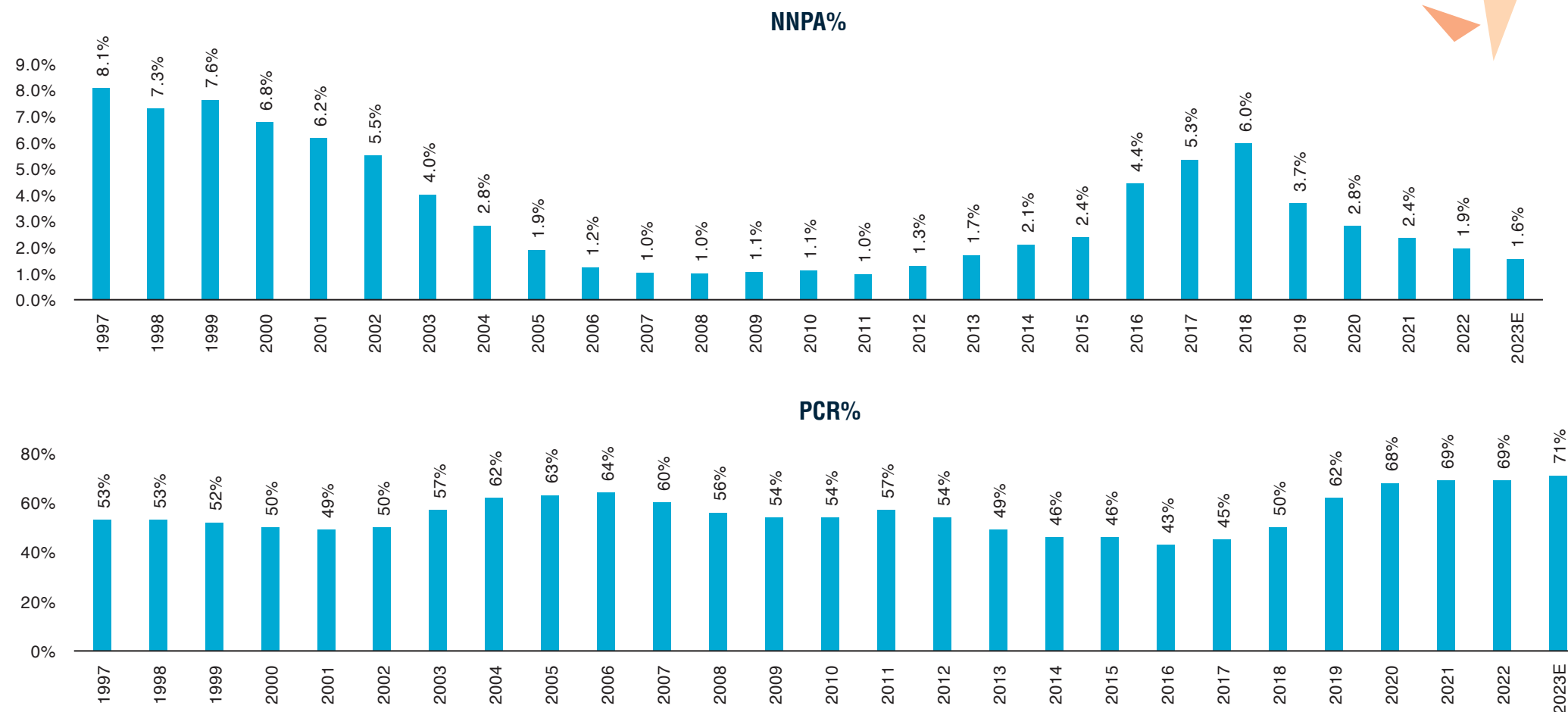
■ Corporate Profit (% GDP)

FY92-FY22 data is based on a sample of ~30,000 listed companies in CMIE (includes both financial and non-financial companies)

The Union Government's capex is up 4-fold over the last 12 years which has kick-started the capex revival cycle. The second order benefits are now showing up from revival of India Inc's profit pool and reduction in leverage, thereby adding further legs to the capex cycle.



BANKS BALANCE SHEETS ARE HEALTHIER NOW



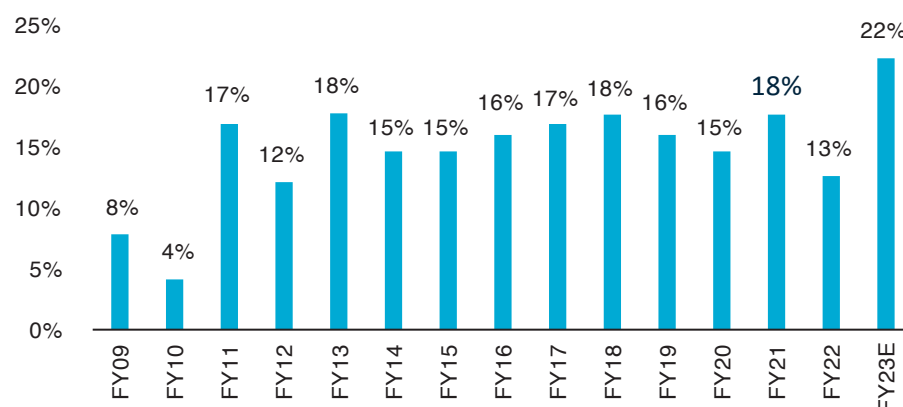
After almost a decade of pain, Indian banking system is in good shape today. Improving corporate balance sheets, Rising Coverage led by capital infusion and low incremental stress formation have led to a fall in the Net NPAs (Non-Performing Assets) for the banking system.

Source: RBI, Company Annual Reports, SBIFM Research. Note: PCR is Provision Coverage Ratio and is ratio of provisions to gross NPAs.

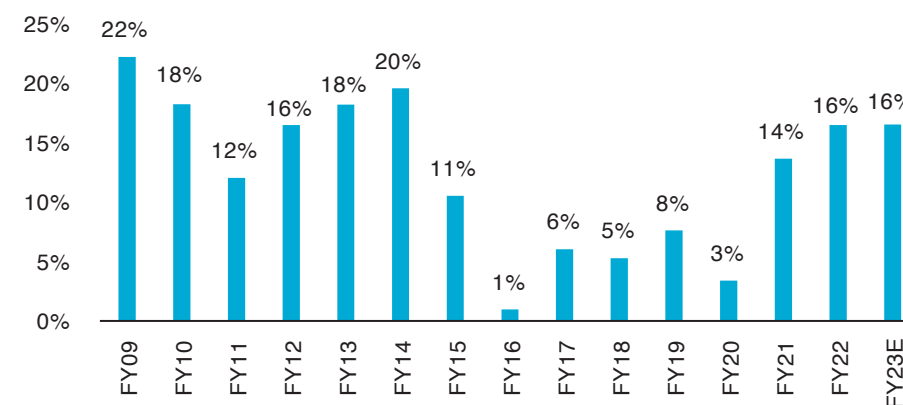


CREDIT GROWTH ACROSS MAJOR SEGMENTS HAS STARTED IMPROVING

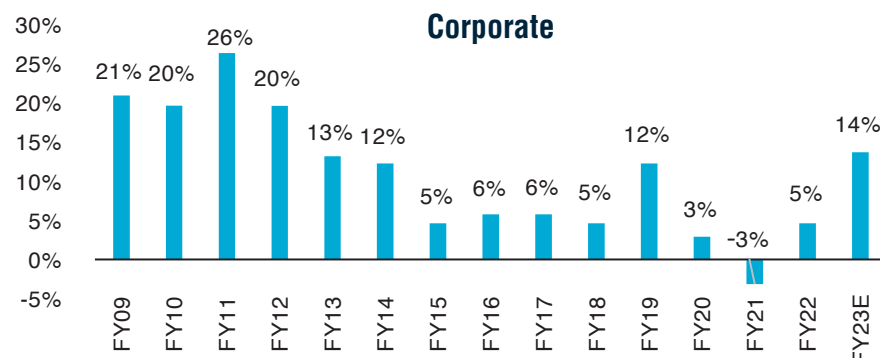
Retail



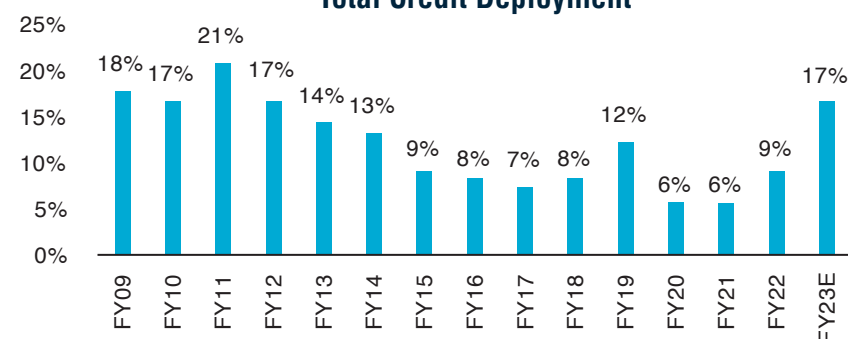
SME



Corporate



Total Credit Deployment



- We are witnessing an improvement in credit demand across most segments. While Retail and Services had been doing well, system credit growth is being supported by demand from the industry segment as well.
- Lower NPAs, higher provision coverage ratio (PCR) and better profitability has improved risk appetite and allowed lenders to invest for growth, ensuring sustainability.



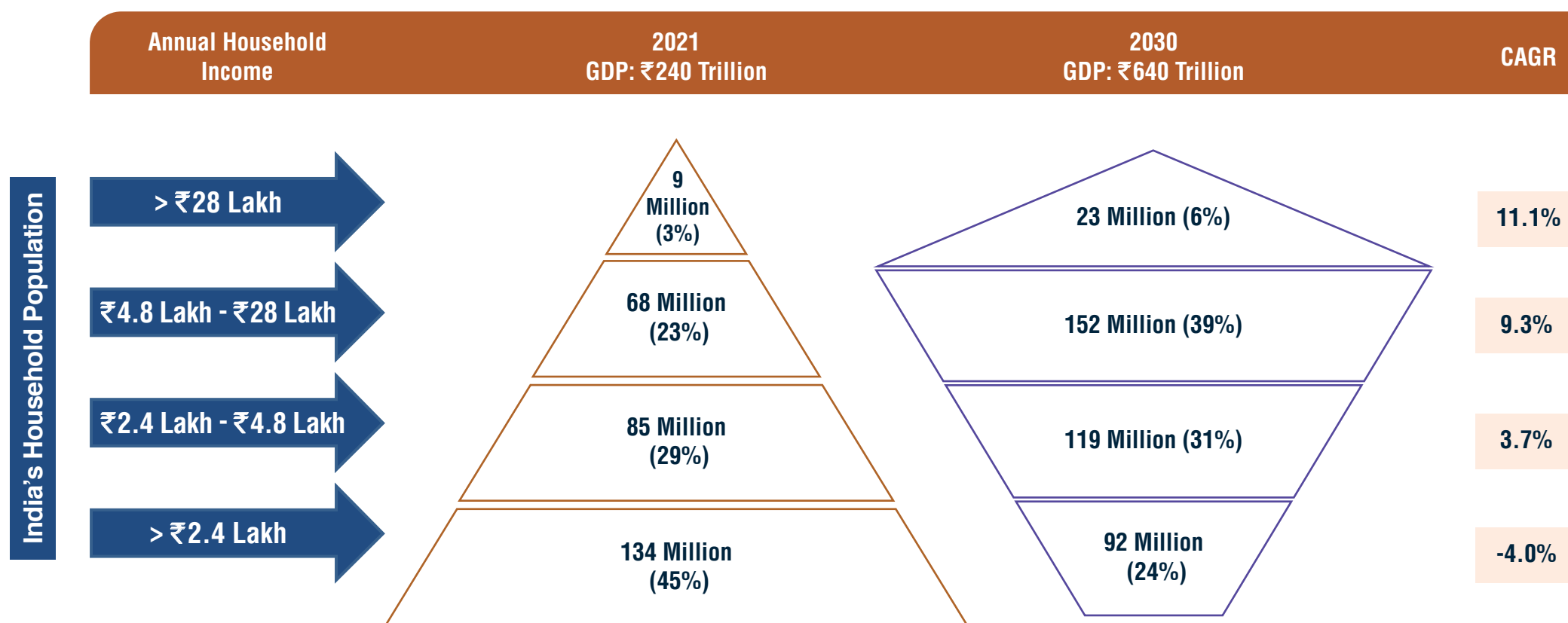
CREDIT PENETRATION IN INDIA IS AMONG THE LOWEST

% of GDP	Mortgage	Credit Cards	Unsecured	Corporate
India	11%	0.8%	6.1%	51%
China	18%	7.1%	5.3%	62%
Thailand	20%	6.7%	8.7%	90%
Malaysia	34%	3.2%	10.0%	78%
Germany	45%	6.1%	2.8%	72%
USA	52%	4.6%	10.4%	81%
Australia	56%	1.0%	6.0%	65%
UK	68%	2.9%	3.6%	72%

- India has amongst the lowest penetration across most retail products. E.g. in Mortgages and Credit Card.
- Corporate credit penetration is also at moderate levels and we expect that to pickup in line with capacity addition over the coming years.



INDIA'S CONSUMPTION STORY IS A STRONG MULTI-YEAR PHENOMENON

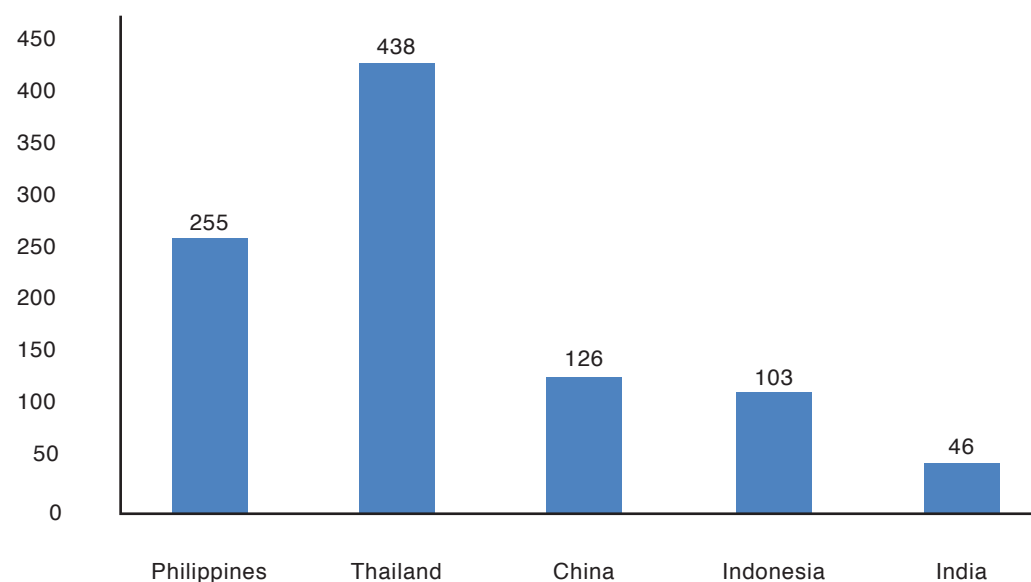


- According to a report by McKinsey, India is projected to have the third-largest number of high-income households globally by 2030.
- The shift in income trend with the affluent and middle households growing at an estimated CAGR of 9.6% by 2030, presents a strong case for increase in share of consumer discretionary spending in the next decade.

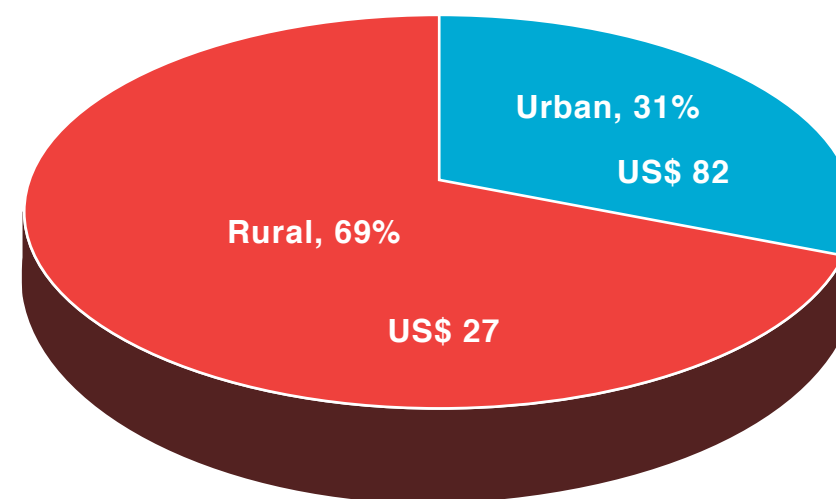


INDIA'S LOW PER CAPITA SPENDING PRESENTS A HUGE GROWTH POTENTIAL

Per capita FMCG spends across countries
(In US\$)



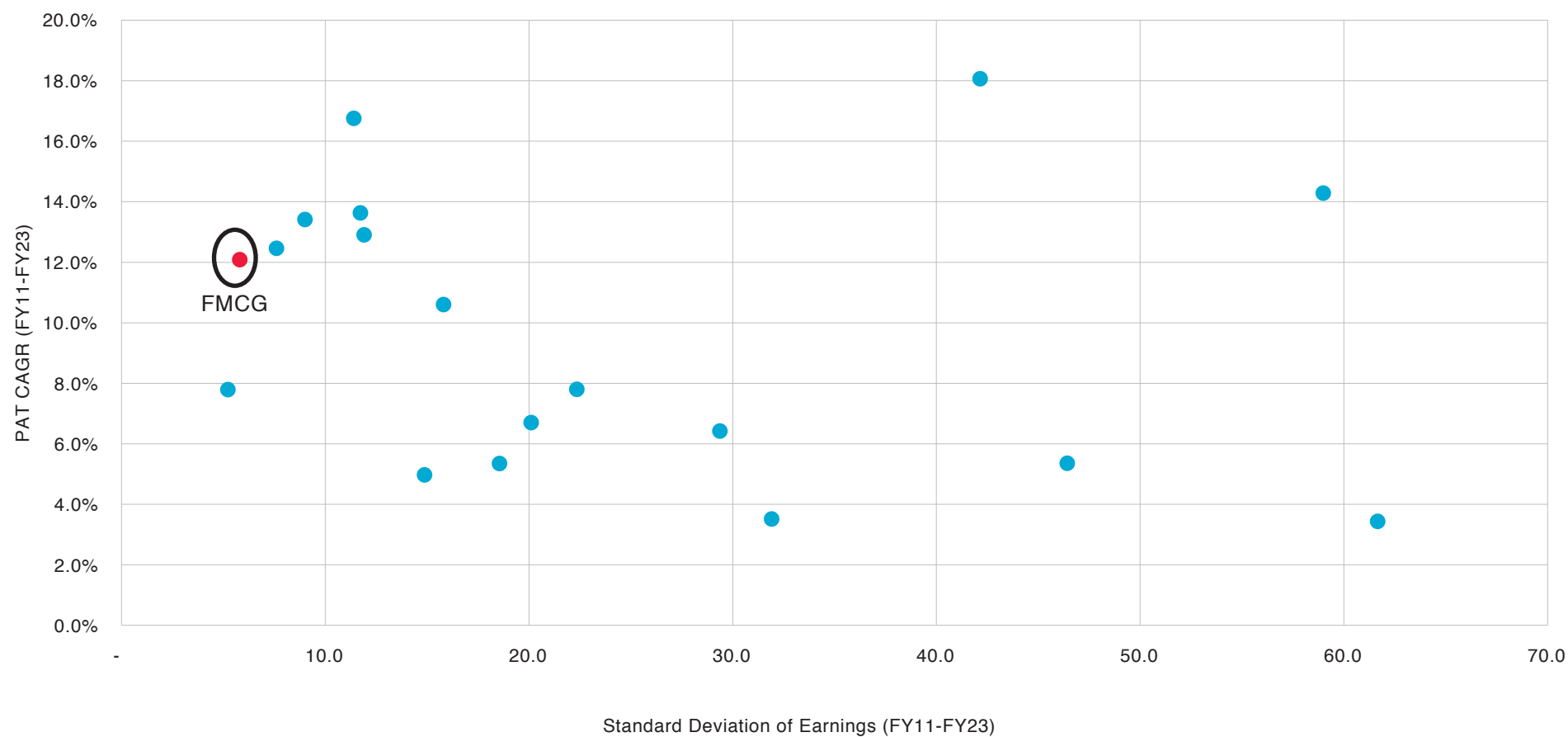
Population Share & FMCG spend (per capita)



- India's per capita spending has been relatively lower than other economies, indicating significant potential for increase in per capita spending on FMCG consumption.
- With nearly 69% of the total population residing in rural areas and per capita spending of only at US\$ 27, FMCG spend in rural India is significantly underpenetrated.



FMCG: HIGHER GROWTH, LOW VOLATILITY



FMCG as a sector has historically showcased relatively higher growth rate with lower dispersion in earnings.

NOTES

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

NOTES

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

NOTES

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....





This document is for information purposes only and is not an offer to sell or a solicitation to buy any mutual fund units/securities. These views alone are not sufficient and should not be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party. All opinions and estimates included here constitute our view as of this date and are subject to change without notice. Neither SBI Funds Management Limited, nor any person connected with it, accepts any liability arising from the use of this information. The recipient of this material should rely on their investigations and take their own professional advice.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.
Asset Management Company: SBI Funds Management Limited (A Joint Venture between SBI & AMUNDI). (CIN: U65990MH1992PLC065289)