



STARLIGHT WEALTH LLP

Monthly Newsletter
February 2023

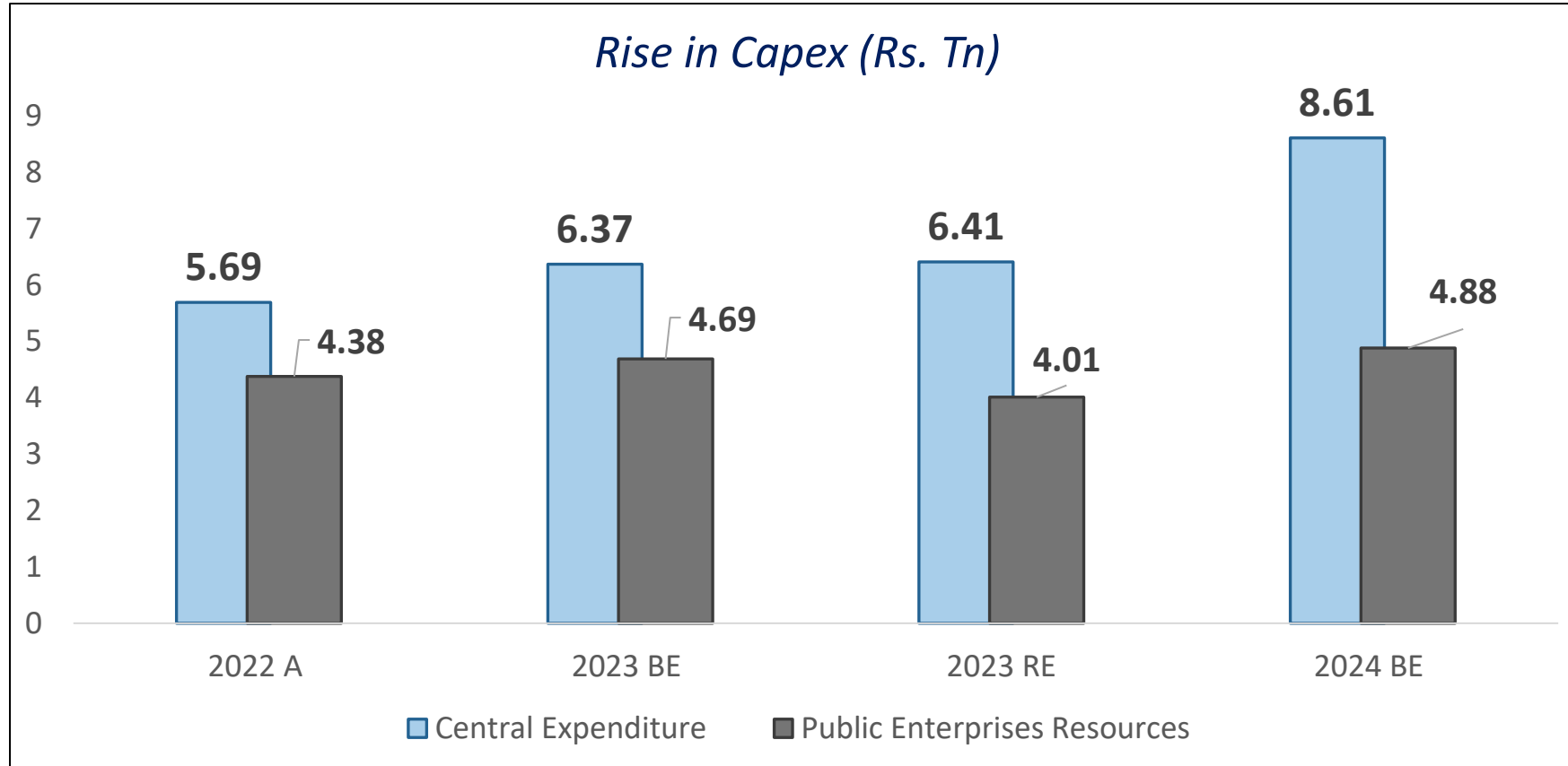
Agenda

- *Union Budget 2023 - Impact on various sectors*
- *Market Outlook*
- *Recommendations*

Union Budget 2023



Sharp Rise in Total Capital Expenditure



Source: Kotak MF

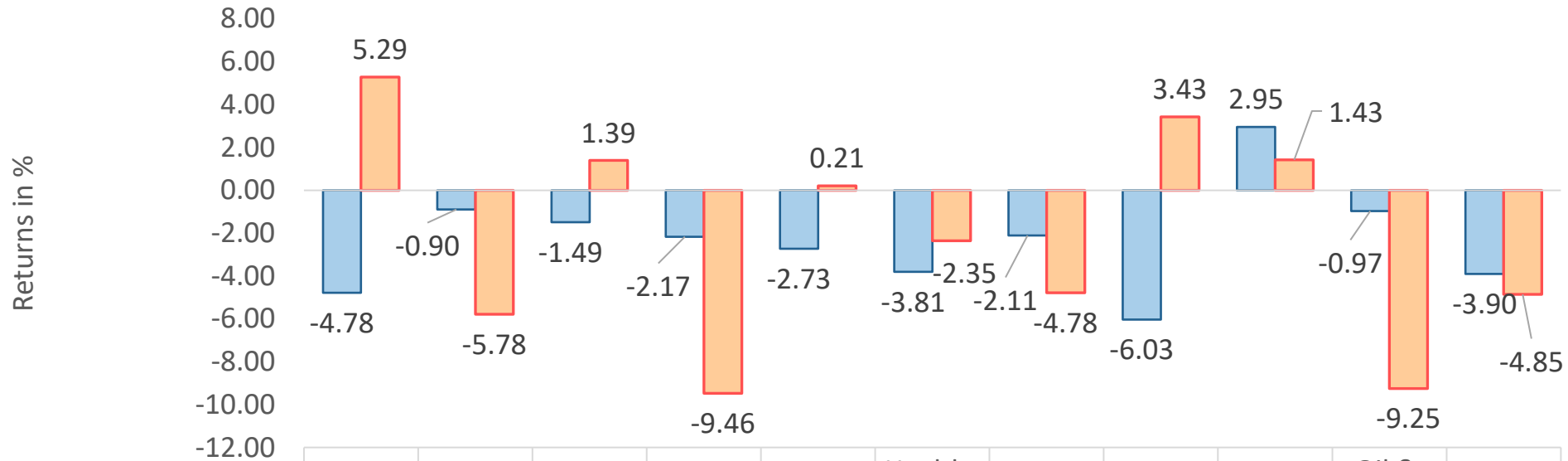
- Budget 2023 announced a mammoth ₹ 10 Lakh Crore Capex package to ensure India's cyclical recovery.
- This could have a multiplier effect on overall economic growth and development by driving demand.

Union Budget 2023 - Impact across Equity market sectors

Sector	Key Announcements	Impact
Auto	Allocation of funds to replace old govt. vehicles	Positive for passenger vehicle demand.
Consumer	Reduction in personal taxes and higher agricultural credit limit. However, MNREGA allocation reduced	Mixed bag for consumers. Rural demand could offset by higher agricultural credit demand and MSP increases
Infra	Sharp increase in Road & Rail capex outlay	Infra development continues to get rapid push which could have multiplier impact of GDP growth
NBFCs/HFCs	PMAY/Housing allocation raised	Affordable housing gets greater impetus
Financials - Insurers	Maturity benefits from all policies (ex-ULIP) issued on or after 01st Apr 2023, having premium or aggregate premium of Rs.5lakhs in a year shall become taxable.	This can potentially impact new policy sales for insurance companies and especially impact their endowment / non-par portfolio.
Travel & Tourism	50 new airports, aerodromes, helipads to improve inter-city connectivity	Positive for hotels, airlines, and their associated sectors.

Domestic Markets Performance - Sector Wise

Comparative Sectoral Indices - Dec'22 vs Jan'23

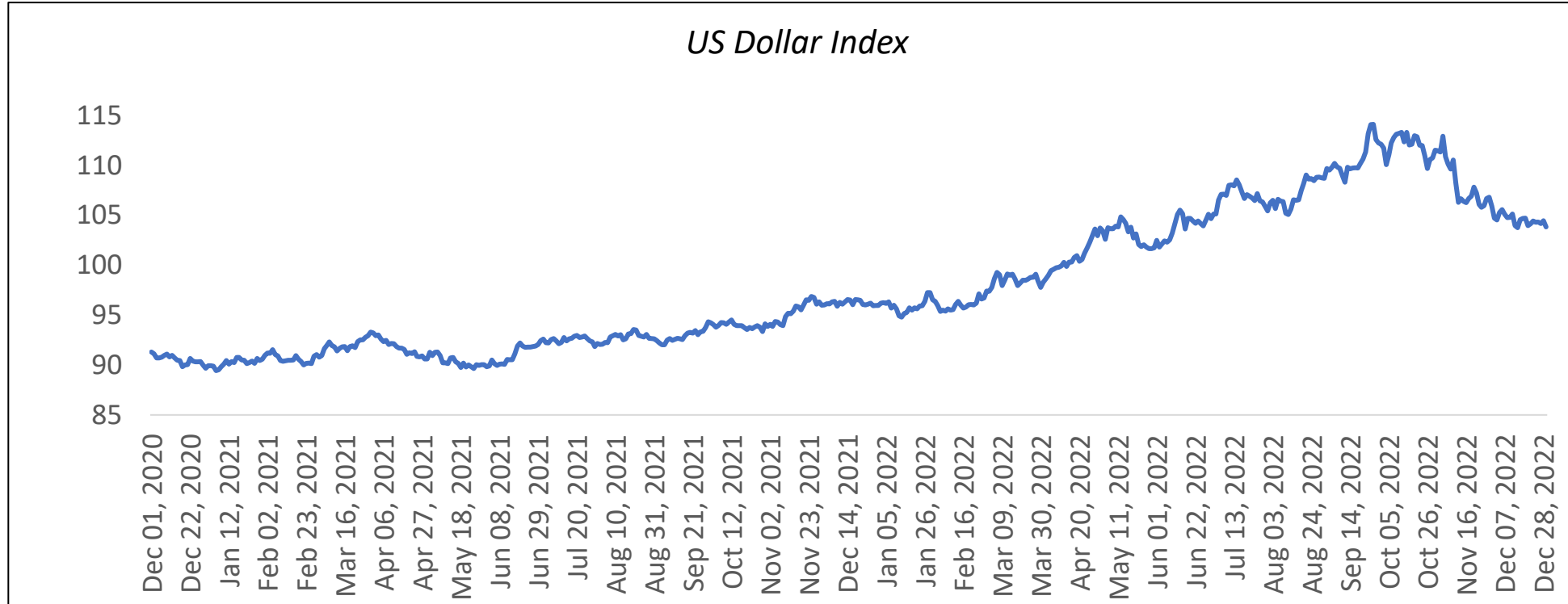


	Auto	Bank	CG	Energy	FMCG	Healthcare	Infra	IT	Metal	Oil & Gas	Realty
Returns in % Dec'22	-4.78	-0.90	-1.49	-2.17	-2.73	-3.81	-2.11	-6.03	2.95	-0.97	-3.90
Returns in % Jan'23	5.29	-5.78	1.39	-9.46	0.21	-2.35	-4.78	3.43	1.43	-9.25	-4.85

Source: Value Research

- Following the sharp run in November 2022, equity benchmark index Sensex and Nifty saw a correction of ~3.5% from December to January 2023.
- This was largely due to concerns of COVID cases in China and the subsequent impact on mobility and business activities.

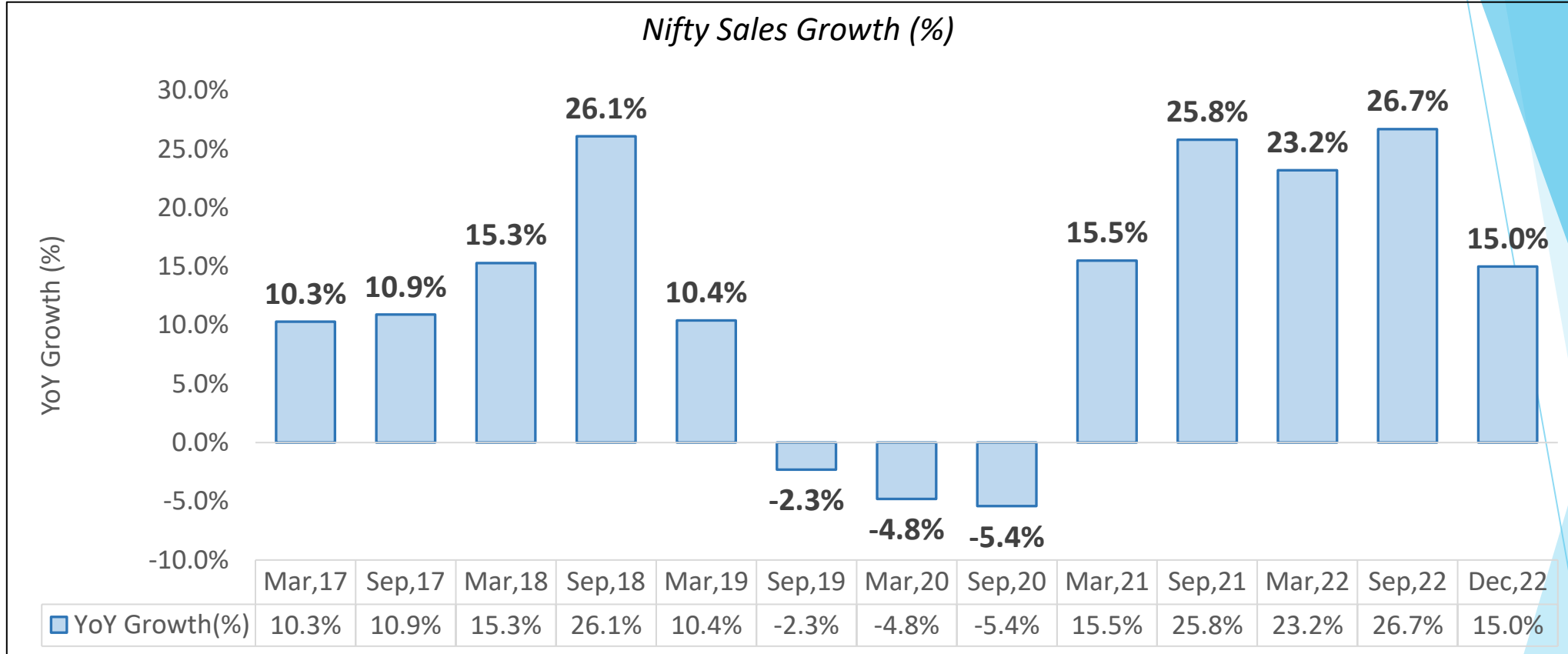
INR likely to strengthen in 2023



Source: ABSL AMC Ltd.

- *Aggressive rate hikes by the Fed has led to significant strengthening of the US Dollar.*
- *Going forward, as the US economy slows and inflation moderates, the Fed is expected to slow down the rate hike putting a downward pressure on the dollar.*
- *This should be positive for emerging market currencies specially Indian Rupee, INR with its large FX reserve and lower inflation.*

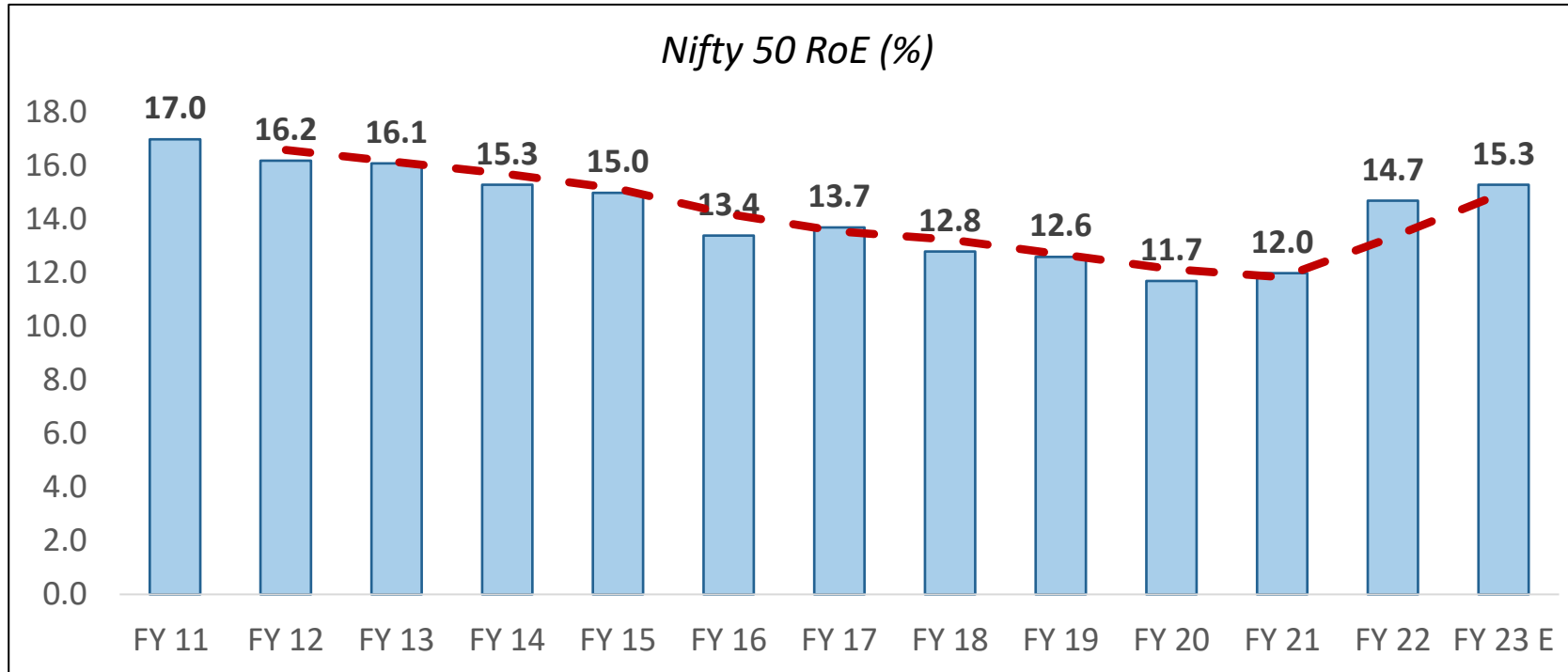
Profit growth cycle displays recovery



Source: Invesco MF

- With inflation below 5% for past 2 months, the tightening cycle could see an end during the current FY if the level of macro-economic concerns are lowered.
- 2023 might see growth orientation to come back in a big way & quality companies shall witness strong returns.
- Nifty earnings growth is expected to grow to ~12-14% in 2023 aided by strong margin expansion on expected easing of commodity prices

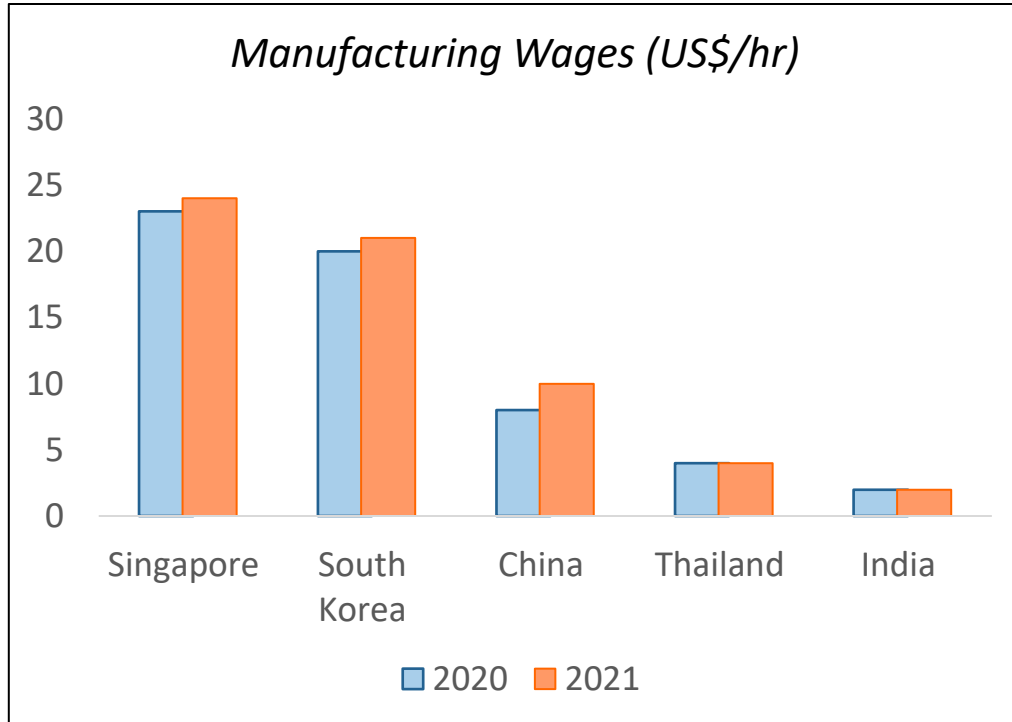
RoEs for Nifty-50 Companies continue to improve



Source: ABSL AMC Ltd.

- *Despite challenging atmosphere, most Indian corporates have been able to increase their productivity and efficiency leading to improvement in overall RoE vs pre-covid levels.*
- *Substantial portion of Nifty earnings has been due to revival in bank earnings along with growth in consumer, auto and infra sectors.*

Winning Hand in China + 1

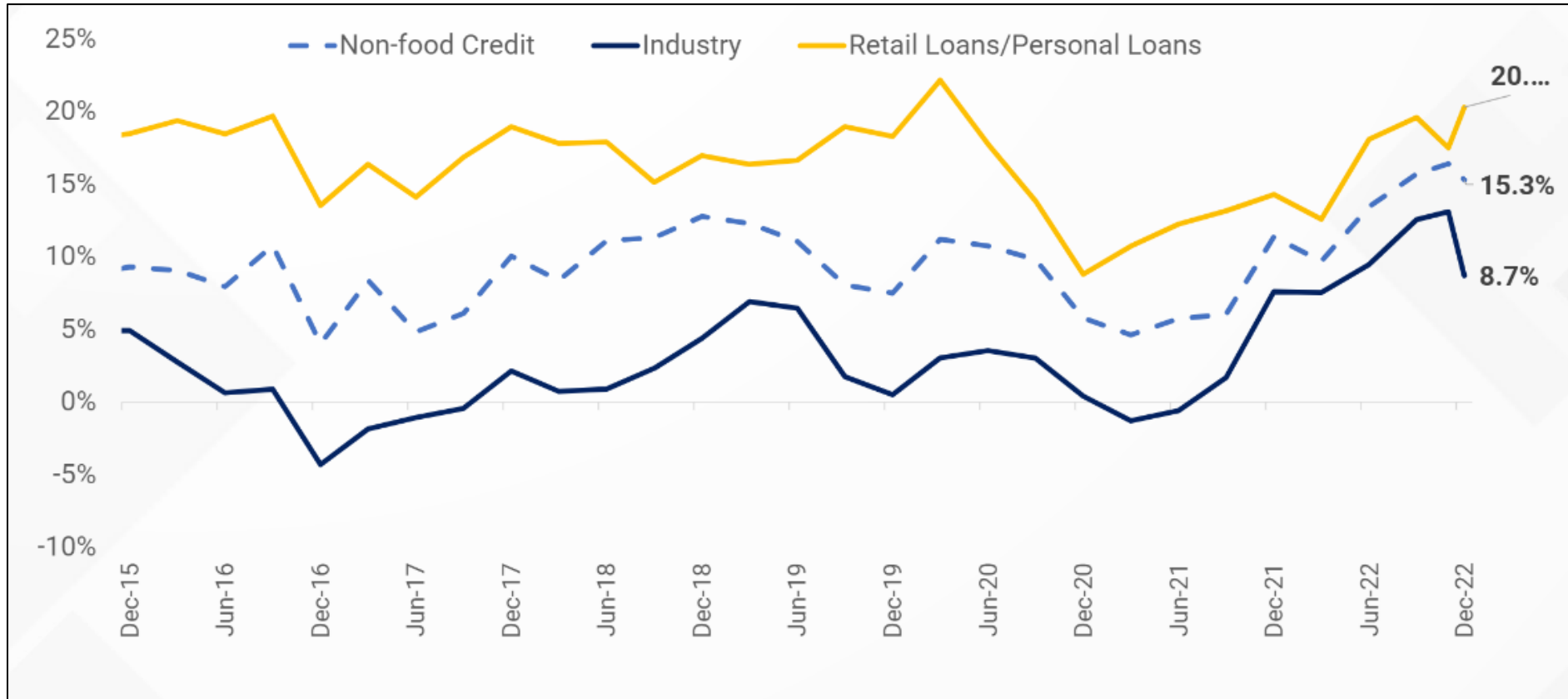


Source: ICICI Prudential AMC

Companies	Investment (USD Bn)	Time Period
Samsung, Foxconn, Lava, Wistron & Pegatron	5.6	FY 21- 26
Siemens, Integris Healthcare & Poly Medicure	0.5	FY 21 -28
Nokia, Ciena, Flextronics	1.7	FY 22 -26
Nestle, Hindustan Unilever Ltd	1.5	FY 22 – 27
Daikin Group, Panasonic	0.9	FY 22 - 26

- *Increasing labor supply coupled with lowest manufacturing wages makes India an attractive destination for ‘China + 1’ theme.*
- *Some of the major international players have made key announcements to invest an estimated 10 Bn over the next few years.*

Credit Growth reviving to double-digits



Source: Kotak MF.

A full-fledged expansion in Capex announced in the Union Budget 2023 will push the corporate credit growth, bringing the overall credit growth ~15 percent for FY'23 as well as FY '24. This could lead to a gradual but broad-based economic recovery.

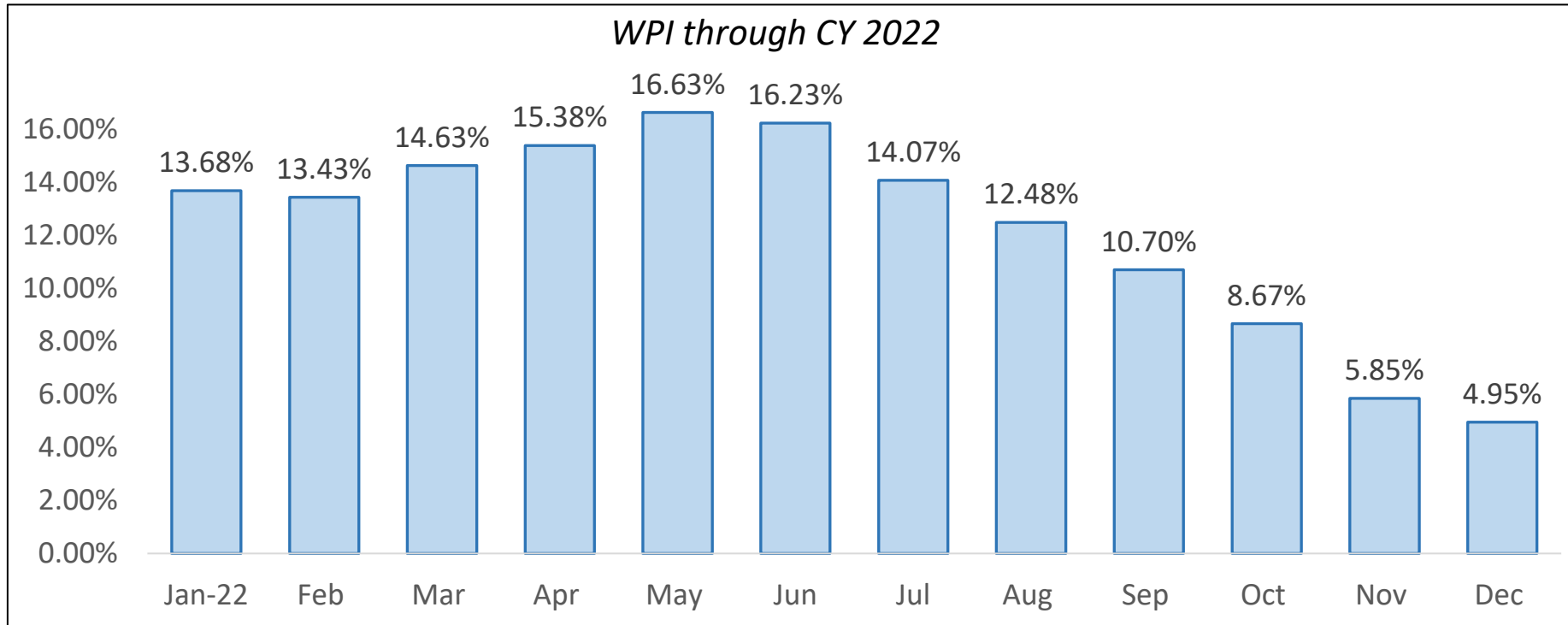
Equity Market-Key Takeaways

- *We remain positive over medium to longer term outlook on Indian Equities due to favourable demographics, India's better-placed Macros, healthy GST collection, strong govt. reforms and India being favoured as one of the destinations for China +1 theme.*
- *We remain constructive on sectors/themes like Banks, Auto, Capital Goods & international equities where the valuations and earnings remain reasonable. Markets may continue to take cues from following events – RBI slowing the pace of interest rate hike, India's inflation having reached its peak and picking up of rural & urban economic activities.*
- *Global geo-politics and US inflation dynamics would also play a big role in determining market outlook for 2023.*
- *Therefore, we suggest staggered investments into Equities to take advantage of the expected volatility in the Equity markets.*
- *We recommend a core portfolio of Large caps, Multicap and Flexicap Funds in equities. Tactical allocations can be done into Banking sector funds, Mid & Small cap Funds.*

Debt Market Outlook

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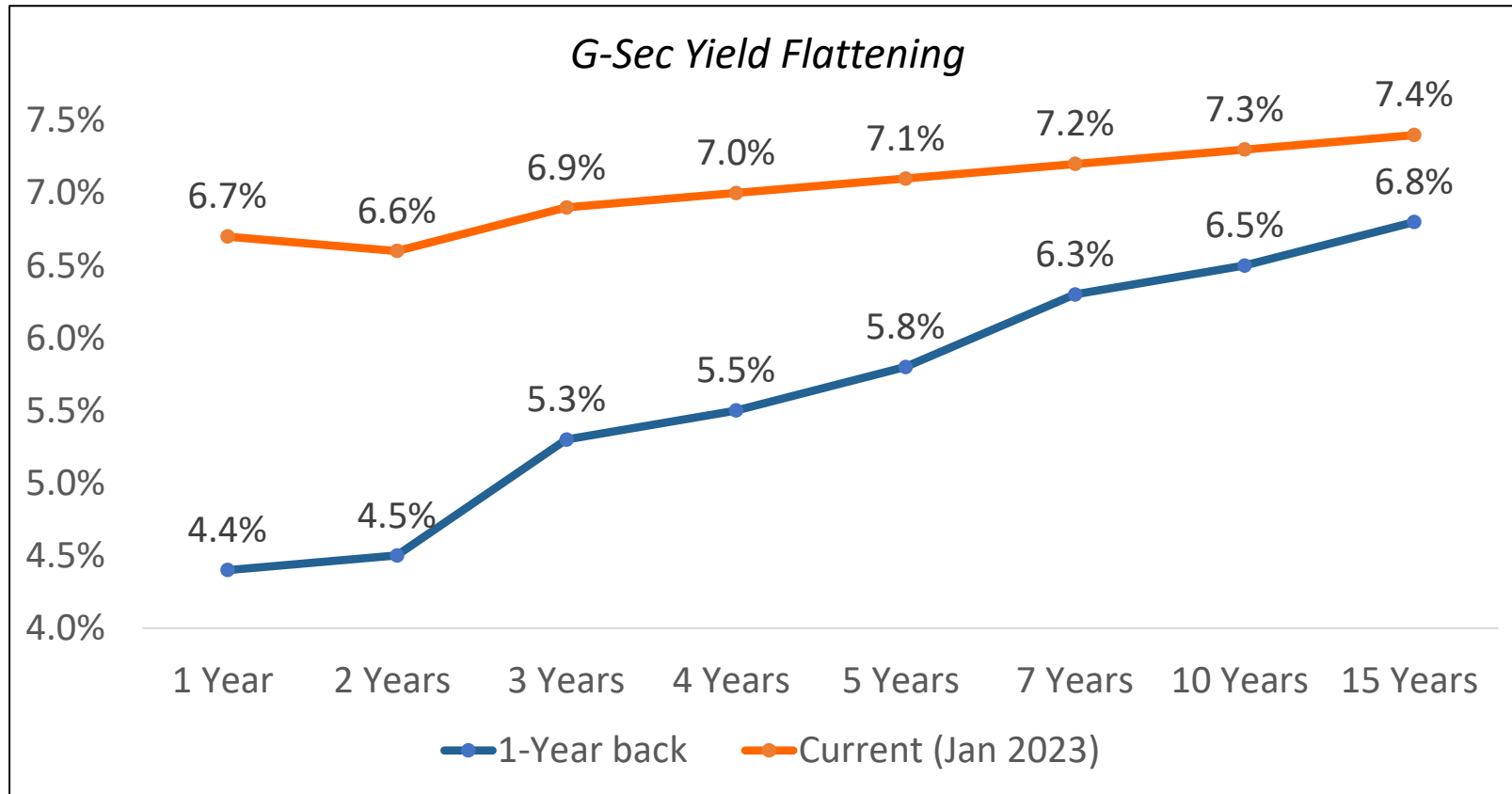
India's WPI (Wholesale Price Index) declines further in December 2022



Source: Kotak MF

- India's wholesale price inflation slipped to a 22-month low of 4.95% in December 2022 from 5.85% in November 2022.
- The CPI is now comfortably within the RBI's mandated 2-6% band. This could majorly impact the RBI in taking less restrictive stand post Feb 2023 MPC.

G-Sec Yield Curve has flattened significantly

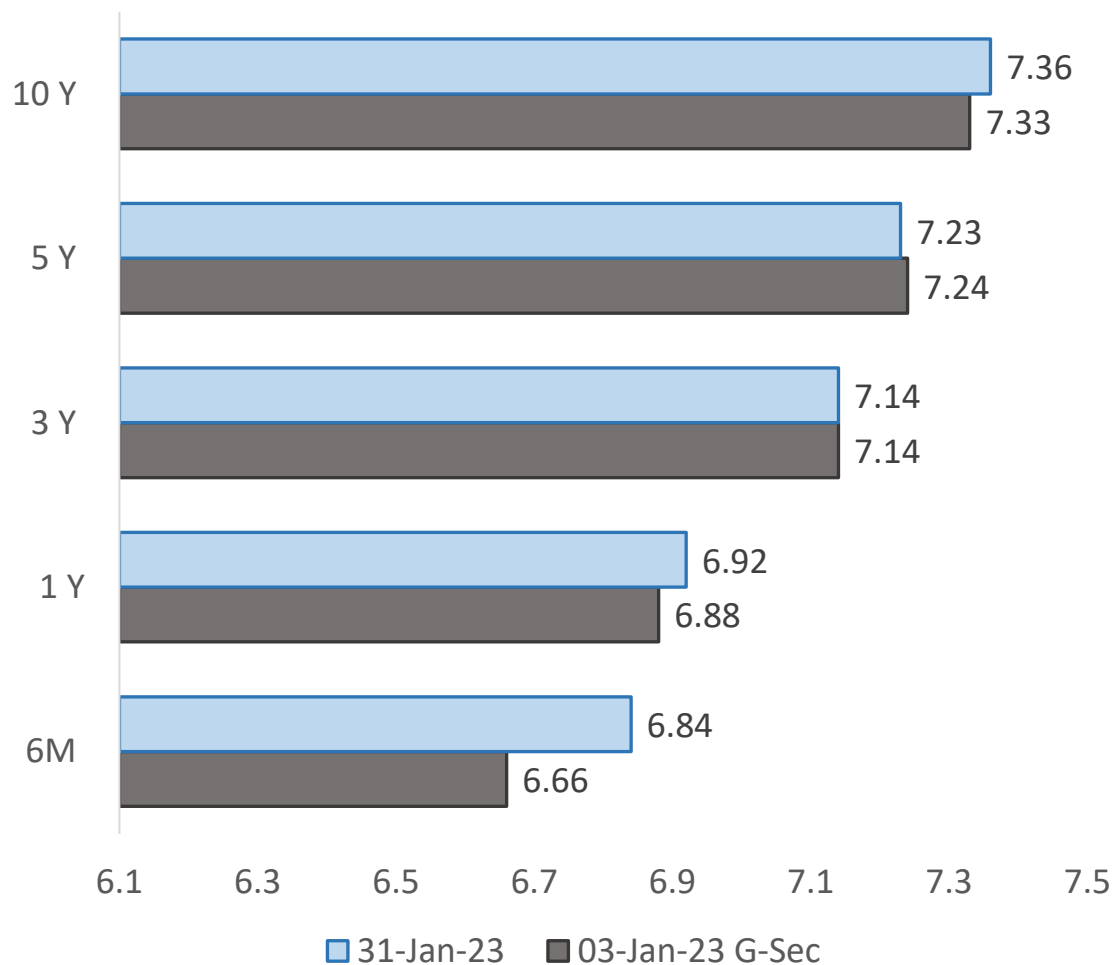


Source: Invesco MF

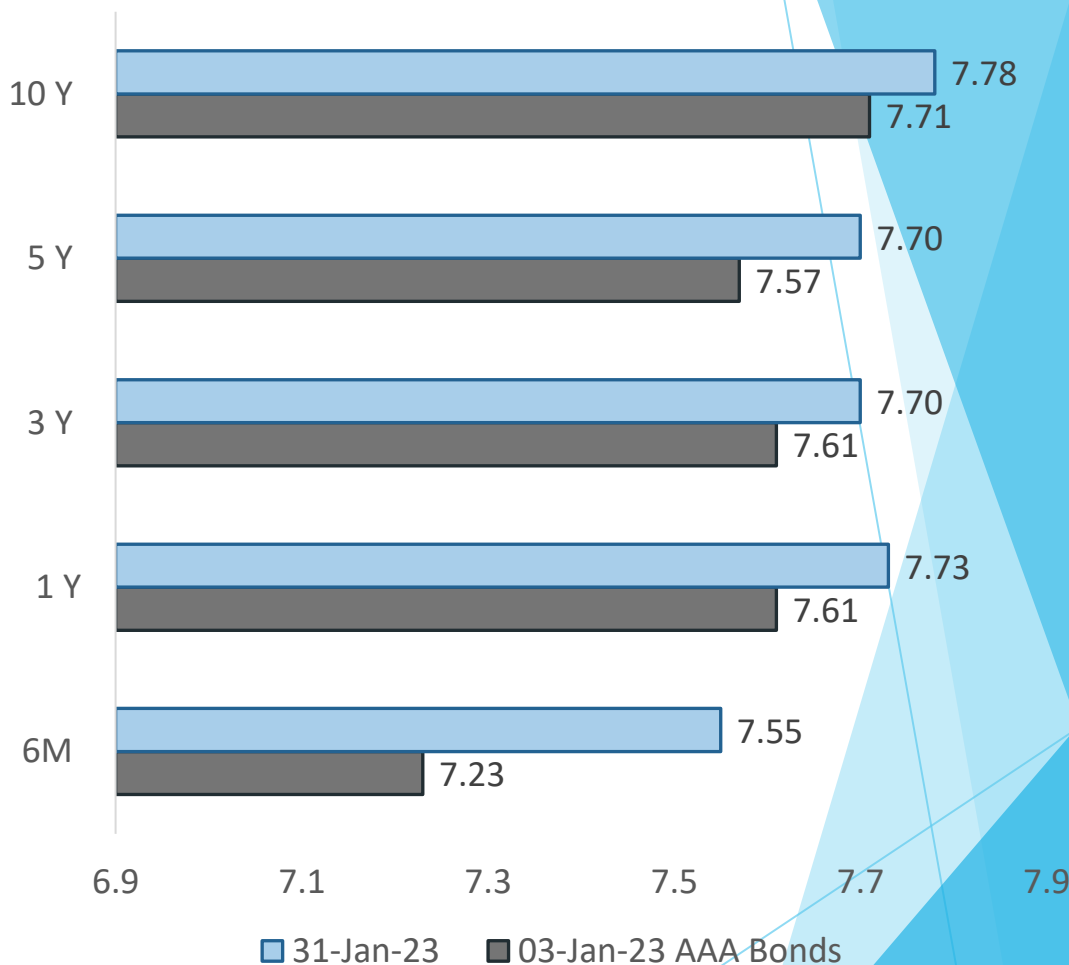
The yield curve has flattened and likely value is seen in 5-7 year G-sec curve. Above 10 Y, the curve is flat indicating little benefit in holdings longer term instruments.

Yield Movement through January 2023

G-Sec movement through Jan 2023



AAA rated Bonds movement through Jan 2023



Source: ICICI Prudential

Debt Market - Key Takeaways

- *The most recent RBI data seems to indicate that retail inflation has possibly peaked (likely in Sept'22) and is now likely to trend downwards aided by a downward trend in commodity prices. Going forward, the RBI is expected to take rate hiking calls based on inflation data.*
- *This should lead to lower bond yields and the overall yield curve may see a gradual recovery towards normal slope.*
- *We expect longer-end of the yield curve to remain sensitive to macro developments, while the shorter-end will move in line with anticipated rate hikes.*
- *In conclusion, in view of the heightened near-term volatility and expectations of continued flattening in the yield curve, we recommend staggered investments into short to medium duration debt funds.*

Recommendation

Our recommended products include

- Mutual Funds – Equity, Hybrid, and Debt Funds.*
- PMS*

Detailed report on our recommendations are attached as separate PDF.



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Thank you

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