

# Equity Outlook

JUNE 2023

**Dhaval Shah**  
Senior Analyst & Fund Manager  
Aditya Birla Sun Life AMC Limited



Last month, Indian equity markets recouped entire year-to-date underperformance to emerging markets. India outperformed other emerging markets by close to 5% in May and is now in line with other EM vs 10% year-to-date underperformance till March 2023. Macro concerns of sticky core inflation and hard landing in US have given way with central bank altering forward guidance which enables a pause. Goods prices have come off but services inflation seems to show a gradual progress which is constraining rate cut commentary. Over the last 2 months, markets broadly cheered resolution of regional bank crisis which had a potential to snowball into a deep recession and recent deal to raise US debt ceiling with modest spending cuts. European region has also done marked better over the last 2 quarters defying recession bets. Reversal of energy prices is supporting sentiment and production. China recovery is below par but markets are expecting further policy support here. We assess global macro concerns have abated meaningfully over the last few months and focus in on broadening economic recovery in India.

GDP data for Q4FY23 at 6.1% YoY surprised positively. QoQ growth momentum at 8.4% is the strongest 4Q print in the past 10 years. On the production side, growth surprise is largely driven by construction and agriculture. It is imperative to note that on the expenditure side, growth is driven by gross capital formation and net exports, private final consumption expenditure is weak and may require some pump priming. High frequency indicators like PMI, capacity utilization, non-food credit growth point to improving growth hypothesis and broadening of the economy. Further, CPI inflation slowed down to 4.7% and indicates we are at the peak of interest rate cycle. This should bode well for interest rate sensitive sector like NBFC, Real Estate and Autos.

Quarterly results from India Inc is shade better than street expectations and commentary is that of cautious optimism as costs deflation would aid margin recovery in the coming quarters and corporates hope for demand revival especially from lower strata of the economy. One trend which stood out is the wedge between domestic and export oriented sectors widened further in Q4FY23. In the quarter, exporters – Software, Pharma and Chemicals – saw meaningful earnings cut largely due to subdued outlook whereas domestic sectors like real estate, auto and industrials posted strong topline along with healthy order inflows. We assess markets would continue to broad base in the coming months as small and mid-caps typically have high operating leverage and tend to perform well as economy gains momentum. Would encourage investors to follow a disciplined asset allocation approach to reap benefits of consistent returns over long term.

Disclaimer- The sector(s)/stock(s)/issuer(s) mentioned in this presentation do not constitute any research report/recommendation of the same and the Fund may or may not have any future position in these sectors)/stock(s)/issuers).

Source : ABSLAMC Research

## Our Recommendations

Market Cap Specific	Hybrid Solutions	Thematic & Sectoral Solutions	Diversified across Market Cap
Aditya Birla Sun Life Small Cap Fund	Aditya Birla Sun Life Balanced Advantage Fund	Aditya Birla Sun Life India GenNext Fund	Aditya Birla Sun Life Multi-Cap Fund
Aditya Birla Sun Life Mid Cap Fund	Aditya Birla Sun Life Multi Asset Allocation Fund	Aditya Birla Sun Life Banking and Financial Services Fund	Aditya Birla Sun Life Flexi Cap Fund
Aditya Birla Sun Life Frontline Equity Fund			

None of the aforesaid recommendations are based on any assumptions. These are purely for reference and the investor are requested to consult their financial advisors before investing.