CitiChoice

Snapshot: January to March 2023

Suitable for Investor Rating 1

Dear Customer,

Year 2022 proved to be a year of turning points for the global markets as well as the geopolitical landscape. Inflation, monetary tightening, slowing growth, international conflict and an intensified US-China tech rivalry continued to impact financial markets. Even as China moved ahead from it's on off Covid policy, the Fed went from accommodative to restrictive policies as financial assets experienced a great revaluation. Citi analysts expect Global GDP growth to come in at 7% in 2023 and 2.3% in 2024. Admist a difficult global backdrop, Finance Minister Nirmala Sitharaman announced the last full year budget on 1st Feb'23 before the General elections in Mid-2024. As per Citi analysts, the budget delivered strongly on three broad expectations: fiscal consolidation (deficit at 5.9% of GDP in FY24BE vs 6.4% in FY23RE), refraining from populism in a pre-election year, and strong focus on capex.

We provide a quick snapshot of Local and Global Key events below:

India Update

- Headline inflation fell to 5.72%YY in Dec-22 driven by continued fall in vegetable prices; however remained elevated in food items like cereals and dairy products. There were some early signs of easing in core inflation, but it remains above - 6%. As per Citi analysts, inflation prints since December MPC meet might not be comforting enough to suggest a break in the persistence of core inflation.

- Equity mutual fund lumpsum inflows remained sluggish in Dec '22. Net equity flows (equity + ELSS) increased MoM to INR 73 bn largely by steady trends in SIPs and robust NFO flows. SIPs continued to retain steam with overall gross SIP trend remaining robust with ~2% MoM rise in gross inflows (+20% YoY). NFO flows continued to hold up well at ~ INR 20 bn.

- Citi analysts estimate FY23 state fiscal deficit to be at 2.3% of GDP which is 1.1ppt lower than the budget estimate of 3.4%. FY23 gross SDL issuance forecast of ~INR 6.8trn implies that in the remaining 10 auctions, gross SDL supply is likely to be ~INR 2.0trn, that is ~INR 800bn lower than the calendar. This may likely keep the near-term total supply (GSec + SDL) comfortable and soften bond yields. Citi rate strategist expect 10Y GSec yield to ease to sub-7% in coming months.

Global Update

- At the December meeting, the FOMC raised the Fed funds target rate range by 50bps to 4.25%-4.50%. Citi analysts expect Fed to maintain higher rates until recessionary conditions become apparent. As per them, US inflation is unlikely to reach pre-COVID norms in 2023 and expect it to retreat to 3.5% by end-2023 and 2.5% by end-2024.

- In recent weeks, the pace of re-opening from COVID zero had accelerated notably with the reopening to likely boost growth in 2023 to around 5.5%. Citi analysts believe China's economic recovery may be notably stronger than previously expected with consumption being fueled by 15 trillion Yuan of savings added last year. They expect 15% earnings growth and a rerating of stocks back to a 13X PE this year.

- UK headline CPI inflation softened further in December to 10.5%y/y from 10.7%y/y in November. Headline inflation remains at a 40-year high but is on a downward trajectory towards target levels. The outlook for the UK continues to look challenging, with the cost-of-living crisis resulting in a drop of household real disposable incomes.

We are delighted to bring to you our latest issue of CitiChoice. This issue includes an update on the markets along with the list of equity and fixed-income schemes that have been shortlisted using various qualitative and quantitative parameters.

We would like to thank you for continuing to place your trust in us and look forward to your continued patronage.

Sincerely,

Sharad Mohan

Sharad Mohan
MD & Head - Retail Bank
Global Consumer Bank, Citibank N.A., India

INDIA MARKET UPDATE

India's GDP grew 6.3%YY for Q2FY23 in line with RBI's forecast, boosted by robust activity in services, even as manufacturing output contracted indicating an uneven post-pandemic recovery in Asia's third-largest economy. Citi analysts have revised their FY23 real GDP forecast higher to 6.9%YY (vs. 6.7% earlier). For FY24, they expect GDP to grow at 5.9%YY.

RBI in its Dec-22 MPC increased the policy repo rate by 35bp to 6.25%. The repo rate has now been cumulatively increased by 225bp since May-22. The central bank retained CPI inflation target for FY23 at 6.7%YY whereas the GDP projection for FY23 was lowered to 6.8% from 7%. The central bank continued to maintain its stance to "remain focused on withdrawal of accommodation". Citi analysts expect another 25bp hike in Feb-2023 with a likely change in stance to Neutral.

India's headline inflation as measured by CPI eased marginally to 5.72%YY in Dec-22 from 5.88%YY in Nov-22 largely driven by decline in vegetable inflation. As per Citi analysts easing momentum and favorable base effect could push CPI towards 5% in FY24. Industrial Production as measured by IIP grew by 7.1%YY in Nov-22 after a contraction of 4.1%YY in Oct-22 largely on account of favorable base effect.

India's Manufacturing PMI rose to a 26-month high of 57.8 in Dec-22 from 55.7 in Nov-22 while the Services PMI also rose to a 6-month high of 58.5 Dec-22 from 56.4 in Nov-22. Citi analysts expect central govt's fiscal deficit at 6.4% of GDP in FY23 with upside risks on account of subdued non-tax revenue collections from dividends and disinvestment receipts.

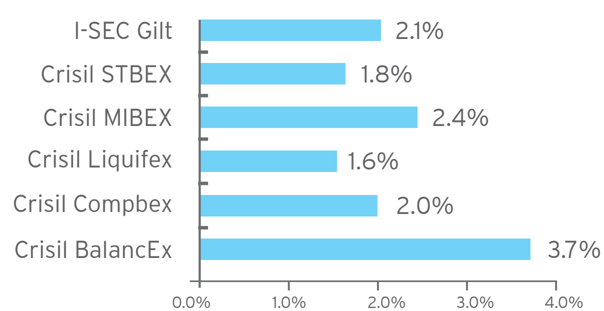
Citi analysts expect NIFTY 3QFY23 earnings growth at ~6%YY. The weak commodity sector earnings are expected to offset stronger growth in financials. India Inc can expect relief on gross margins due to softening input prices however weak growth and higher operating expenditure will likely impact EBITDA margin improvement. Macroeconomic stability, relatively resilient EPS growth and conducive flow environment have justified India's premium valuations but are largely priced in implying limited upside in the next 12 months. They retain their Dec'23 NIFTY target at 18,300 (18x 1-yr forward); bull/bear-case NIFTY targets are at 20.2K/16.1K.

Citi analysts expect rural recovery, private capex and sustainability of credit growth to be the dominating themes for India is 2023. Banks & Industrials remain their key over weights while Consumer Discretionary & Metals are the key underweights.

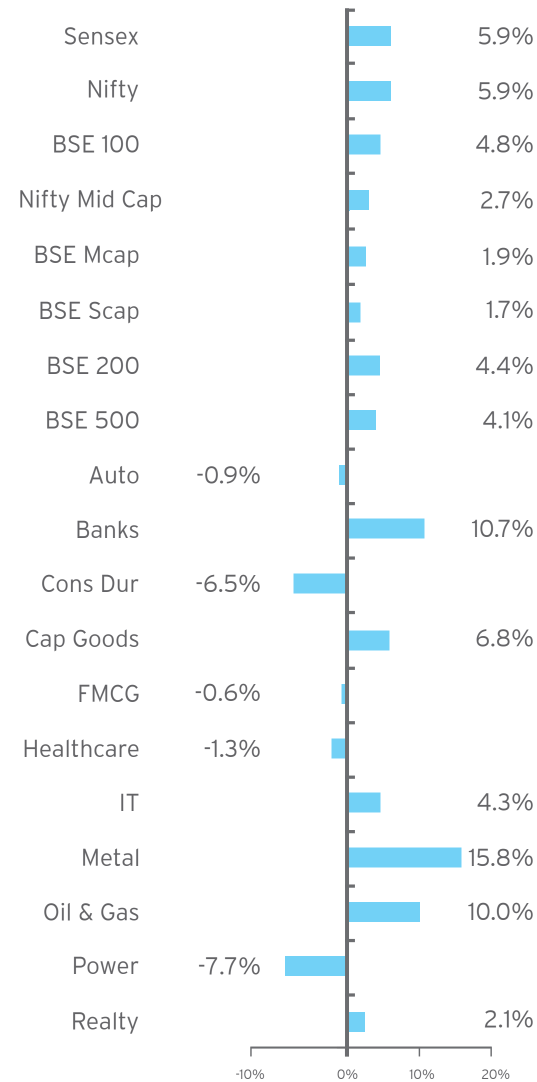
(Source: Citi Research)

Quarterly (Sept 2022-Dec 2022)

	30-Sept-22	31-Dec-22
USDINR Rate	81.55	82.79
10-Yr G-Sec	7.39%	7.33%
1-Yr Bank CD	7.13%	7.57%
3-Month Bank CD	6.30%	6.60%



MARKET RETURNS Quarter 3 FY 23



(Source: Bloomberg)

UNITED STATES

At their Dec monetary policy meeting, the US Fed Reserve raised the Fed Funds Target Rate range by 50 bp to 4.25-4.50%. With this hike, the Fed's cumulative rate increases for CY22 stands at 425bps. The Fed raised the expectation for future rate increases and now implies three additional 25bps rate hikes taking the terminal rate to 5.25% in CY23. Citi analysts expect the Fed to maintain higher rates until recessionary conditions set in, which is expected by the middle of CY23. Post that Fed is expected to start aggressively cutting rates in order to prevent an even deeper recession.

US Headline CPI slowed to 6.5%YY in Dec-22 from 7.1% in Nov-22 due the fall in gasoline prices. As per Citi analysts, markets have moved to price in only a 25bp hike for the Feb-23 Fed meeting. Citi analysts anticipate CPI to decline to 6.5% at the end of 2022 and 3.5% at the end of 2023 before averaging 2.5% in the years that follow. 10-year Treasury yields are likely to peak in 2022 and expected to decline to 3.0% in 2023.

The ISM Services PMI registered 49.6 in Dec-22 down from 56.5 in Nov-22. The Business Activity Index and the New Orders Index also contracted in December for the first time since May 2020. As per Citi analysts, the drop-in business activity index and the new orders index point to a rather sharp moderation in demand. Notably, S&P services PMI has been in contractionary territory for months, signaling potentially more downside for ISM services index ahead.

The US employment data in December was mixed. The Non-Farm Payrolls report for Dec-22 came in above target at 223K vs a 203K consensus figure and the unemployment rate fell to 3.5% against expectation of 3.7% while the wage growth slowed to 4.6%YY in Dec-22 from 5.1%YY in Nov-22. As per Citi analysts, fall in wage growth, should help bring service sector inflation back under control even while employment is still growing above trend.

Citi analysts expect a 10% decline in S&P 500 profits in CY23 before a modest recovery in GDP and profits takes root in 2024. They expect US real GDP to grow at 0.7% CY23 and 1.5% in CY24.

(Source: Citi Research)

SNAPSHOT

Americas	Actualized Returns Sept 2022 - Dec 2022 (%)
Dow Jones	15.39%
S&P 500	7.08%
NASDAQ	-0.29%
Brazil Bovespa	0.38%

(Source: Bloomberg)

Euro Area & UK

According to Eurostat, the Euro Area headline inflation fell to 9.2%YY in Dec-22 from 10.1% YY in Nov-22 but the core inflation came at new all-time high of 5.2% YY. As per Citi analysts, high core inflation will worry most the ECB governors, but the hawks in particular see higher risks of inflation turning endogenous in the first half of CY23.

The European Central Bank and the Bank of England (ECB & BoE) in their December monetary policy meeting both increased interest rates by 50bp, matching the Fed's slowing pace in rate hikes as inflation edges lower. ECB President said the bank would continue increasing rates in increments of 50bp at its next 2 meetings bringing the key deposit rate to 3% or above while, BoE signaled caution about raising rates much higher. Citi analysts expect the ECB to continue hiking to 2.5% by Mar-23 whereas BoE will also raise rates in Q1CY23 with a terminal rate target of 4.25%-4.5%.

In the Euro Area, the private sector showed a smaller than expected contraction as the composite PMI rose to 49.3 in Dec-22 from 47.8 in Nov-22 a five-month high.

The Euro Area unemployment rate was unchanged at a low level of 6.5% in Nov-22. Citi analyst view some risk of continued wage inflation and risks of second-round effects possibly keeping inflation higher than the ECB's medium-term 2% target well into 2025. They forecast Euro Area to experience a mild recession in 4QCY22 and 1HCY23, with a likely pick-up in economic activity in the H2CY23. Citi analysts expect Euro Area real GDP to contract by 0.4% CY23 but grow at 2.2% in CY24. For UK, they expect GDP to fall by 1.5% in CY23 and 0.2% in CY24.

(Source: Citi Research)

SNAPSHOT

Europe	Actualized Returns Sept 2022 - Dec 2022 (%)
FTSE 100	8.09%
CAC 40	12.35%
DAX	14.93%

(Source: Bloomberg)

EMERGING MARKETS

China's Producer Price Index (PPI) fell 0.7%YY in Dec-22 while CPI gained 1.8%YY in Dec-22 from 1.6%YY in Nov-22. China's Retail sales fell 5.9%YY in Nov-22 while Industrial production grew by 2.2%YY slower than 5%YY increase in Oct-22 due to the resurgence of local infections and slowing market demand. As per Citi analysts, November data continued to reflect weak activity before China took several steps towards easing stringent zero-covid policy restrictions.

China reopened the border checkpoints with Hong Kong restoring the social and economic ties that have been disrupted since early 2020. As reopening pace continues to pick up, tourism, retail sales and other cross -border economic activity should improve as well, supporting Hong Kong's economic recovery at least in the near term.

China's Caixin manufacturing PMI fell to 49.0 in Dec-22 from 49.4 in Nov-22, hitting its lowest level since September. The services activity also shrank in December as surging COVID infections hit demand. As per Citi analysts, subpar figures showcased the challenges coming from weakening external demand as well as the country's battle with surging infections. Looking ahead, China's economic outlook should improve as the number of infections will likely decline given a larger share of people having certain degree of immunity after travelling out during the holiday period.

The People's Bank of China (PBOC) reiterated that it will implement targeted and prudent monetary policy in 2023 and provide support to domestic demand. As per Citi analysts, China's reopening from COVID zero had accelerated significantly in December. Together with real estate financing and tech investment plans, China's recovery is likely to last well into 2023. For Chinese equities, they believe the bottom had been reached in October, and the recovery can potentially carry on through 2023. They expect China's GDP growth to rebound to 5.6% in CY23 and 5.0% in CY24.

The Bank of Korea in its monetary policy meeting raised its policy rate by 25bp to 3.5%, the highest since 2008. The central bank since Mid-2021 has raised its policy rates cumulatively by 300bps. At 5% in Dec-22, headline CPI inflation in South Korea remains double the central bank's target, but it has been falling since hitting a two year high of 6.3% in July-22. The unemployment rate continued to stay low at 3.3% in Dec-22, however, the pace of job growth was the slowest in 21 months. Citi analysts view that Bank of Korea faces growing pressure to adjust its policy stance amid fading domestic demand and slowing global trade.

(Source: Citi Research)

SNAPSHOT

Asia Pacific	Actualized Returns Sept 2022 - Dec 2022 (%)
Hang Seng	14.86%
Strait Times	3.87%
Shanghai Comp	2.14%

(Source: Bloomberg)

JAPAN

Japan's headline inflation grew 4%YY in November, the highest level since 1982. A separate data report showed household spending falling for the first time in three months in November, indicating that rising inflation had started to erode householding's willingness to purchase. As per Citi analysts, despite inflation exceeding Bank of Japan's (BoJ) 2% target they don't expect any drastic changes to the central bank's monetary policy of continued easing till inflation goal is achieved on a sustainable basis, with accompanying wage growth although it is possible to witness further policy shifts similar to the surprise Yield Curve Control (YCC) tweaks announced in Dec-22

Japan	Actualized Returns Sept 2022 - Dec 2022 (%)
Nikkei	0.61%

CITICHOICE SCHEMES

CitiChoice Summary of Changes (QoQ)			
Category	Sub Category	Inclusions	Exclusions
Equity	Large Cap	No Change	Axis Bluechip Fund
	Mid Cap		Axis Midcap Fund
Debt	No Change		

CITICHOICE SUMMARY

Scheme Name/Index Name	Inception Date^	Suitable for Minimum Investor Rating (IR)	AUM (crs) as on Dec 31, 2022	NAV as on Dec 30 2022 (₹)	31-Dec-2021-31-Dec-2022 Absolute	31-Dec-2020-31-Dec-2021 Absolute	31-Dec-2019-31-Dec-2020 Absolute	Since Inception		Volatility Measures (1 Year)		
								CAGR	Current Value of ₹ 10,000	Std Deviation	Beta	Sharpe Ratio
Liquid Funds*												
ICICI Prudential Liquid Fund - Growth	17-Nov-05	1	43,101.94	325.22	4.76%	3.23%	4.27%	7.13%	32,522	0.10%	0.58	-3.75
Kotak Liquid - Regular Plan - Growth	4-Nov-03	1	32,373.64	4,443.76	4.74%	3.23%	4.12%	6.85%	35,611	0.10%	0.59	-3.95
Crisil Liquid Fund Index				3,690.73	5.08%	3.60%	4.61%			0.10%		-0.86

Source: CRISIL Limited

3 yr Risk Free Rate: 4.06%

1 yr Risk Free Rate: 5.04%

^ Regular Plan, Growth Option

*NAV as of 31-Dec-2022 for liquid funds

*Returns as of 31-Dec-2021-31-Dec-2022 Absolute for liquid funds

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Source: CRISIL Fund Analyzer, Asset Management Company, Bloomberg and Citi Research.