OUTLOOK 2023,

BONDS IS THE PLACE TO BE.

BY

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INTRODUCTION.

In this paper I will be talking about the outlook of 2023 and why this year bonds are a safer and better bet compared to equities.

1. Indian stock market lags behind its global peers in 2023.

The Indian stock market, which had been a star performer in 2022 despite global headwinds, has been lagging behind its global peers since the start of 2023. The domestic benchmark indices, the Sensex and Nifty 50 gave a return of 5.78% and 4.33% in the calendar year 2022 respectively. Since the start of calendar year 2023 the Nifty 50 index has gone down from

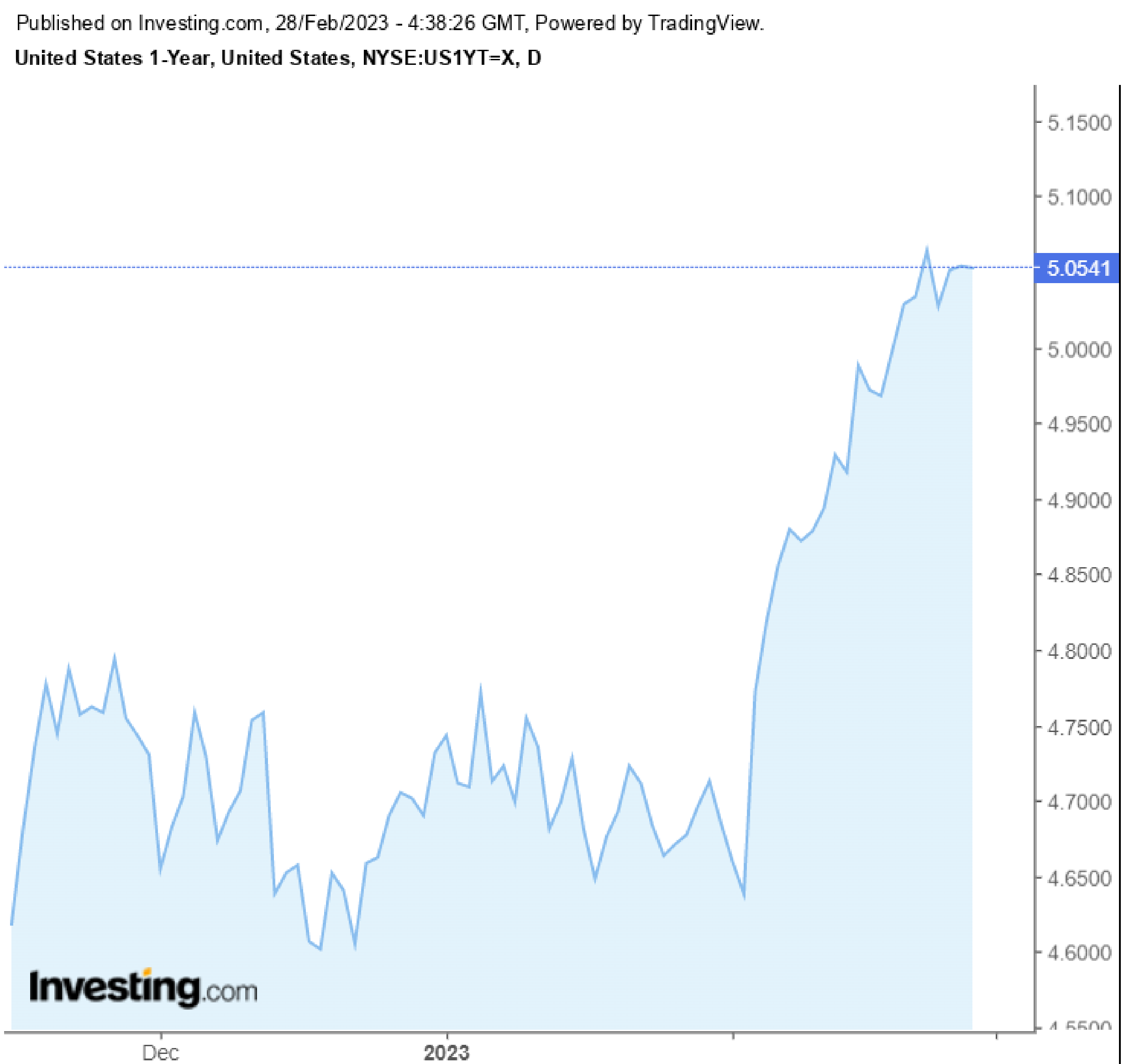
18,197 to 17,567, while the Sensex has gone down from 61,167 to 59,745 which means they have both gone down by 4.47% and 2.33% already! The markets in 2023 started the year well before facing challenges as the month went on. The underperformance has been attributed to a range of factors, including continuous selling of FPIs, the reopening of the Chinese economy, the sell-off in the Adani group stocks and the depreciation of the Indian Rupee. On January 25th the Nifty 50 and Sensex tumbled 1.25% and 1.27% respectively, a day after the Hindenburg released a report alleging the Adani Group of certain accusations, on the following day the two indices lost another 1.61% and 1.45% in value, taking the cumulative loss to 2.83% and 2.70% in just two trading sessions. The banking stocks which had given loans to the Adani group of companies also took a brunt on concerns over the debt exposure to the Adani group, the Banking sector which had been the driving force behind the index growth over the past few years was now facing headwinds causing the Nifty 50 to underperform. According to the PTI report foreign investors pulled out Rs 28,852 crores from equities in the month of January 2023, making it the worst outflow since June 2022. This came following a net investment of Rs 11,119 crore is December 2022 and Rs36,238 crore in November. The Indian Rupee started January 2023 on a strong note, strengthening 1.60% in the first three weeks, however it gave up its gains as the month progressed and ended January with a fall of 1.18% at 81.73 against the US Dollar. The Indian Rupee ended 2022 as the worst performing currency with a fall 11.3%, its biggest annual decline since 2013. In December 2022 the global brokerage Goldman Sachs said that India is likely to underperform its peers in 2023 due to expensive valuations. The Indian market had been a strong outperformer in 2022 due to stronger domestic fundamentals, but valuations have turned expensive compared to global peers. Another cause for the equity markets not performing well is inflation, inflation in the month of January 2023 in India was 6.52% compared to 5.72% in the month of December 2022, when inflation is high it reduces the purchasing power of common households thus also having a negative effect on the equity markets. The main cause of rise in inflation in India is because of food inflation, the CPI food index rose to 5.9% in January 2023 from 4.2% in December 2022.

Nifty chart from the start of 2023 till date.

US Dollar against Rupee from start of 2022 till date.

2. Why are bonds the place to invest in 2023.

Since the equity markets have not been performing well since the start of the year, bonds are the next best place to invest, retail investors, DIIs and FIIs have been pulling money out of the market and have been investing in bonds. Since bonds provide a predictable income stream and have stable returns and have a lower risk people prefer to invest in bonds this year over equities. The US one year bond yield is currently at 5.0541%.



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