Global slowdown to pre-election year Budget: 5 factors that will guide markets in 2023

NIKITA VASHISHT
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Equity markets largely reacted to inflation projections throughout the calendar year 2022 (CY22). As the impact of the pace of price rise became more pronounced — with the escalation of the Ukraine-Russia war, and in the aftermath of fiscal dole-outs done during CY21 and CY20, quantitative tightening became the order of the day.

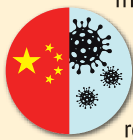
"Calendar year 2022 has been a transition year, exhibiting liquidity reversal, policy tightening, geopolitical concerns, and a rising inflationary scenario which led to higher commodity prices for the first half (H1) of the year," Axis Securities highlighted in a year-end report.

Going ahead, analysts expect the Indian equity markets to consolidate over the next few months, as they fully digest the negatives of rich valuations and rising interest rates amid growth headwinds.

"We see higher interest rates and slow recovery in consumption of low-income households, and related de-rating in multiples of 'growth' stocks from higher-for-longer interest rates as the key theme for the market for H1CY23," said analysts at Kotak Institutional Equities.

Meanwhile, key factors that are likely to dictate the market trend in 2023:

CHINA REOPENING AND COVID-19



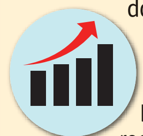
The markets, according to Devang Mehta, head, equity advisory at Centrum Wealth, would closely track the reopening of the Chinese economy as it would guide the global trade and supply chains. That apart, reemergence of fears related to the new variant of Omicron and its impact on the global economy will also be a key monitorable for the markets in CY23.

INFLATION AND MONETARY TIGHTENING

Analysts expect the global interest rate cycle to peak in 2023, with the debate shifting to the extent of economic slowdown. By mid-2023, it would be clear if the aggressive rate hikes would lead to hard or soft landing of the economies in US and Europe, analysts said. In India, too, the Reserve Bank of India is likely to pause its rate hike cycle if the inflation is tamed. "Investors would monitor if the momentum in the real estate cycle and private investment cycle sustains. despite the higher interest rates," said Gaurav Dua, head, capital market strategy, Sharekhan by BNP Paribas.

DOMESTIC GROWTH

Analysts at Morgan Stanley expect domestic demand to remain in the driver's seat with regards to growth.



"We expect India's broad-based demand recovery to hold up in 2023 as the economy benefits from the full impact of the reopening vibrancy, filtering through of the government's supply side focused policy measures to reinvigorate capex, and stronger private sector balance sheet to help improve corporate sector risk appetite," the brokerage said.

BUDGET 2023-24

Union Budget scheduled to be presented on February 1, too, would be important for the markets in the short-term-to-medium term as the income and expenditure statement of the government could mention policies ahead of the General Elections of 2024.

CY23, being a pre-election year, will have a significant bearing on sentiment as the government could announce a slew of populist measures in the Budget and outside of it. According to ICICI Direct research, benchmark indices have historically performed well in a pre-election year. The index, it said, has generated positive returns in seven out of the 10 instances. Out of the three negative return instances, two were during 1995 and 1998 when there was an unstable political scenario in India, while the other one happened in 2008.

FPI INFLOWS

The flow of capital by foreign portfolio investors across developed and developing economies will be a key trend dictator, said Mehta of Centrum Wealth.

"Indian retail investors have held up the markets over the past two years. However, if FPIs were to turn sellers again in 2023, retail investors may not have the muscle to lend support," he added.