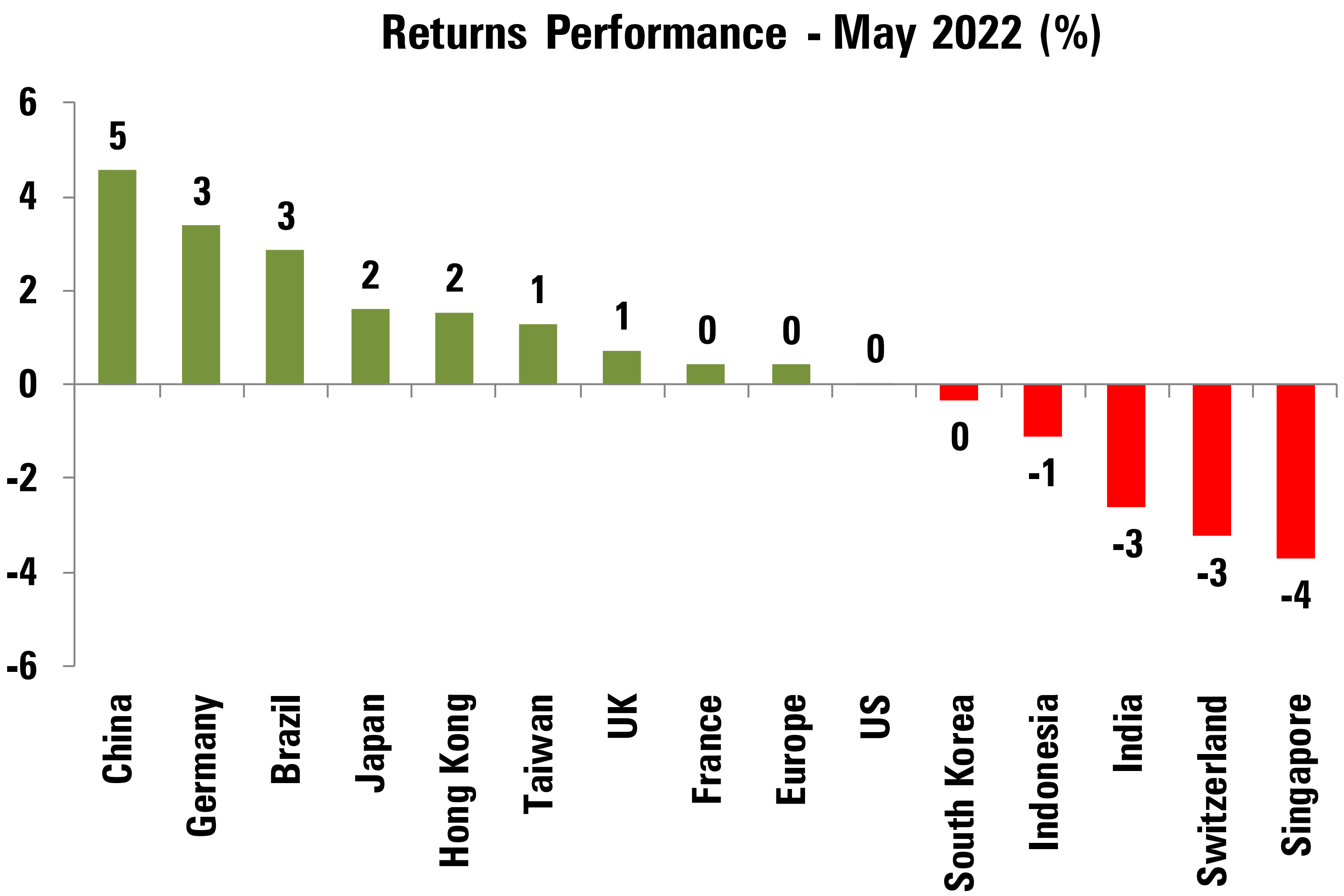
ICICI PRUDENTIAL MUTUAL FUND

TARAKKI KAREIN!

MONTHLY MARKET OUTLOOK

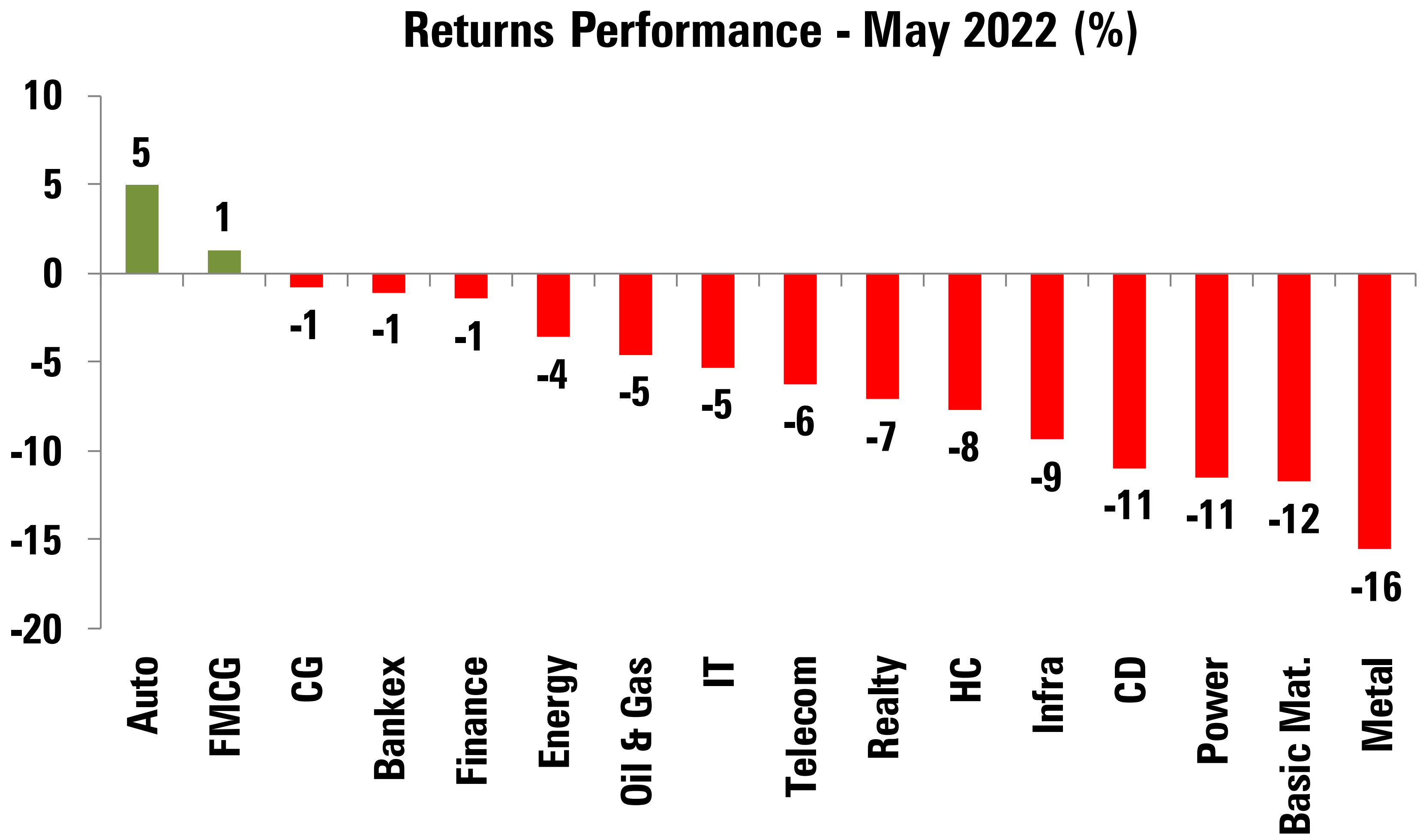
Global Indices Performance



- Positive or flattish performance was observed across major regions
- China markets soared on account of re-opening of major cities
- Indian markets ended in negative territory due to high inflation, repo rate hike by RBI & strong FPI selling

Germany - DAX Index; China - SSE Composite Index; France - CAC 40 Index; Japan - Nikkei; Eurozone - Euronext 100; Hong Kong - HangSeng; US - Dow Jones; Singapore - Strait Times; Russia - RTS Index; Indonesia - Jakarta Composite Index; U.K. - FTSE; South Korea - Kospi; Brazil - Ibovespa Sao Paulo Index; Indonesia – Jakarta Composite Index; Switzerland – Swiss Market Index; Taiwan – Taiwan Stock Exchange Corporation; India – S&P BSE Sensex; Data Source: MFI & ACEMF, Returns are absolute returns for the index calculated between Apr 30, 2022 – May 31, 2022. Past performance may or may not sustain in future. FPI – Foreign Portfolio Investors. MFI Explorer is a tool provided by ICRA Online Ltd. For their standard disclaimer please visit http://www.icraonline.com/legal/standard-disclaimer.html

India – Sectoral Indices Performance



All sectoral indices plunged in negative terrain except Auto & FMCG

All indices are of S&P BSE and carry the prefix of S&P BSE; Abbreviated CD - S&P BSE Consumer Durables; CG - S&P BSE Capital Goods; FMCG - S&P BSE Fast Moving Consumer Goods; HC - S&P BSE Health Care; Infra. - S&P BSE India Infrastructure; IT - S&P BSE Information Technology, NBFC – Non-banking Finance Companies. Data Source: MFI, ACEMF ; Returns are absolute returns for the TRI variant of the index (except Infrastructure Index) calculated between Apr 30, 2022 – May 31, 2022; Past performance may or may not sustain in future. The sector(s)/stock(s) mentioned in this slide do not constitute any recommendation and ICICI Prudential Mutual Fund may or may not have any future position in this sector(s)/stock(s). MFI Explorer is a tool provided by ICRA Online Ltd. For their standard disclaimer please visit http://www.icraonline.com/legal/standard-disclaimer.html.

Equity Outlook:

TAPER TANTRUM 2.0 – Déjà Vu

Positive over medium to long term

JUNE 2022 OUTLOOK – NEAR TERM VOLATILITY DÉJÀ VU SCENARIO

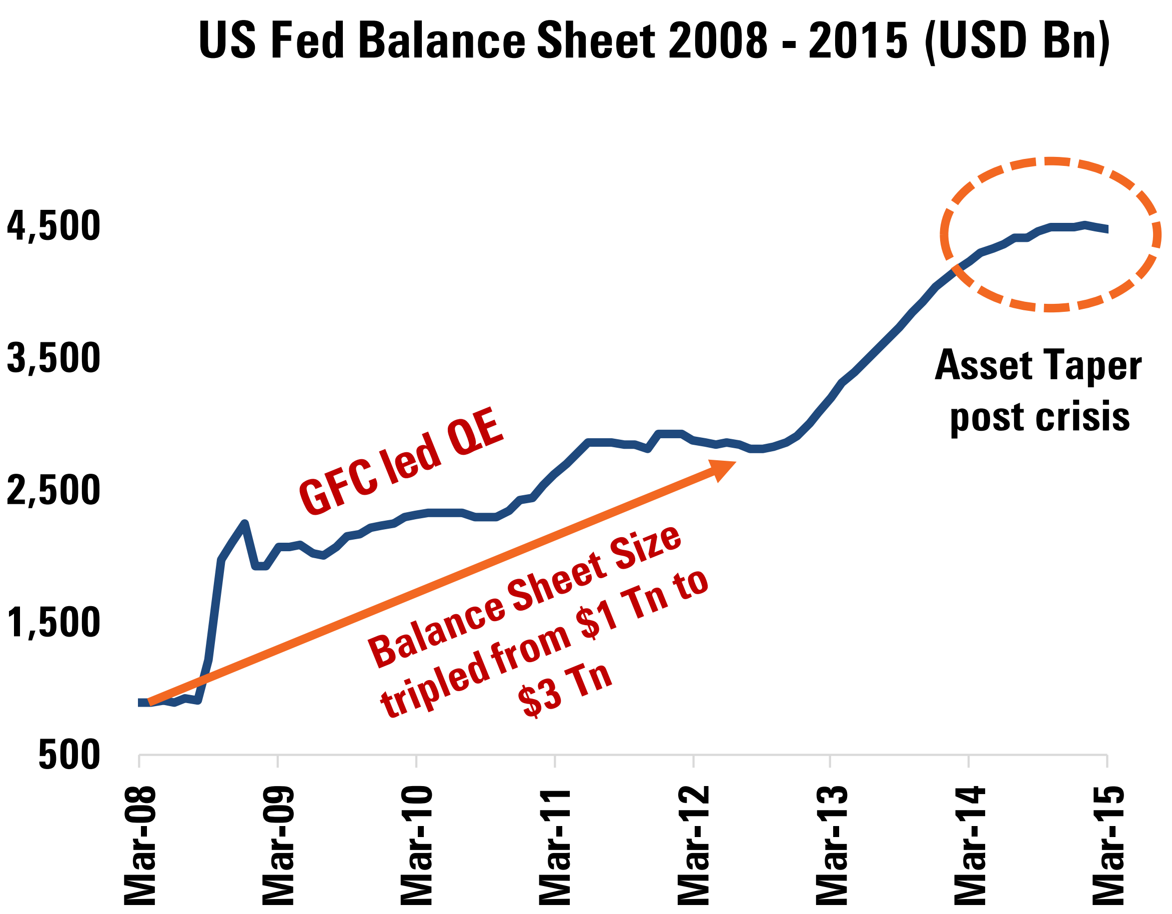
Equity Markets are expected to remain volatile in near term given asset taper program initiated by the US Fed. The current scenario reminds one of 2013 where the Fed had initiated asset taper program in the aftermath of GFC crisis. Factors contributing to our view of near term volatility similar to 2013 include –

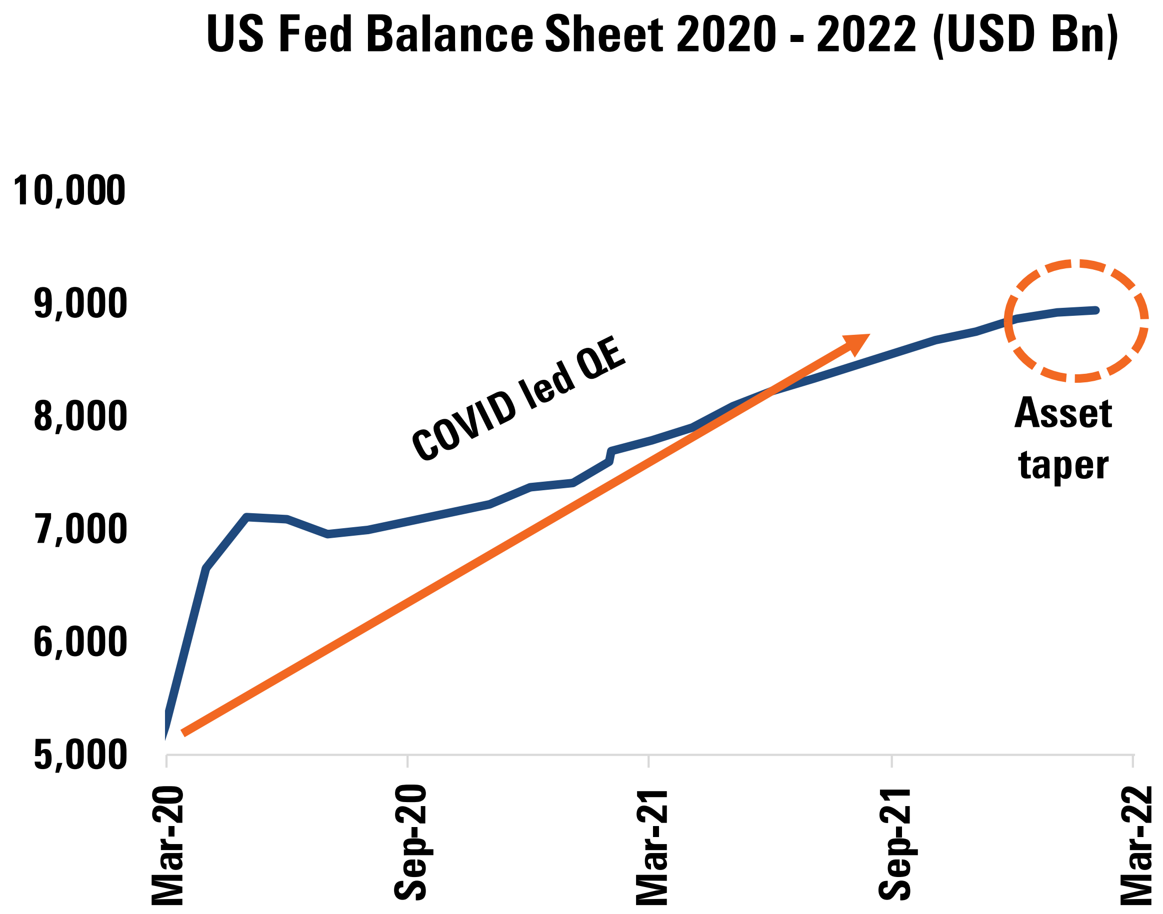
- Fiscal & Monetary tightening by US Fed
- FPI outflows from Indian markets in response to US rate hikes
- INR depreciation
- High Inflation
- RBI rate hikes

However, India fundamentals have improved since 2013 with relatively stable source of flows (FDI), good import cover, robust tax collections & Govt. reforms. Hence, we remain positive on equities over medium to long term

Déjà Vu – US Fed Balance Sheet Taper

The current asset taper announced & being executed by US Fed reminisces of Taper Tantrum initiated by the Central Bank in the aftermath of Global Financial Crisis (GFC) back in 2013

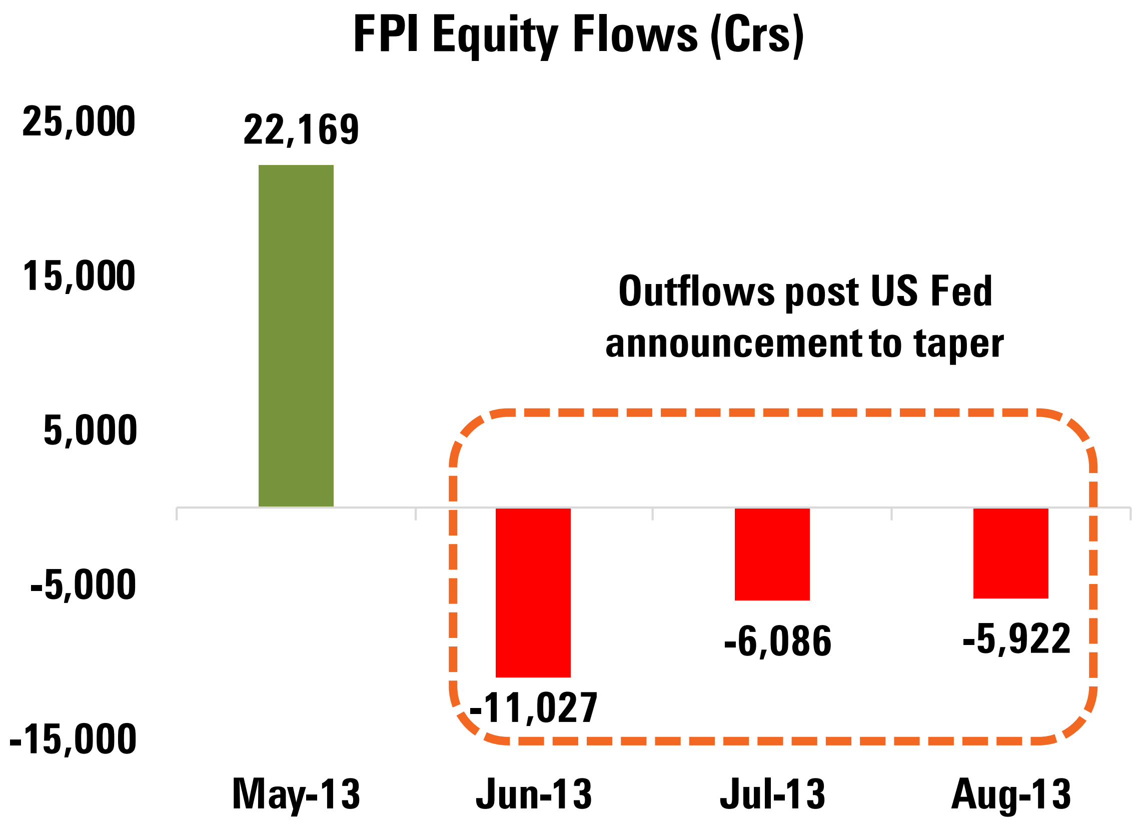


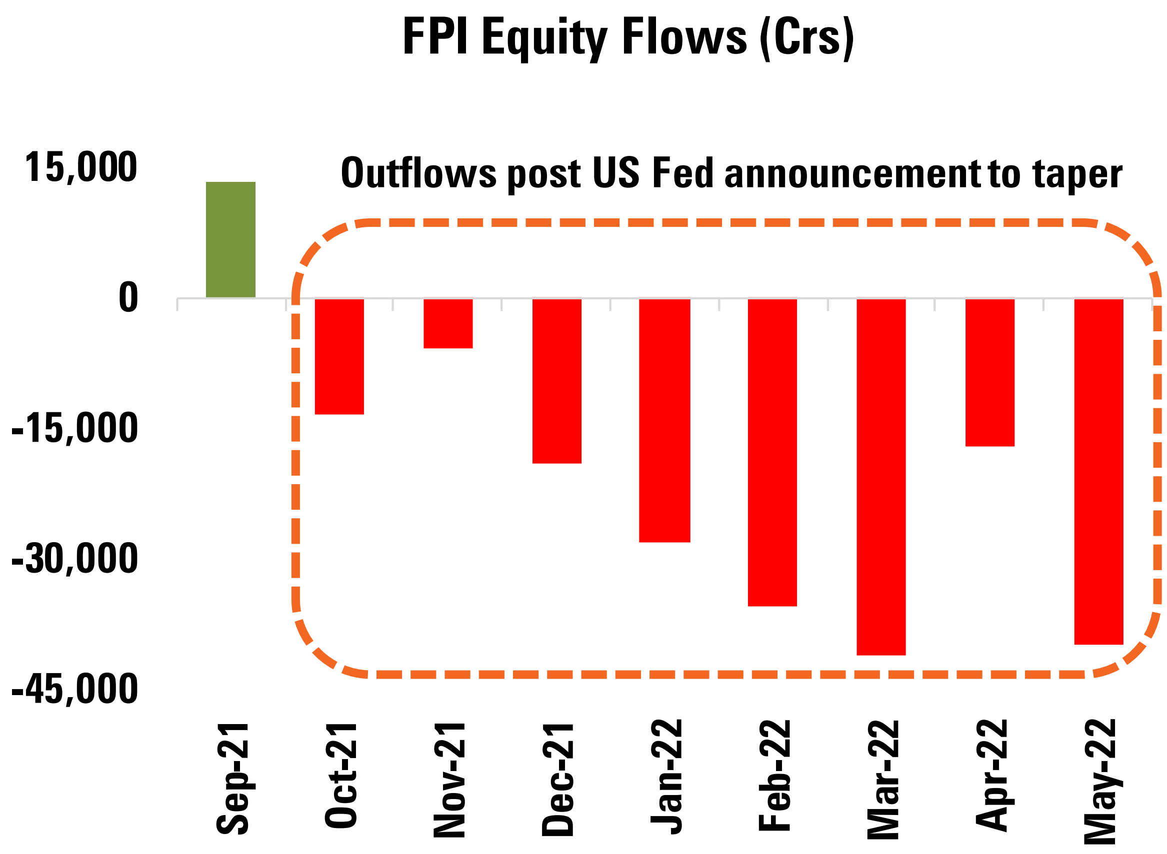


Source – Morgan Stanley Research. QE – Quantitative Easing

Déjà Vu – FPI Outflows

FPIs have remained net sellers in the Indian Equity Market with 8th consecutive month of selling since US Fed announced its asset taper decision akin to 2013 where FPIs withdrew money on Fed's announcement to commence asset taper

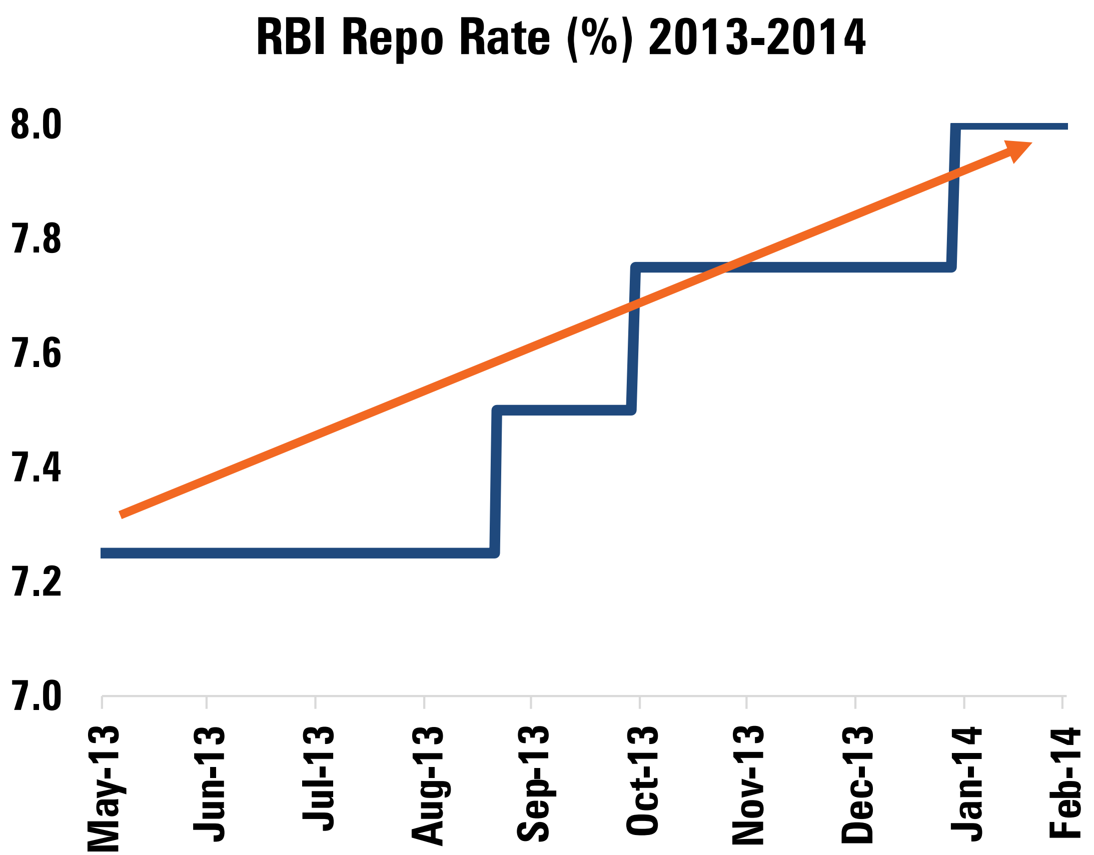


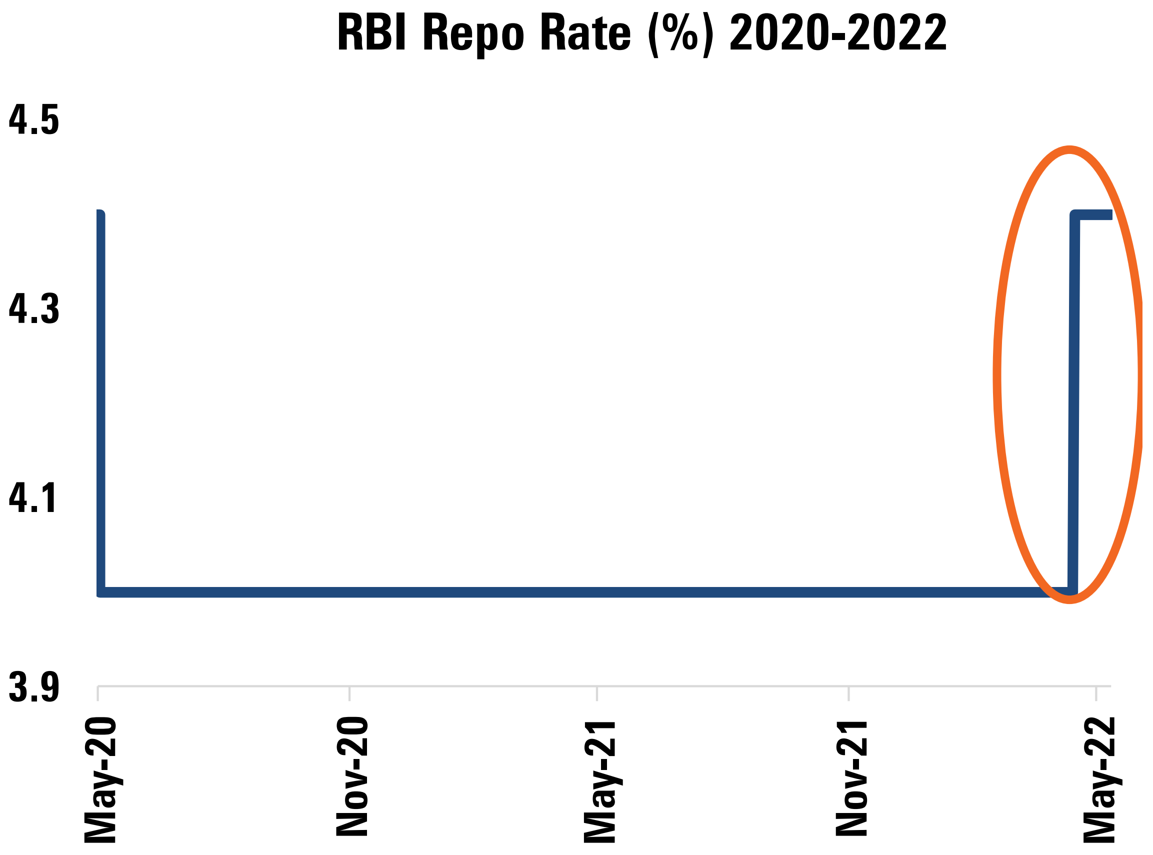


Source: NSDL, FPI – Foreign Portfolio Investors

Déjà Vu – RBI Rate Hikes

Due to FPI selling in 2013, RBI in a bid to stem outflows and manage inflation raised interest rates. Currently too, amidst high inflation and FPI selling, RBI has begun hiking rates

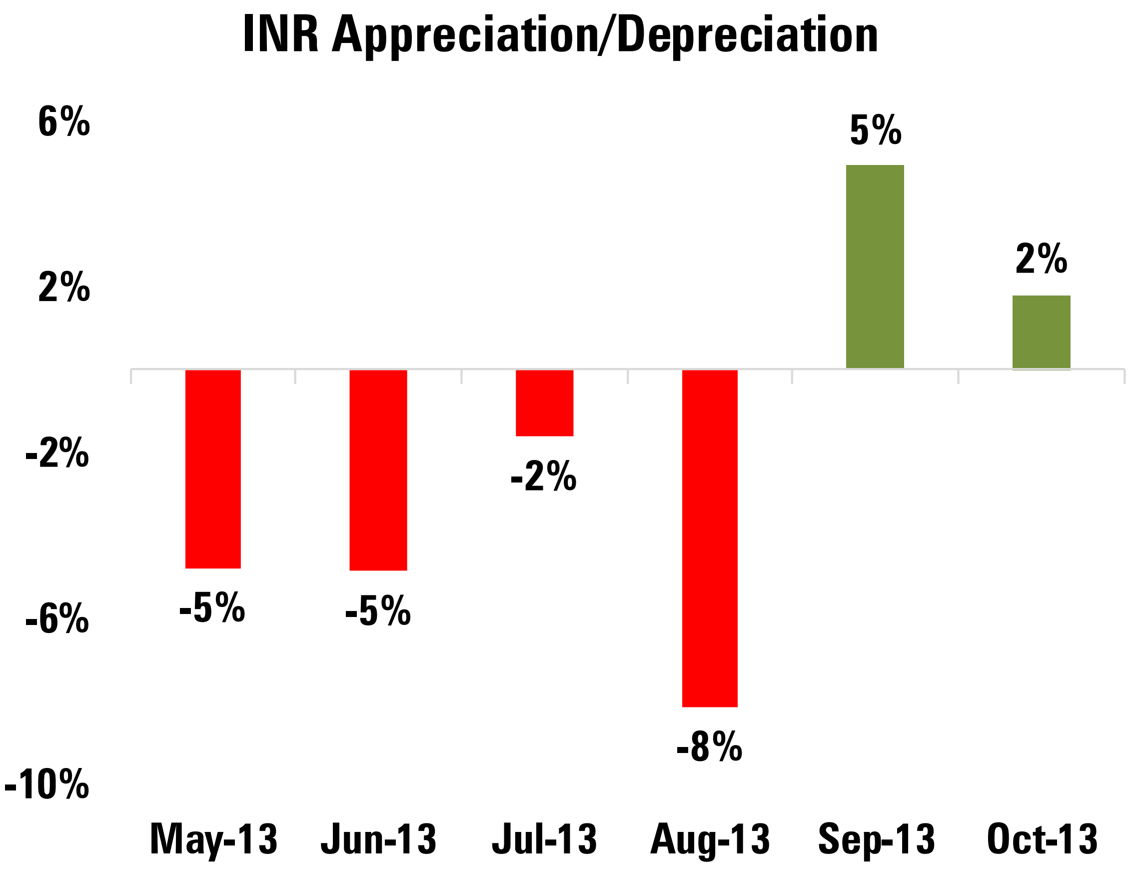


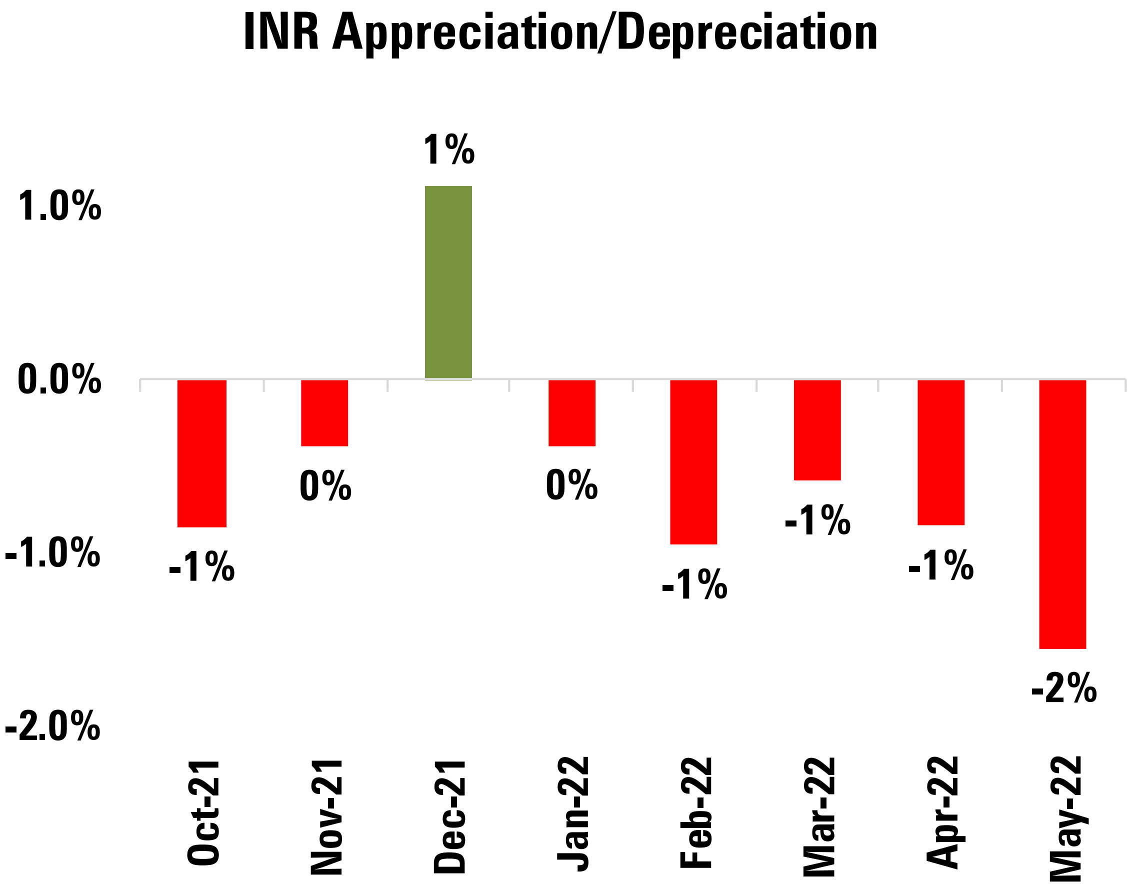


Source: RBI

Déjà Vu – Currency Depreciation

Post asset taper announcement in 2013, INR depreciated sharply against USD.
Currently too, since Oct-21 (taper announcement), INR has depreciated





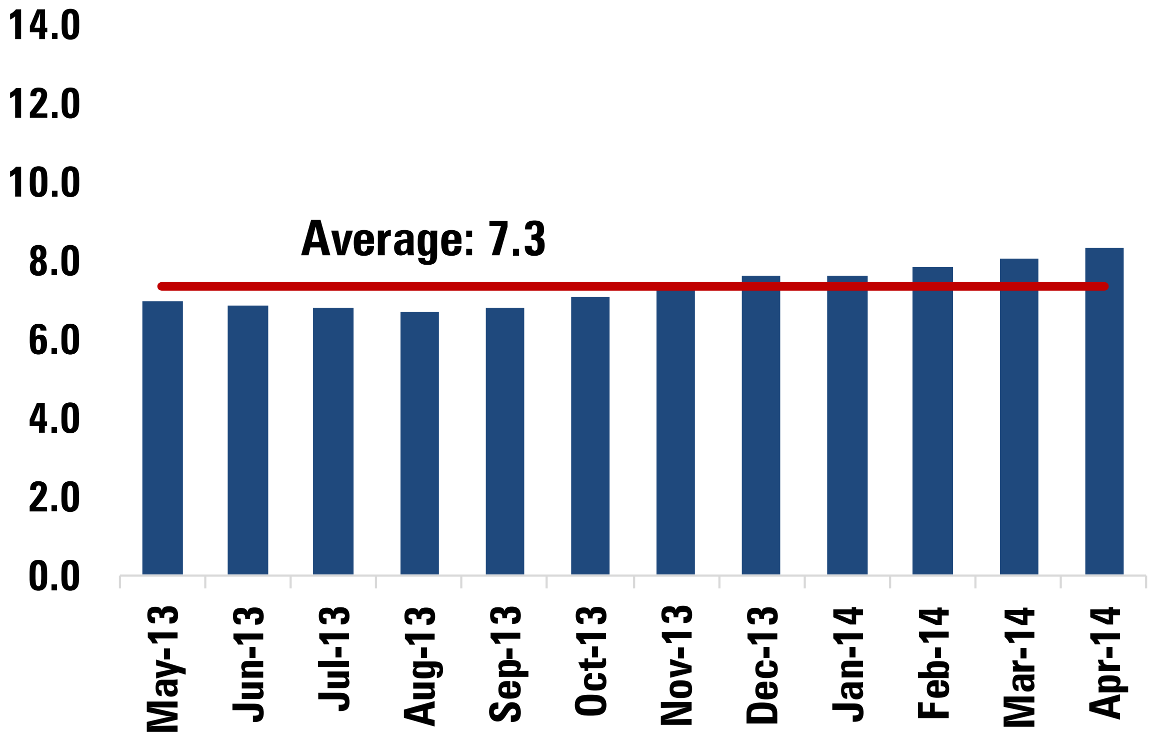
Source: RBI

TAPER TANTRUM 2.0 –
Indian Economy better placed

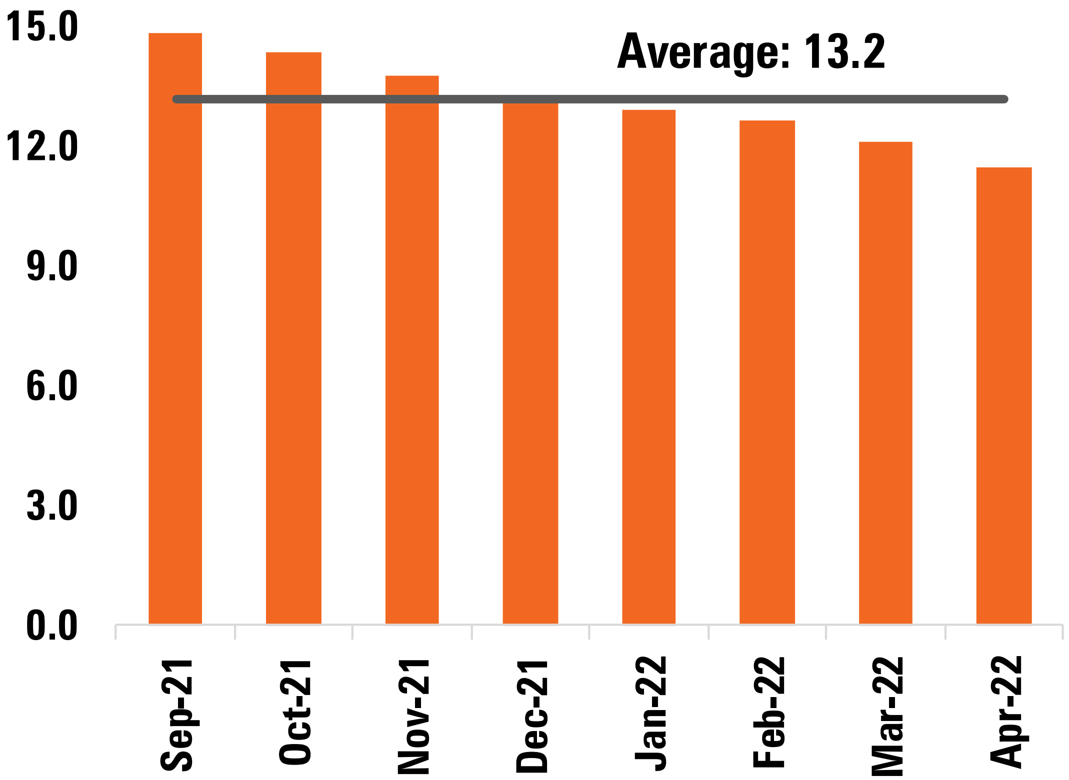
Stable Import Cover

Import Cover currently is much better compared to 2013

Import Cover (months) 2013-2014



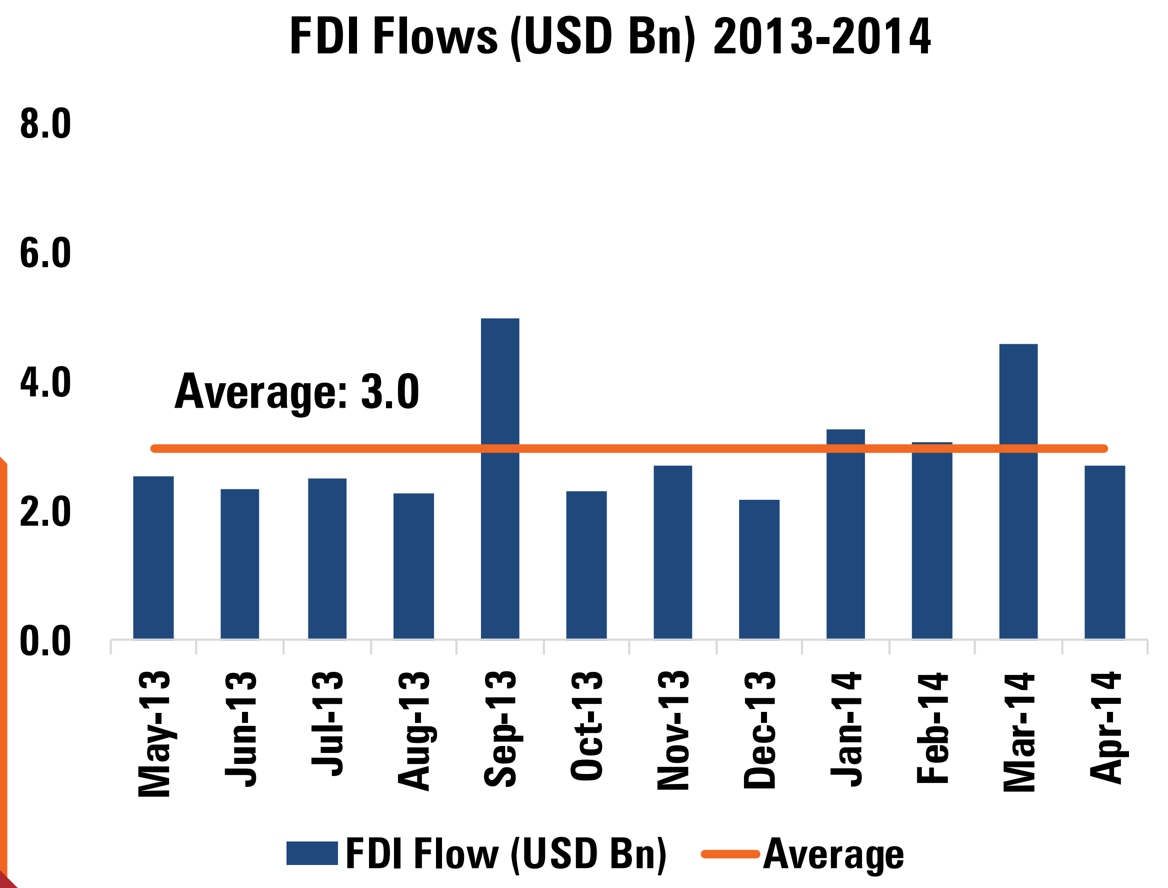
Import Cover (months) Sep 2021-Apr 2022

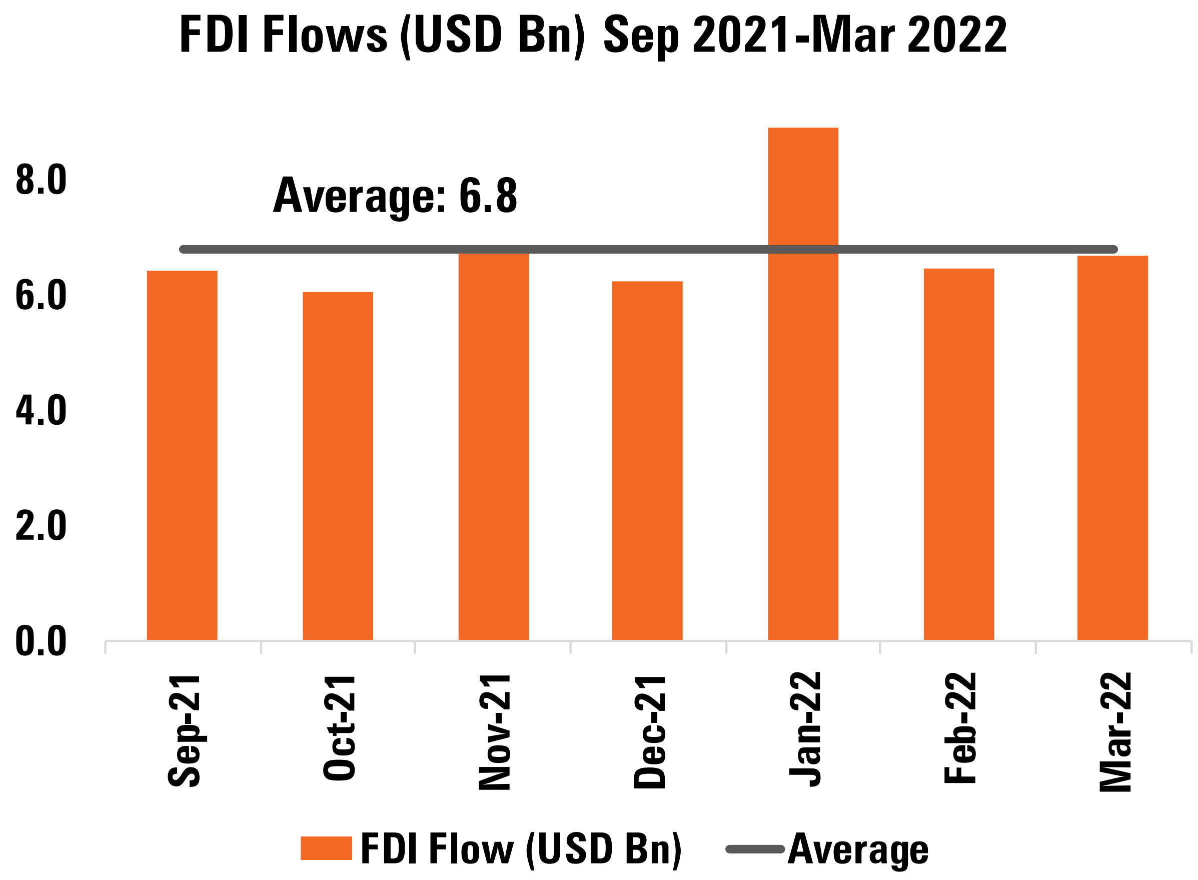


Source – Morgan Stanley Research

Better FDI Flows

FDI Flows which are usually considered as stable flows for an economy is high compared to 2013 and is on the rise given various structural reforms initiated by the Govt.

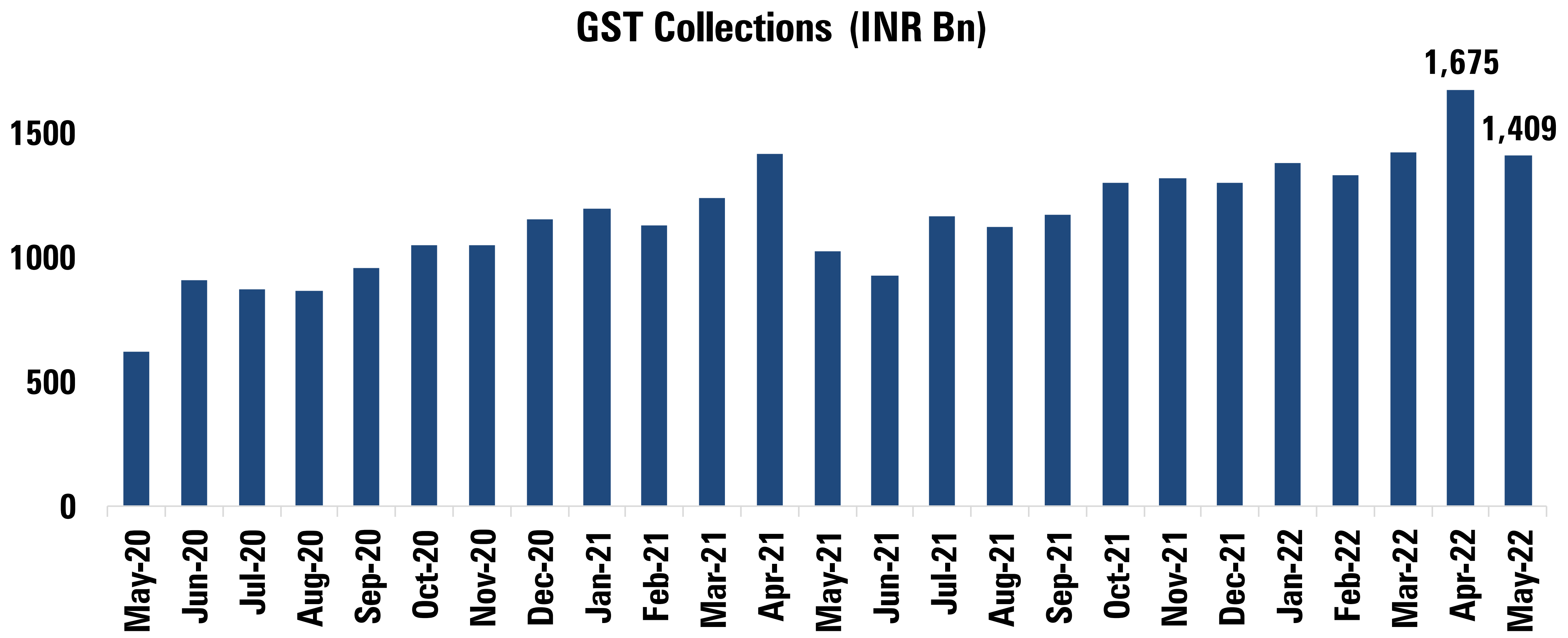




Source – Morgan Stanley Research. FDI – Foreign Direct Investment

Robust Tax Collections

GST Collections have been resilient since economy re-opened and have been a major source of revenue for the Govt. which is working towards reducing Fiscal Deficit



Source – Morgan Stanley. GST – Goods & Services Tax

Govt. Reforms

KEY SUPPLY SIDE REFORMS

Production Linked Incentive Scheme approved for 13 sectors

Banking sector reforms:
Deposit insurance, introduction of interim payments, etc.

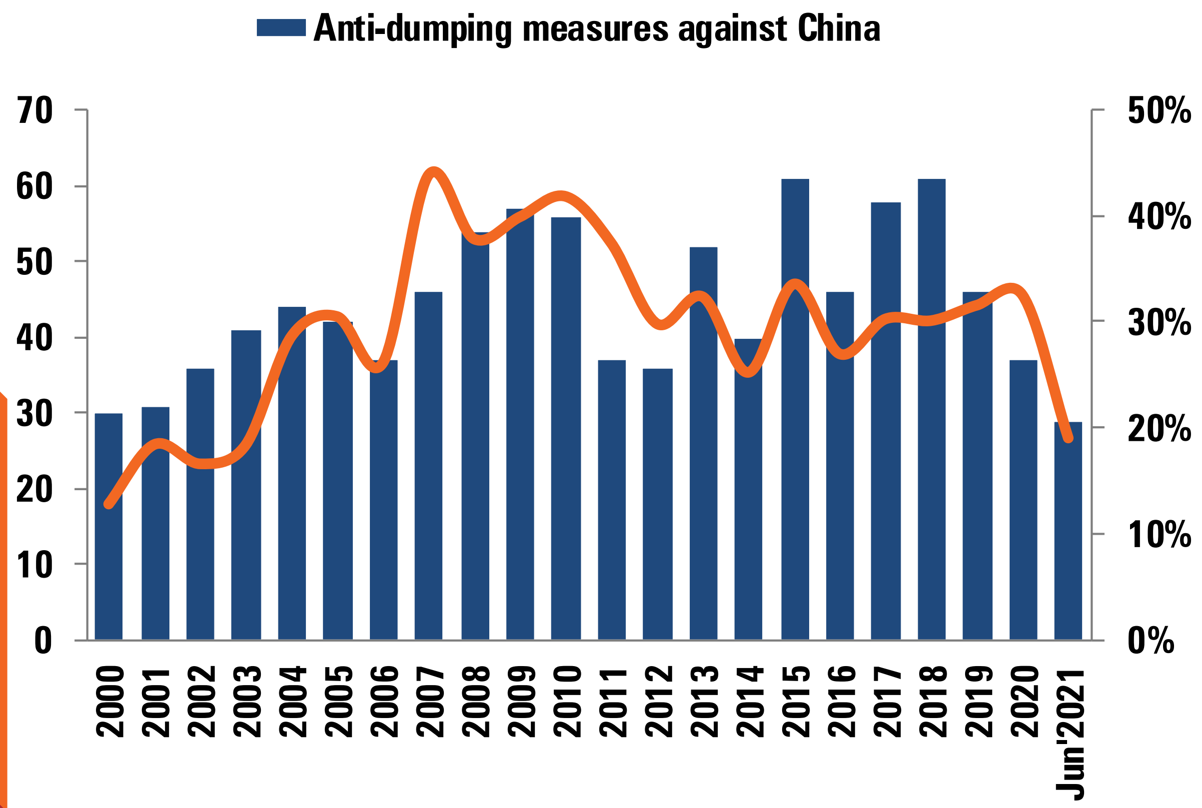
Retrospective tax repealed to promote tax certainty & foreign investment

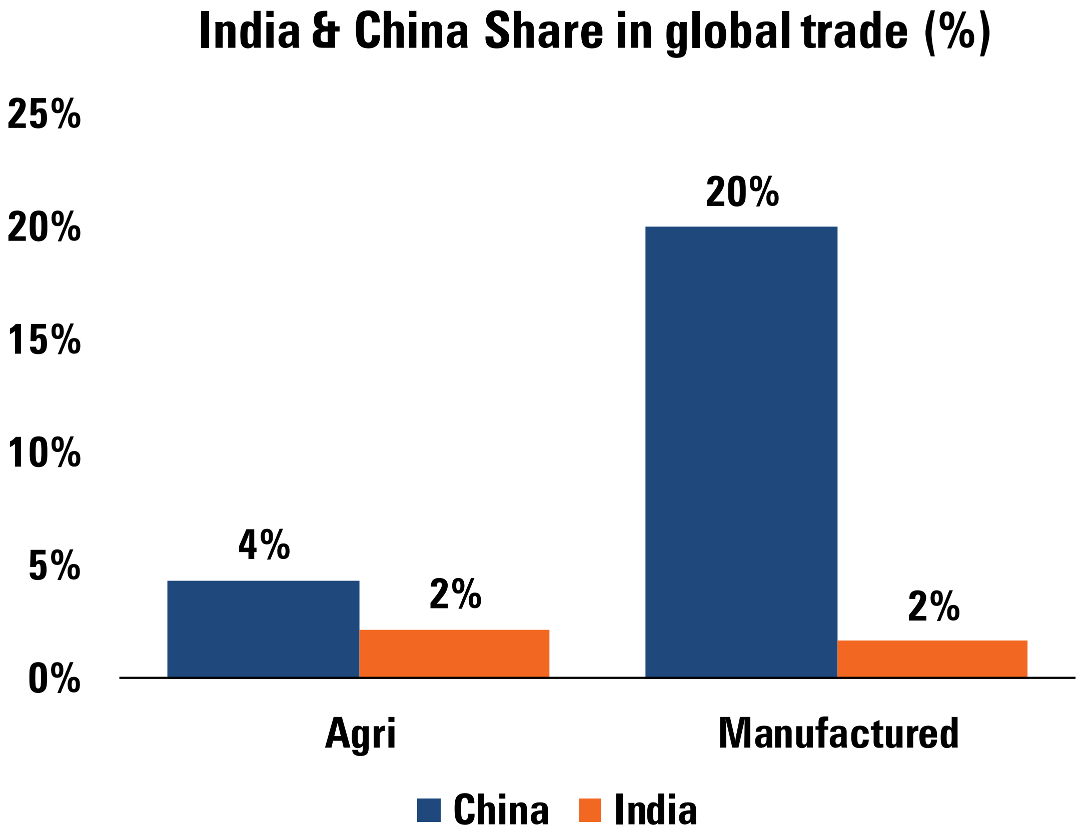
National Monetization pipeline, privatization of Public Sector Enterprises

Source - https://www.indiabudget.gov.in/economicsurvey. GDP – Gross Domestic Product

Export as an opportunity / China +1

- Supply chain issues in last 2 years due to dependency on China, uncertain Chinese policies & rising duties on Chinese products by different countries present India with good export opportunity
- Marginal shift in China export may mean ~20-30% growth for Indian manufacturing space



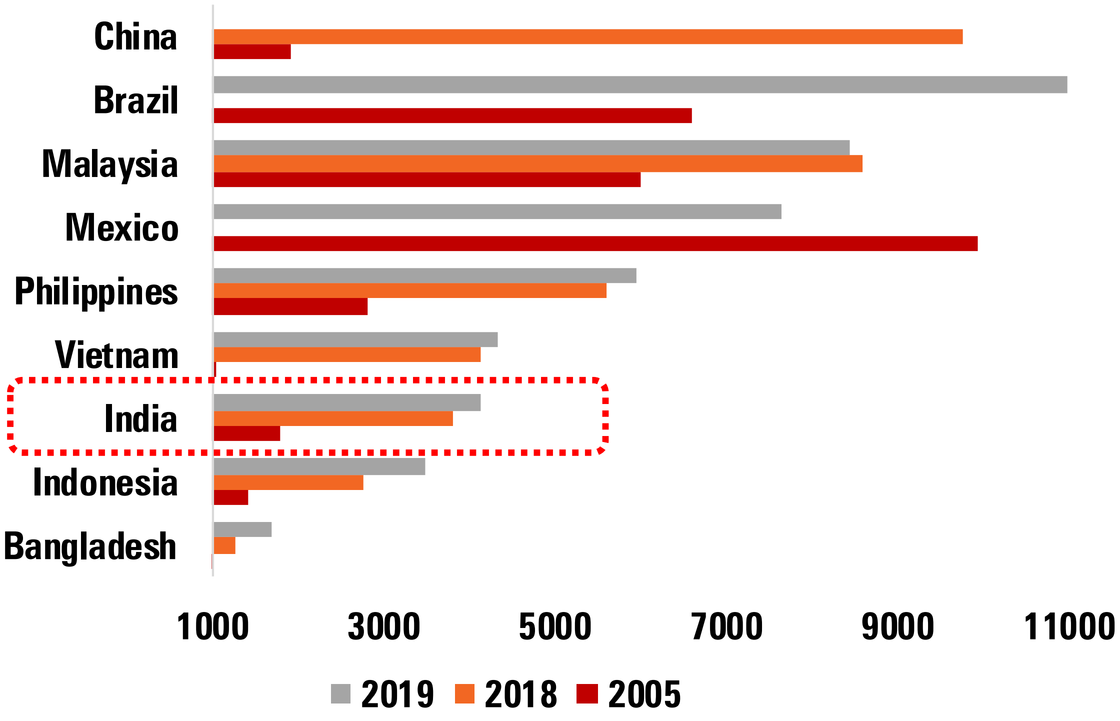


Source – UBS Research

Export as an opportunity / China +1

Labour Cost is amongst the lowest compared to peers in India

Wages per employee (in US$, at current prices)



Post the pandemic, in a bid to diversify supply chains from China, some key investment announcements by global manufacturing include

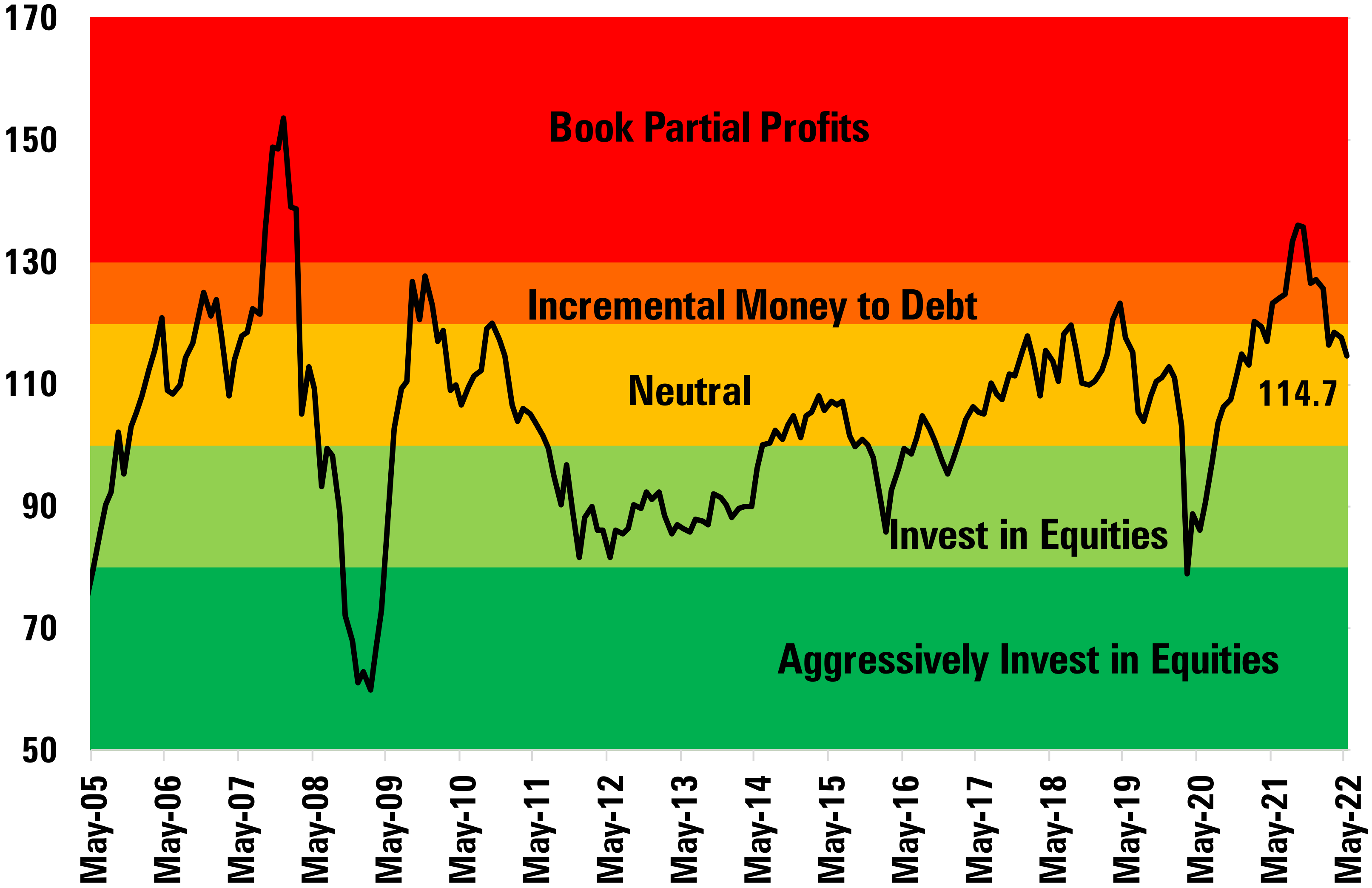
Companies	Investment (Rs. bn)	Time Period
• Gionee • Xiaomi • Videocon • Jivi Mobile	12.5	FY16 - FY19
Lava	26.2	FY16 - FY22
Foxconn	340	FY18 onwards
Samsung	50	FY18 - FY20
Comio Intex	11.5	FY19
iVoomi	2.5	FY19

Source – Morgan Stanley, Spark Capital Research. The sector(s)/stock(s) mentioned in this slide do not constitute any recommendation and ICICI Prudential Mutual Fund may or may not have any future position in this sector(s)/stock(s).

Summary & Outlook

- Rising crude oil prices, high inflation, rate hikes and geo-political tensions may keep markets volatile in near term
- The current market behaviour is currently giving a sense of déjà vu wherein certain indicators are reacting in a similar manner as in 2013 when US Fed initiated taper tantrum post GFC
- Relative to 2013, Indian economy appears to be relatively more resilient with strong core fundamentals
- Despite expected near term volatility, our medium to long term outlook on equities remains positive
- We continue to remain positive on sectors which are closely linked to economy like Auto, Banks, Capital Goods, Infrastructure, etc.
- We continue to recommend schemes which have the flexibility to manoeuvre across different Asset classes, Marketcap & Themes to mitigate expected volatility in near term

Our Equity Valuation Index



- Our Equity Valuation Index highlights that overall valuations have moderated from recent peak amidst rising global uncertainty

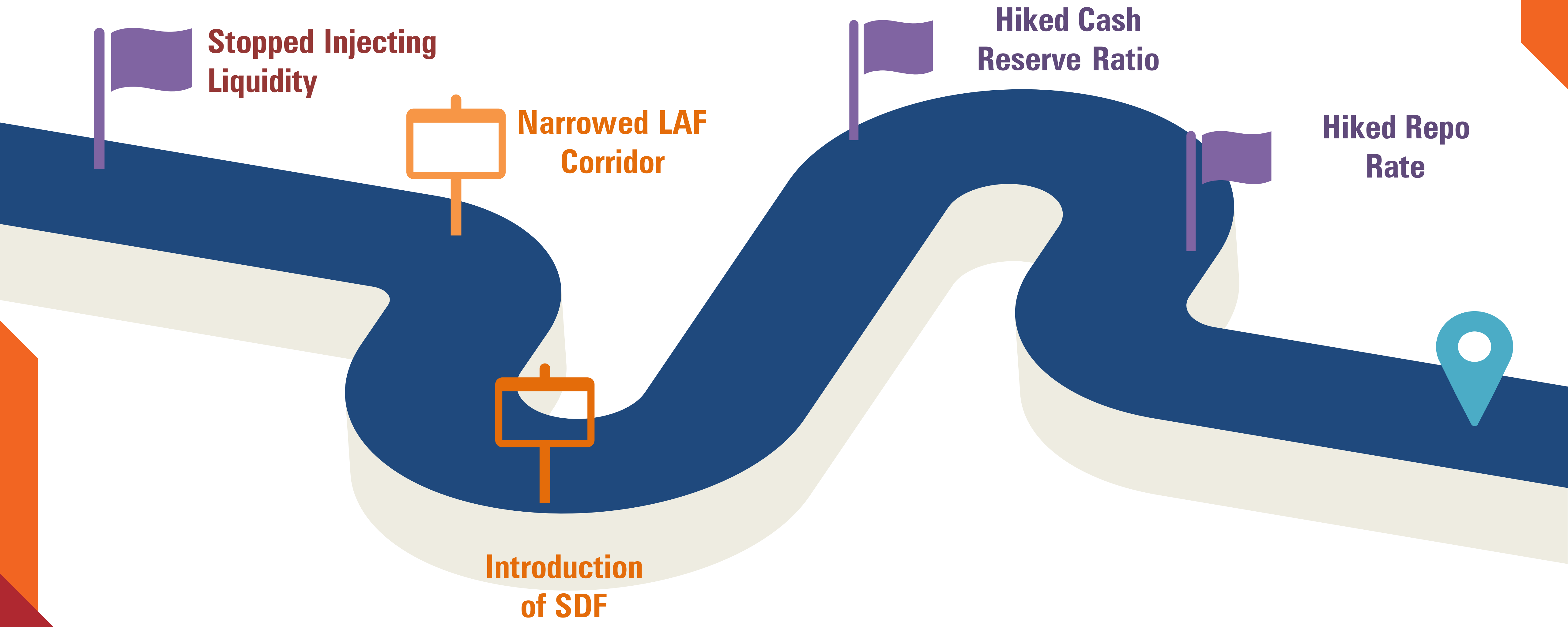
- We recommend equity investing with a long term perspective coupled with Hybrid/FOF schemes managing different asset classes that may help navigate market volatility

Equity Valuation index is calculated by assigning equal weights to Price-to-Earnings (PE), Price-to-Book (PB), G-Sec*PE and Market Cap to GDP ratio. G-Sec – Government Securities. GDP – Gross Domestic Product, Data as on May 31, 2022 has been considered

FIXED INCOME OUTLOOK:

RBI Changing Gears

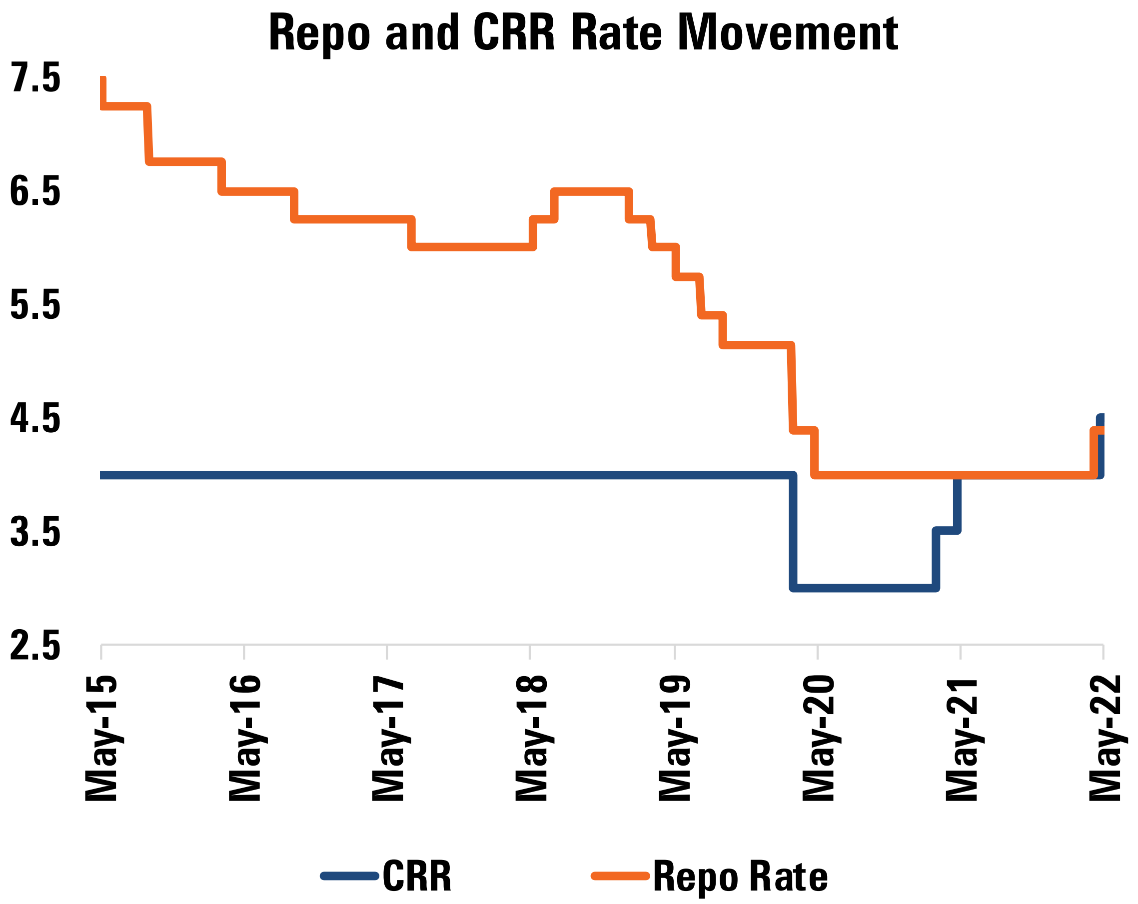
RBI Policy Journey So Far…

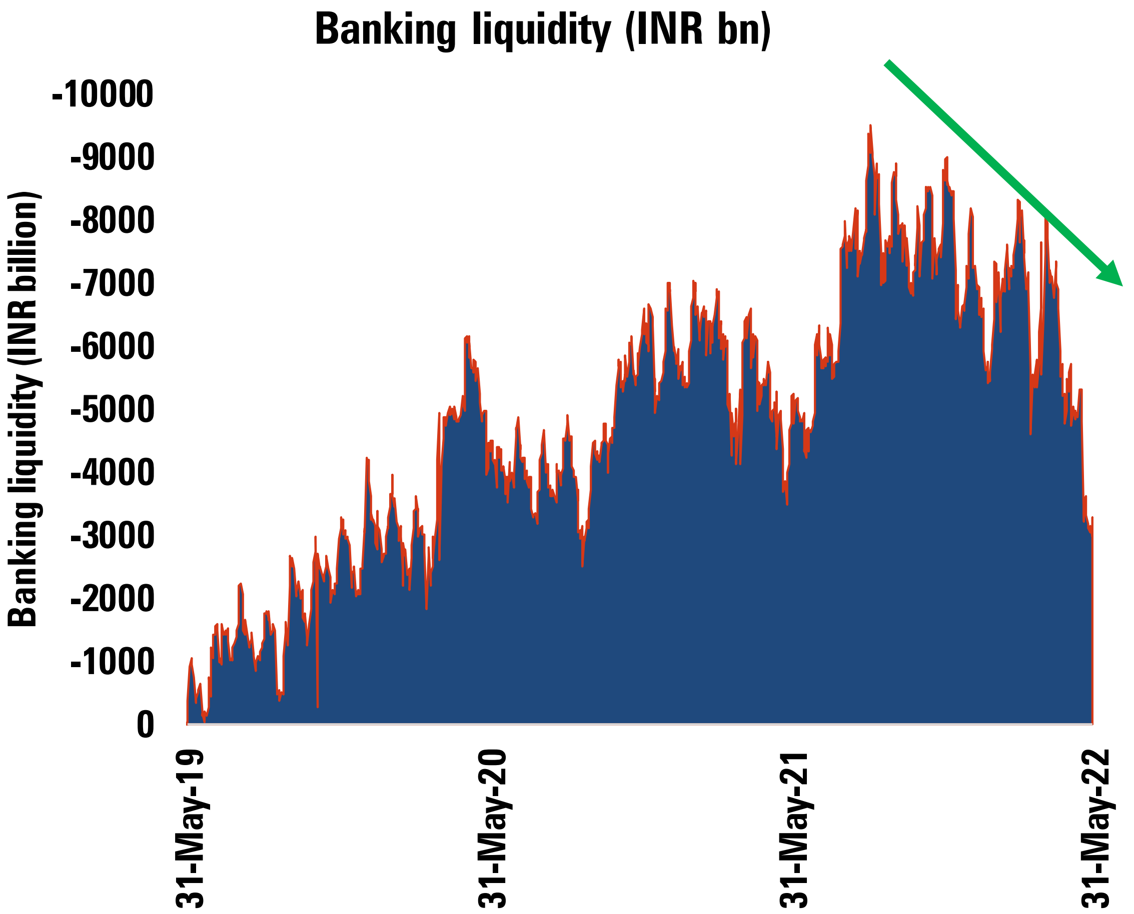


LAF – Liquidity Adjustment Facility, SDF – Standing Deposit Facility

RBI Policy Measures

The RBI hiked repo rates to 4.4% in an off-cycle policy meet recently & has begun absorbing excess liquidity from the system by means of CRR hike

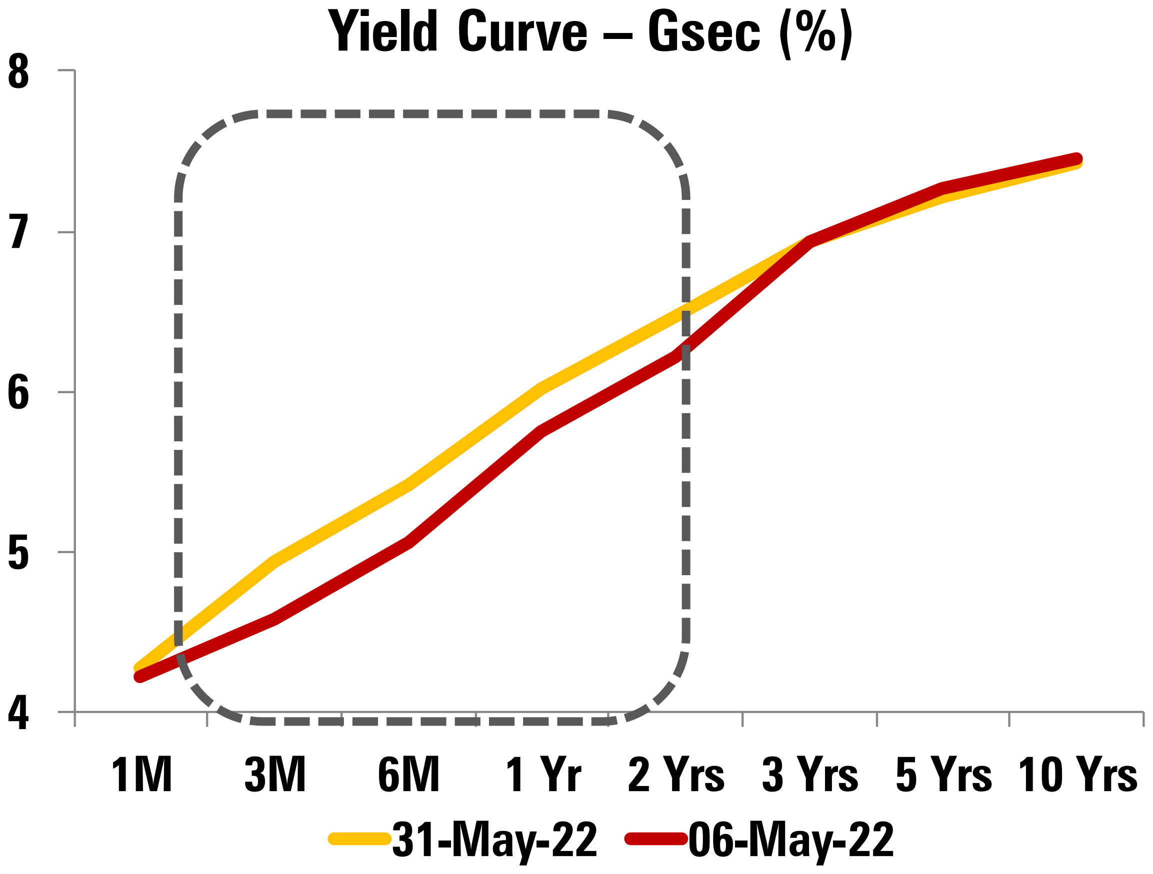


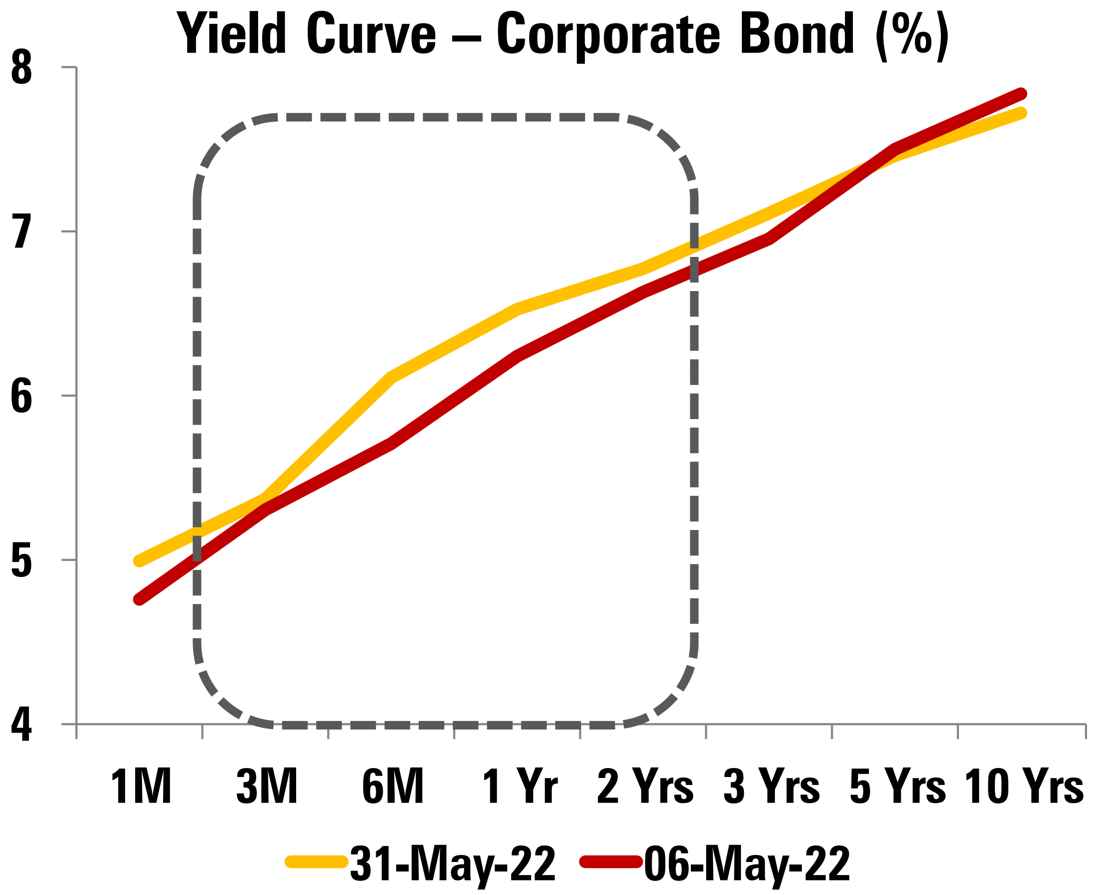


Data as on May 31, 2022, CRISIL Research

Month Gone By – Yield Curve Movement

RBI's policy normalization phase is affecting the shorter-end of the yield curve more compared to the longer-end





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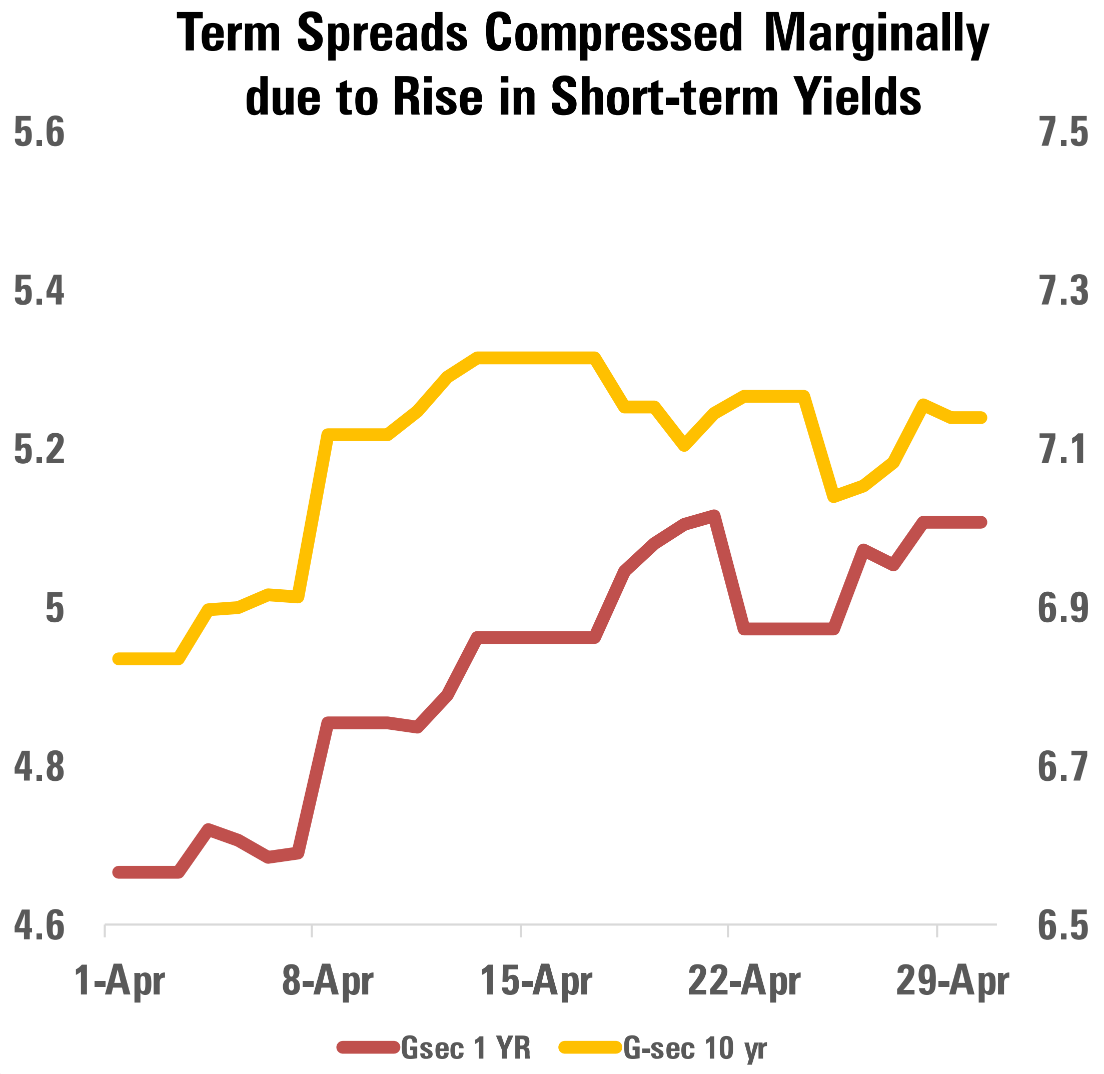
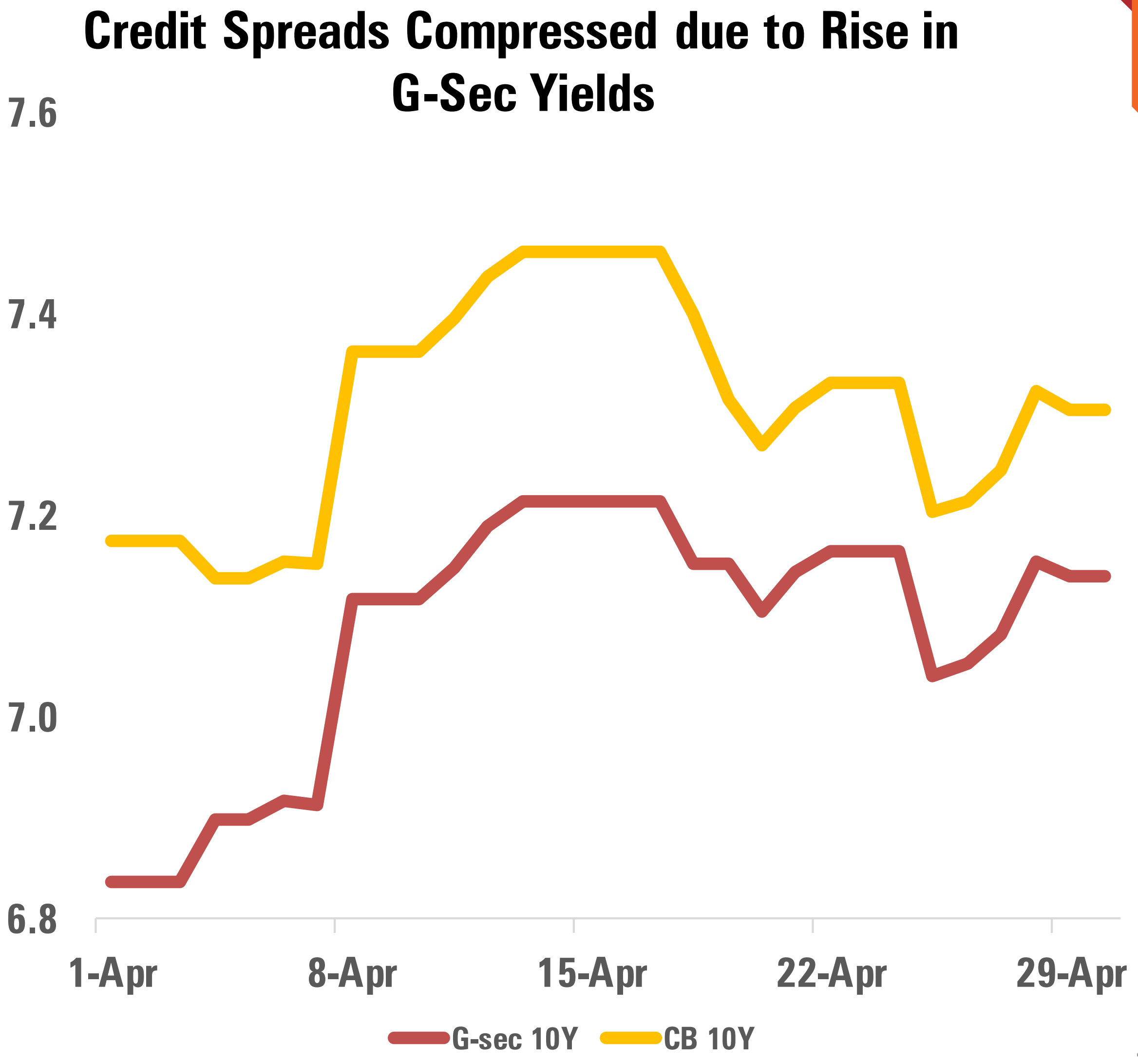
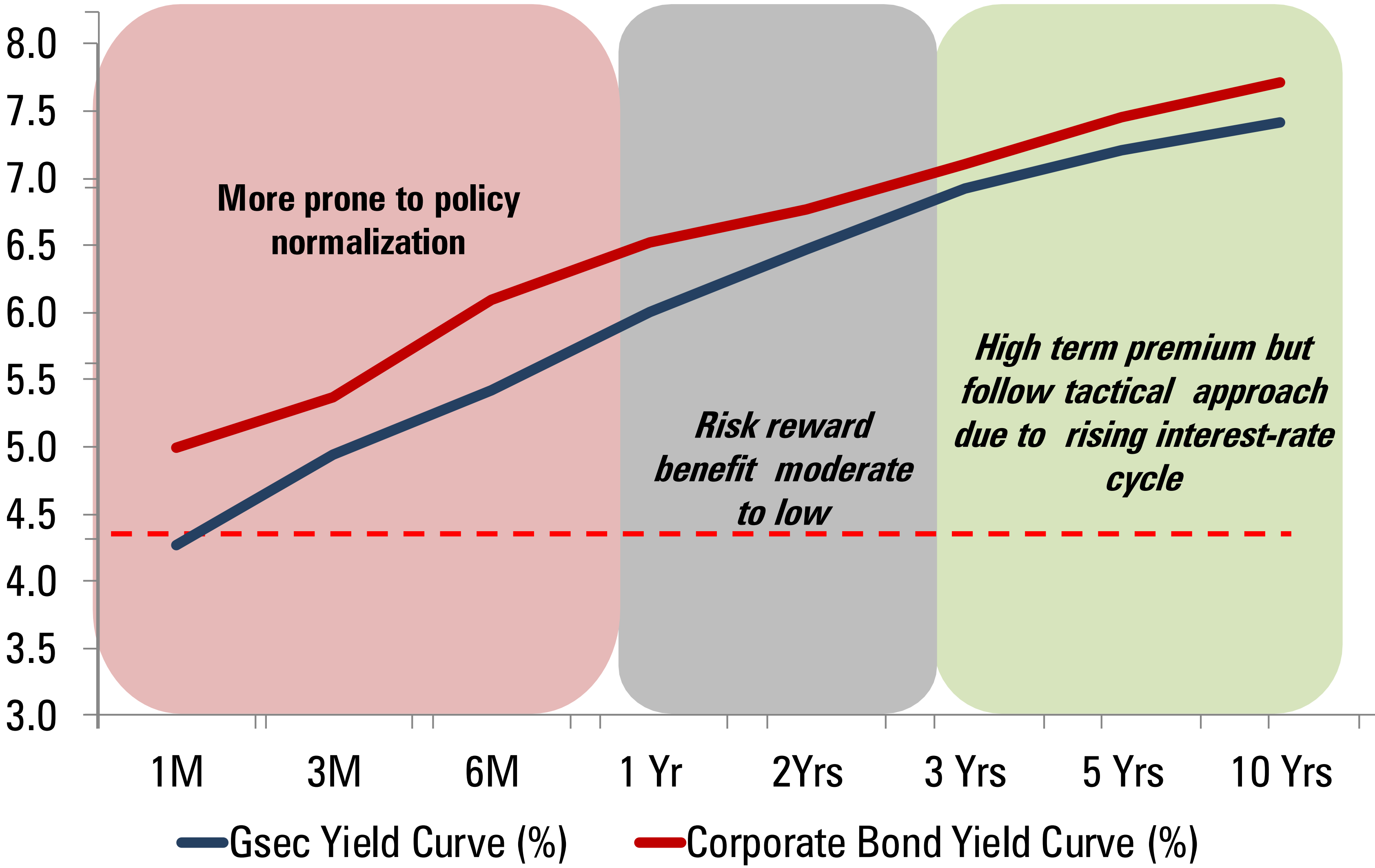
Month Gone By – Yield Curve Movement





Data as on May 31, 2022, CRISIL Research

Yield Curve - Valuations



KEY TAKEAWAYS

- High valuations at the short-end of the yield curve have corrected. Belly of the curve, offers low risk-reward benefit
- Long-end term premium is reasonable but need to be managed actively

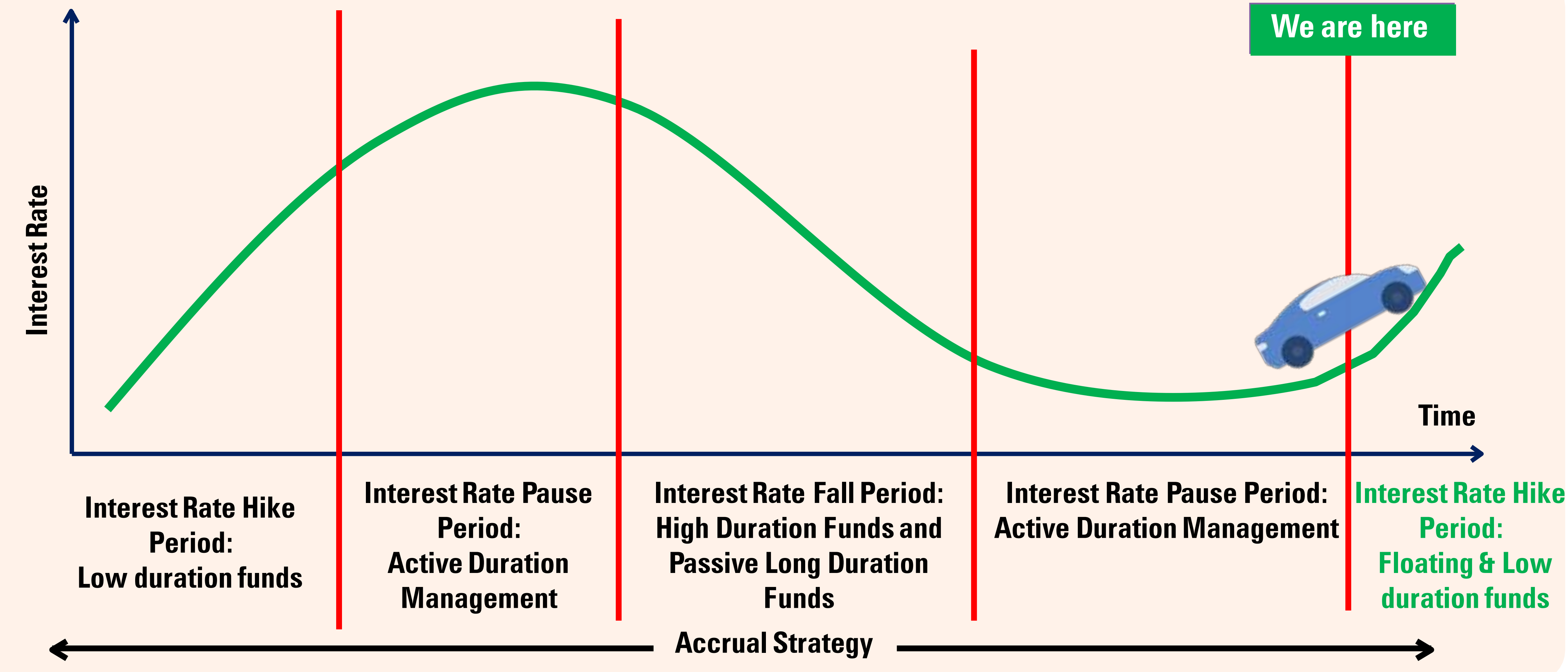
Data as on May 31, 2022, CRISIL Research

Our View

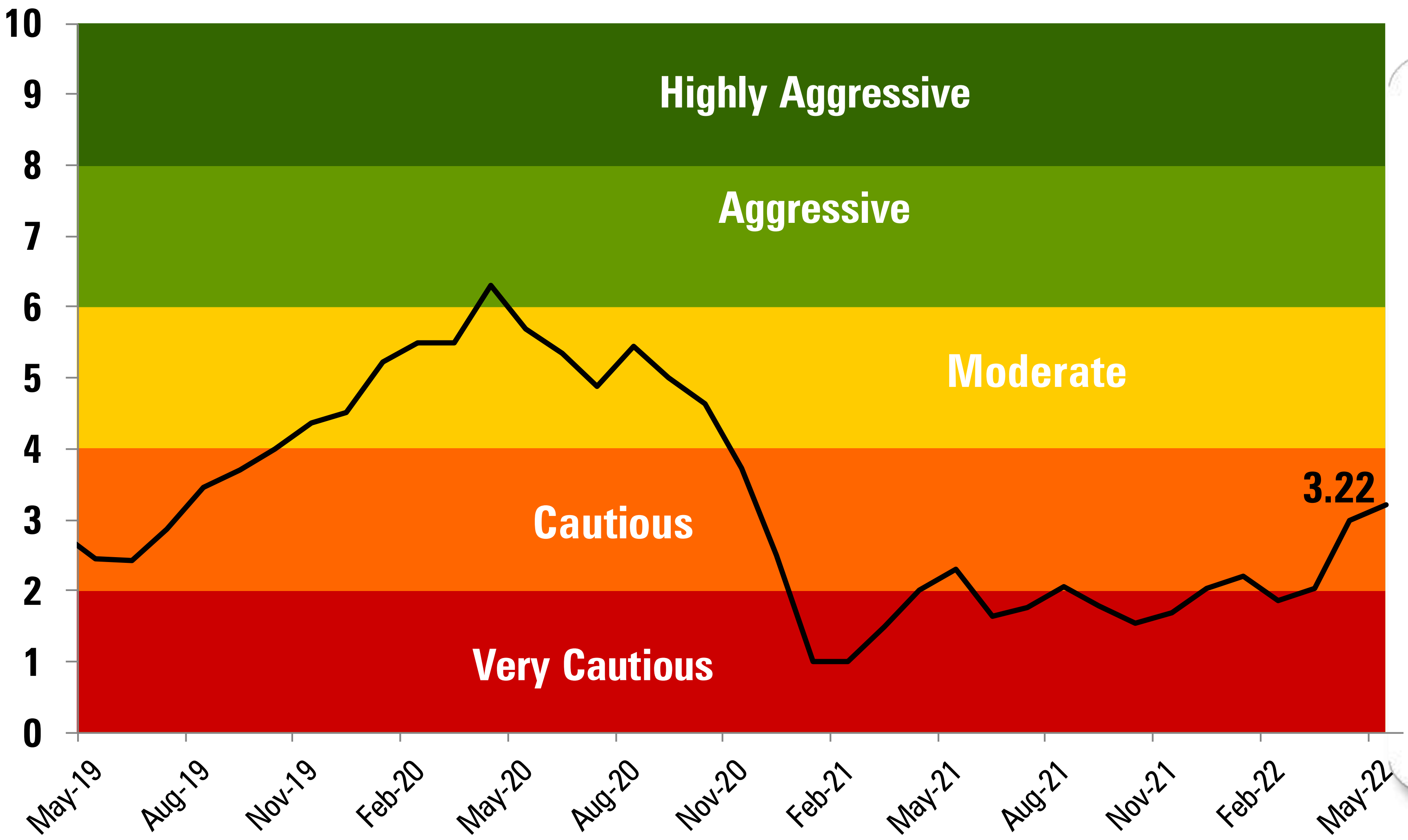
- We expect the RBI to intensify its battle against high inflation while putting growth on the back-burner
- We expect longer-end to remain volatile, but more protective compared to shorter-end
- The burden of the impact will be more visible in the extreme short end of the yield curve.
- We expect series of repo rate hikes in the upcoming meetings
- 100 bps incremental repo-rate hike expected in CY – 2022
- We expect withdrawal of surplus liquidity from the system and hiking CRR is a strong step towards it
- We believe floating-rate bonds (FRBs) has the ability to outperform all other fixed-rate instruments
- Invest in schemes which takes exposure in FRBs like ICICI Prudential Floating Interest Fund and ICICI Prudential Savings Fund

Investment Approach

Current Interest rate-rise cycle & Product Strategy (Illustration)



Our guiding light for Duration Risk Management



Our Debt Valuation Index suggests caution on high duration as the interest rates are expected to remain volatile

Data as on May 31, 2022. Debt Valuation Index considers WPI, CPI, Sensex returns, Gold returns and Real estate returns over G-Sec yield, Current Account Balance, Fiscal Balance, Credit Growth and Crude Oil Movement for calculation.

Year 2022 – Avoid Investing Mistakes

Not following Asset Allocation

Investing in IPOs without understanding the business

Reacting to temporary under-performance due to active management

Investing based on past returns

Not giving due respect to valuations

Not opting for debt as a capital preservation tool

Mutual Fund Disclaimer

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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