



FRANKLIN TEMPLETON

January 31, 2023

Dear Investor,

Happy New Year!

I hope you have had an exciting start to 2023. We at Franklin Templeton certainly have – our global CEO, Jenny Johnson was in India earlier this month and visited our offices in Mumbai, Chennai, and Hyderabad, reflecting Franklin Templeton's strong commitment to the India business. She also met up with key policy makers and our distributor partners. Jenny was delighted with the encouraging response to our recent NFO – the Franklin India Balanced Advantage Fund. I am happy to share that the fund has now crossed INR 1,000 crores in assets under management and Jenny and I thank you for your unwavering support.

In 2023, think Diversification:

Most investors are probably happy to see 2022 in the rearview mirror. Many investors may feel like standing on the sidelines this year. That sentiment, however understandable, is best avoided. As inflation declines, bond returns will likely recover, as will the potential diversification benefits of holding bonds alongside stocks and other asset classes. While one may follow a staggered approach to investing in the equity markets, one may also choose to focus on select themes like energy transformation, balanced portfolios, etc.

I believe 2023 holds the promise of renewed potential for benefiting from diversification.

Key Trends in India in 2023*:

1. **Renewable energy:** India is targeting the world's largest expansion plan in renewable energy - to achieve a capacity, 500 GW worth of renewable energy by 2030.
2. **Relative asset class attractiveness:** After the correction seen in both equities and fixed income, the Gilt Equity Yield Ratio[#] (GEYR) has substantially risen indicating attractiveness of fixed income asset class relative to equity.
3. **Growth divergence between India and Developed Markets (DMs):** 2023 growth projections for emerging Asia (4.9%) and India (6.1%) stand higher compared to DMs (1.1%) and World output (2.7%).

Equity Market Outlook:

Inflation and slowing growth, especially in the major economies – US, Europe, and China – remain key areas of concern. Global inflation could likely recede as supply chain pressures ease and central banks will remain vigilant and committed to taming inflation via tighter monetary policies. While services sector continues to drive global inflation, lower commodity prices could render support to domestic current account situation. Risks to growth recovery could emanate from a prolonged global slowdown, any price shocks in global commodities and higher-than-anticipated interest rate tightening by global central banks. Domestically, 2023 could be better than CY2022 given factors including (i) ongoing recovery in domestic consumption demand, (ii) supply side measures to revive private sector capex, (iii) stronger balance sheets of corporates and banks (iv) the likelihood of global recovery expected in second half. Structural growth drivers include domestic orientation, improving internal demand and

investment growth, opportunities from global supply chain diversification and policy measures for manufacturing and infrastructure development to induce sustainable growth amongst other factors.

Sentiment will be guarded, but investors who invest in businesses with strong balance sheets and sound business models, will be in a better position over the long-term. Cheaper valuations could bode well for long term investments in equities. It is recommended to consider a staggered investment approach in diversified fund categories.

Fixed Income Market Outlook:

India's latest forex reserves at US\$ 563 Billion are comfortable to cover around nine months of projected imports. India's external debt ratios are one of the lowest among emerging market peers. Globally there are signs of abating inflation. Thus, while the markets expect the RBI to hike the rate, it is likely for them to take a pause after the next hike. The terminal rates for India could be at around 6.50%. System liquidity remains in surplus however it is now normalizing to the pre pandemic period. The RBI has released the borrowing calendar for the State Governments/UTs for the quarter January – March 2023, which is expected to be ₹3.41 lakh Crore. We expect the actual borrowing to be lower than indicated with supply majorly targeted at the longer end of the curve. From the long-term perspective, the overall supply side requirements remain cumbersome and the fiscal deficit, although on a consolidation path, will continue to stay high. In addition, next fiscal year would be the year before the general elections and hence we may expect some pressure on government finances on that count. This could likely exert pressure on the long end of the yield curve. In this backdrop, and with rates likely to peak, we prefer to consider short/intermediate maturity segments while identifying tactical opportunities in the longer maturity segment. Investors with greater appetite for volatility may consider medium to long duration categories with high quality portfolios. Investors who prefer to hedge against a rise in interest rates may continue to consider shorter maturity funds and floating rate funds.

Expectations from the union budget this year:

Union Budget 2023-2024 will set the policy tone for the rest of the year and is anticipated to have a powerful emphasis on infrastructure development and digitalization, while attempting to strengthen the financial system. Energy, healthcare and pharma, technology, and manufacturing are likely to be the main themes of this budget.

Interesting reads:

- I have just finished reading – *Range* by David Epstein. The basic premise of the book is to analyze the virtues of specializations vs. being a generalist. The phrase “jack-of-all-trades” might be a worthwhile goal. Epstein uses stories of two sports superstars – Tiger Woods and Roger Federer who represent Specialization vs Range. He also uses research studies to show why/how “range” can be equally (if not more) critical for long-term successes in a complex world. I found the chapter on how we learn particularly interesting as it gives a different perspective on learning methods and challenges that are used to teach children.

Hope you find the above insights useful.

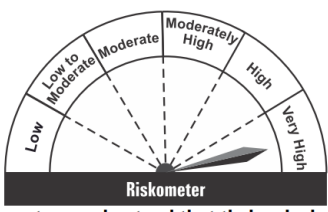
As always, you can directly write to me at avisatwalekar@franklintempleton.com with any feedback and questions. I value your questions, and feedback and look forward to the opportunity of continuing to meet your investment needs in future.

Sincerely,

Avinash Satwalekar
President, Franklin Templeton Asset Management (India) Pvt. Ltd.

Gilt Equity Yield Ratio is a metric used to evaluate the relationship between bond yields and earnings yields in the stock market. The ratio is determined by dividing the yield of a government bond by the current earnings yield of a stock or stock benchmark.

*Source: [Franklin Templeton Annual Market Outlook - GUARDED OPTIMISM - WAY FORWARD FOR INDIAN MARKETS](#)

Franklin India Balanced Advantage Fund This product is suitable for investors who are seeking*: • Income generation and capital appreciation over medium to long term • A fund that invests in dynamically managed portfolio of equity & equity related securities, fixed income and money market instruments.	 Riskometer Investors understand that their principal will be at Very High risk
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*Investors should consult their financial advisers if in doubt about whether the product is suitable for them. Riskometer is as on Dec 30, 2022

Type of Scheme: FIBAF: An open-ended dynamic asset allocation fund investing in a dynamically managed portfolio of equity & equity related instruments and fixed income and money market instruments

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