Markets commence 2022 on a strong footing; IT index hits record high

The benchmark indices started on a positive note on the first trading day of the new calendar year. In the broader market, the BSE Midcap and Smallcap indices were also in the green and were up 0.5 and 0.8%, respectively.

All sectoral indices were also positive except pharma and healthcare, which were marginally lower. On the Nifty, IT and Auto indices were leading gains and were up 0.9 and 1.5% higher, respectively.

At 10:15 AM, the frontline S&P BSE Sensex was trading at 58,762, up 509 points or 0.87%. The broader Nifty50 was at 17,498 levels, up 142 points or 0.82%.

Key indices registered strong gains during the last trading week of calendar 2021 amid gains in global stocks. Global equity indices saw steady upmove recently after correcting sharply on concerns related to the Omicron variant. The Nifty settled above the key 17,350 level while the Sensex ended above 58,250.

In the week ended on Friday, 31 December 2021, the Sensex rose 1129.51 points or 1.98% to settle at 58,253.82. The Nifty 50 index gained 350.3 points or 2.06% to settle at 17,354.05.

Year 2021 in Review – Equity markets rule amid volatility

The pandemic's effect on life, work, and professional operations has been profound. We are close to a new year. 2020 has been a real tough one and the crisis got us all last year, but has also taught us many skills and strategies, and given us newfound appreciation for the smaller things.

While 2020 taught us to become more resilient and flexible, 2021 gave way to refinement where we were no longer trying to survive the waves of changes and restrictions. We aimed to thrive in the new normal.

Pertaining to the stock market, Indian equity market has been a world beater in 2021 as favourable macroeconomic conditions, strong corporate earnings and inflows from retail investors helped it outperform stock markets of most large economies.

While the recent correction has eaten into the year-to-date (YTD) returns rally, India continues to be one of the best-performing equity markets globally in 2021 (As on Dec 20, 2021).

Globally, too, the equity markets performed well and Wall Street recorded new highs on a number of occasions this year.

Good show by equities

Markets created history by hitting one milestone after another in 2021. Among the frontline indices, the S&P BSE Sensex surpassed the magical 60,000 mark on September 24, 2021, while the Nifty50 surpassed the 18,000 mark on October 11, 2021. The Sensex rose 29.4% to hit a record high of 61,766 on October 18. The Nifty 50 index surged 32.2% to a lifetime high of 18,477.

The Sensex returned almost 22% while Nifty returned 24% between January 1 and December 31, 2021.

The broader markets beat their larger peers by wide margins. On the back of upbeat sentiment, easy liquidity, speedier Covid-19 vaccination and economic recovery, the Nifty Midcap index delivered almost 45%. The Nifty Small-cap index delivered a huge 60% returns in the calendar year 2021.

The market cap of all listed companies grew about $1 trillion (Rs 73.13 trillion) during the year to as much as $3.56 trillion (From Jan 1 – Nov 30, 2021). India almost broke into the elite top-five club in terms of market cap. In October the gap between India and the UK, which is currently in fifth place, was less than 3%.

DIIs score over FIIs

FII being net sellers in India, finishing December 2021 as net sellers, it will be the first time since late 2016 when they took out funds from the Indian equities for three back-to-back months in a row.

While they net sold ₹13,550 crore in October, the net sales were relatively milder in November. But FPI selling has once again picked up pace in December, with net outflows of ₹13,470 crore so far this month (Dec 20, 2021).

As overseas flows reversed in recent months, domestic investors, especially small individual investors, have stepped up their buying. Increased retail participation was a key highlight of the year, which largely offset the $4.6-billion selloff by FPIs since October.

However, the most important factor to note is while FIIs have pulled out $5.2 bn CYTD21 net from the secondary market, they have invested $10.4 bn in the primary market (IPOs) in the same period, which shows that India remains a country of choice for FIIs.

Domestic mutual funds (MFs) pumped in Rs 76,779 crore (about $10.2 billion) into the markets this year until December 22. Most of these flows are from domestic households. Apart from the MF route, investors have invested directly. According to UBS estimates, domestic household flows were $28 billion, either directly or through MFs, until September 2021.

Retail investors, who sat on the side-lines for so many years, rushed in after the pandemic-induced flash crash last year and have since been buying every dip with mounting enthusiasm. This shows that retail investors have a matured mind-set towards investing and looking at correction as a buying opportunity.

MF Industry – Stellar Performance (Data as on November 30, 2021)

The cumulative inflows from systematic investment plans (SIPs) have crossed Rs 1 lakh crore in a year for the first time, data from the Association of Mutual Funds in India (AMFI) show.

Buoyed by the continued support from retail investors, the domestic flows have partially offset the selling pressure from foreign portfolio investors (FPIs). The previous record SIP flow in a calendar year was Rs 98,612 crore in 2019.

Boosted by the SIP inflow, the domestic funds deployed Rs 63,439 crore in the equity market while the FPIs invested close to Rs 43,193 crore in the first eleven months of 2021. As a result, the share of the local funds in the total institutional equity AUM rose to 16.8% in November, the highest since February 2020, according to NSDL data.

The monthly SIP book grew in each of the seven months up to November. In the past three months, the monthly flow remained above Rs 10,000 crore. As a result, the SIP book size averaged Rs 9,337 crore per month in 2021 compared with the long-term average of Rs 7,028 crore.

The impressive returns of SIP schemes and lack of better investment alternatives are the major reasons for the unabated enthusiasm of retail investors. The three-year and five-year SIP returns based on the investment in the Sensex stocks were at a 12-year high of 26.3% and 19.4%, respectively.

The equity assets under management (AUM) increased at a two-year compounded annual rate of 25% to Rs 17.43 lakh crore as on November 30, 2021. The total folio count of the equity funds reached 7.8 crore of which 20% were added in the current year.

Individuals constituted about 54.9% of the total mutual funds' assets in October 2021 compared with 51.7% a year ago, the data from AMFI show.

Road Ahead

Going forward markets will start building up expectations for the forthcoming Budget as there's no major event in the next couple of months.

Investors focus from budget may have a continued focus on encouraging Atmanirbhar and Make in India theme followed be Infrastructure reforms, Power reforms, EV support, and disinvestment strategy.

Markets are likely to remain volatile in the near term on account of potential risk from Omicron variant and fragile global cues. However, in the long run, strong earnings delivery along with positive macro-economic data would hold the key to drive markets upwards.

The year 2020 has been one of unprecedented challenges and uncertainties while year 2021 was all about recovery, now it's time to perform and year 2022 has high chances to outperform.

Outlook & Investment Strategy

Since economic activity was hit due to the pandemic last year, financial markets have been volatile. The S&P BSE Sensex dipped to multi-year lows in March 2020, falling by 37% since the start of 2020 and then rose nearly 2.4x by October 2021. Now again the markets are witnessing some stress due to the emergence of the new Covid variant, Omicron.

So the question that keeps coming back to investors' minds is still the same. "Where, from here?" No one has the answer to this; but there is someone who can see you through market uncertainties, your best friend in your investment journey—asset allocation.

While it is certain that markets will trend upwards in the long term, it's also certain that this journey will not be completely smooth. There will be bouts of correction in the market, and you definitely don't want these periods of volatility to eat into a large part of your investments. Investing across asset classes such as equity, debt, gold, etc. can help diversify your investments and will reduce the overall portfolio risk.

Our advice to investors is not to get caught up in the latest market trends. If you panicked when the market dipped in March 2020 and sold your investments, you'd have missed out on a full recovery—including around 60% growth since March's low. That's why it is always recommended to *"keep a well-diversified portfolio to weather whatever the markets bring next rather than trying to predict what's going to happen next."*

Consulting your investment advisor is the best way to take any investment decisions before investing to understand all legal, financial and taxation implications.

Source: ACE Equity, Bloomberg, Business Standard, AMFI, BSE India, NSE India

An Investor Education & Awareness Initiative