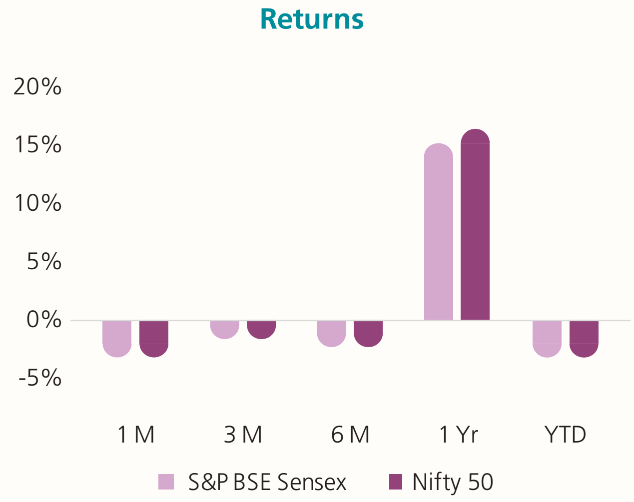
EQUITY MARKET REVIEW

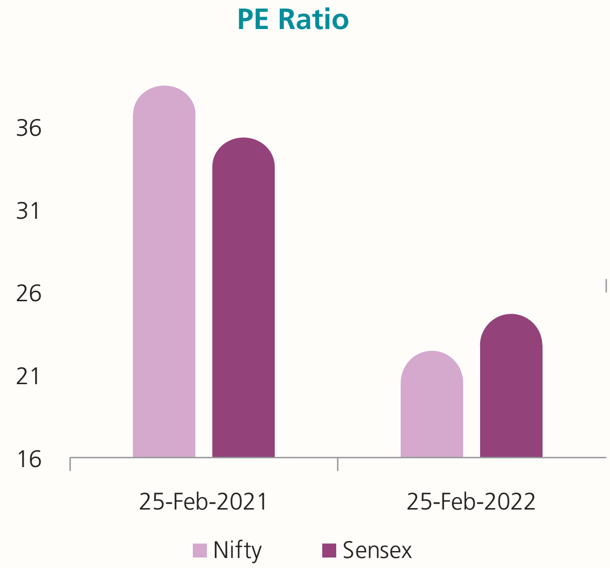
FEBRUARY, 2022

L&T Financial Services
Mutual Fund

Nifty declined 3.1% in February 2022 following a flattish January as the Russia-Ukraine conflict significantly impacted crude oil and other commodity markets leading to a risk of sharp input cost increases across several industries as well as potential negative impact on economic growth. FII selling continued unabated for the 5th month in a row. The BSE Mid-cap index declined 5.1% while the BSE Small-cap index slipped by 8.8% significantly underperforming Nifty.

Global equities continued their decline in February (-2.7% MoM). Escalation of geopolitical tensions over the past few days has materially increased the risk of potential trade disruptions of oil, gas, grains and metals and has turned into a significant risk for the global economy. Indian equities declined 4.1% (US$ terms) trading lower than broader markets in February (MSCI APxJ/EM: -1.4%/-3.1%).





Past performance may or may not be sustained in the future.

GLOBAL MARKETS

Worldwide, most major indices corrected sharply with the US S&P500 down 2.9%, Euro Stoxx dipped 3.6%, Hang Seng declined 4.6%, Nikkei dipped by 1.8% and FTSE UK slipped by 0.8% during the month.

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SECTOR PERFORMANCE

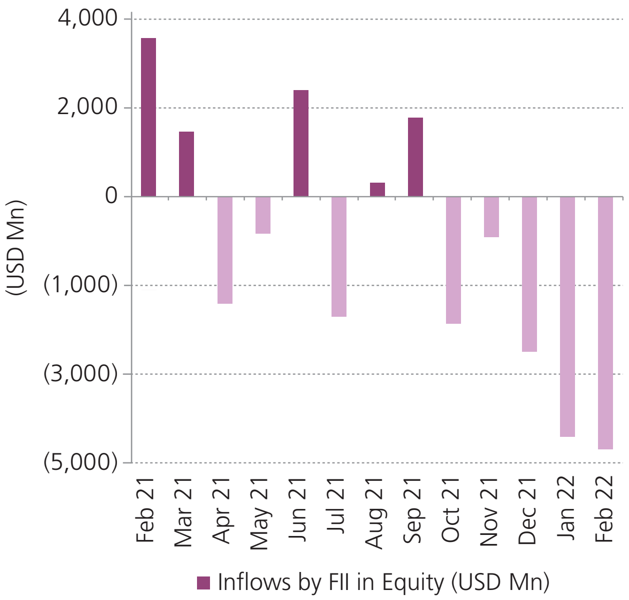
In sectoral trends, only Metals (+9.5%) outperformed supported by a jump in underlying commodity prices on the back of geopolitical concerns, most other key sectors ended in the red for the month. Among key sectoral indices, Real Estate fell 9%, Autos slipped 7%, Bankex dipped 4.4%, IT was down 3.6%, and Healthcare fell 3% (MoM).

INSTITUTIONAL ACTIVITY

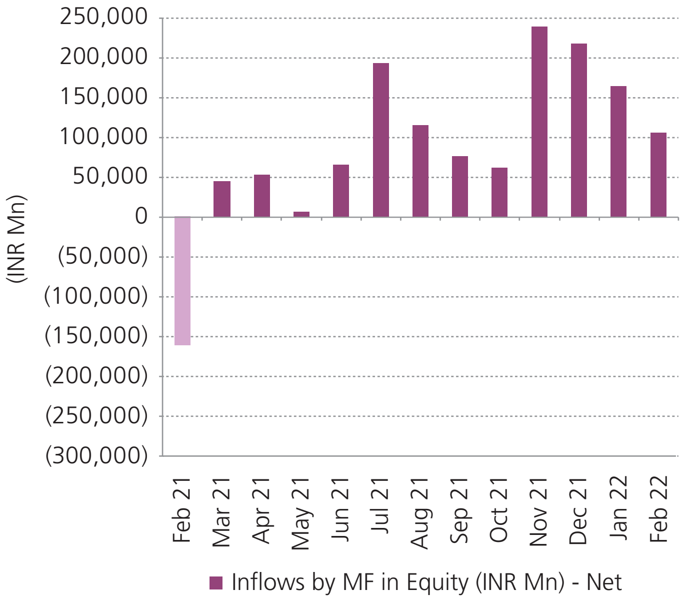
FIIs continued to remain net sellers of Indian equities in February (-$4.5 bn, following -$4.8 bn in January). This marked the fifth consecutive month of net equity outflows for FIIs.

DIIs recorded inflows of $5.6 bn in February, maintaining the buying trend observed since March 2021. Mutual funds and Insurance funds were both net buyers in February with $1.4 bn inflows and $4.2 bn inflows, respectively.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

Finance Minister presented a growth-oriented Budget for FY23 with a focus on infrastructure spending and boosting domestic manufacturing. General consensus among economists is that budget estimates are realistic and a 6.4% fiscal deficit for FY23 is achievable.

RBI at its latest monetary policy meeting kept Repo and Reverse repo rates remain unchanged at 4% and 3.35%, respectively and reiterated its accommodative stance to support the economy.

Q3FY22 real GDP slowed sharply to 5.4% (vs. 8.5% in Q2FY22), missing consensus estimates by 50bp. Key highlights were:

i) Industry and capex growth were weak (0-2% YoY)
ii) Improving services momentum.
iii) Nominal recovery remains strong, aiding tax collections and corporate profits.

CPI Inflation rose to 6.0% (YoY) in January from 5.7% in December, in line with expectations. Core inflation also remained elevated at 6.0% vs 6.1% in December.

Index of Industrial Production (IIP) growth moderated to 0.4% (YoY) in December from 1.3% in November, lower than expected. Weak December numbers also continue to reflect the impact of supply bottlenecks like semiconductor chip shortage.

India's Manufacturing PMI (54) and Services PMI (51.5) remained in the expansion zone in January but witnessed a fall from their December levels. Services PMI witnessed a larger fall due to Omicron-related disruption.

India's FX reserves are close to their all-time peak, standing at $633bn currently. FX reserves declined by US$0.8 bn in the past 4 weeks. INR depreciated over the month (down 1% MoM) and ended the month at 75.34/US$ in February.

Benchmark 10-year treasury yields averaged at 6.76% in February (15 bps higher vs. the January average) as plans for high government borrowing spooked the market. On month-end values, the 10Y yield was up and ended the month at 6.77% (up 9 bps MoM). Oil prices continued their momentum from the previous month, gaining 10.9% in February on the back of geo-political concerns.

Fiscal deficit for April-January came in at Rs 7.61 tn, or 50.4% of the budgeted FY22 deficit (at Rs 15.1 tn, or 6.8% of GDP). GST collections in February came in at Rs 1.33 tn (marginally lower than January collections of Rs 1.4 tn), up 18% YoY.

OUTLOOK

India emerged relatively unscathed from the Omicron wave in January 2022; thanks to a high level of vaccination and lower virulence, however, the global macro-economic back drop has become more challenging and highly uncertain driven by recent geo-political events. A sharp jump in crude oil prices have will not only lead to a widening current account deficit for India but also negatively impact overall growth.

Supply chains for several other commodities are also getting impacted leading to a surge in prices for fertilizer, coal, metals, etc. which is likely to result in high-cost pressure for corporates and consumers and could lead to a slowdown in demand if the disruption continues for an extended period of time. However, ***higher govt. spending on infrastructure and measures to boost domestic manufacturing along with RBI's accommodative stance should provide some offset. Overall, we continue to remain constructive on the economic recovery cycle and Indian equities going forward.***

Source: Bloomberg, MSCI