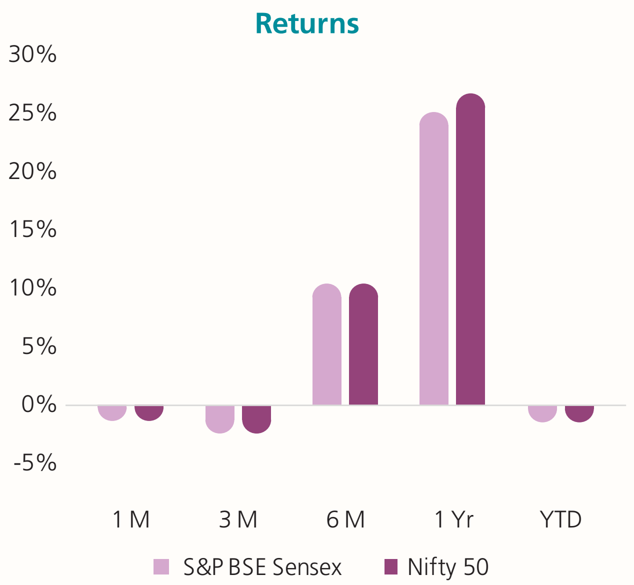
EQUITY MARKET REVIEW

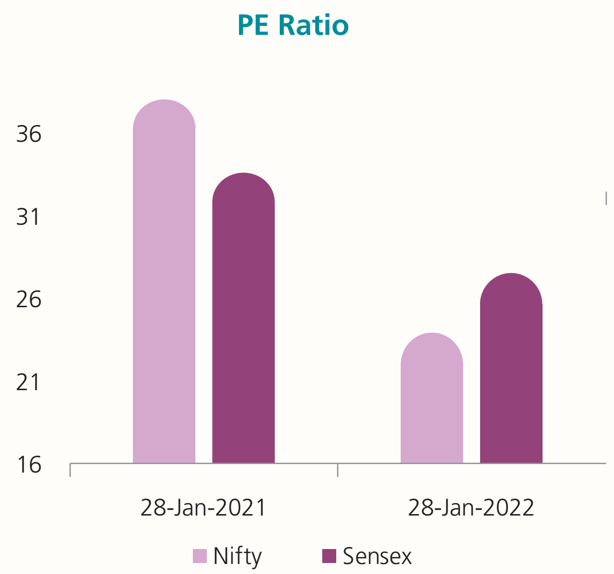
JANUARY, 2022

L&T Financial Services
Mutual Fund

Nifty ended flat for January 2022 after a strong performance in the first half of the month as the Omicron wave, rising bond yields and global equity correction pulled Nifty back to end the month at the 17,340 mark. The BSE Mid-cap index declined 1.4% while the BSE Small-cap index declined 0.8% underperforming Nifty.

Global equities fell sharply in January (-5.0% MoM) as the likelihood of potential interest rate hikes by the Fed, higher inflation and geopolitical concerns weighed on the market. Indian equities declined 1.4% ($ terms) outperforming broader markets in January (MSCI APxJ/EM: -4%/-1.9%).





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

GLOBAL MARKETS

Worldwide, most major indices delivered corrected sharply led by the US S&P500 down 5.3%, Euro Stoxx (-3.9%) and Nikkei (-6.2%). However, FTSE (1.1%) and Hang Seng (1.7%) bucked the trend and notched up gains for the month.

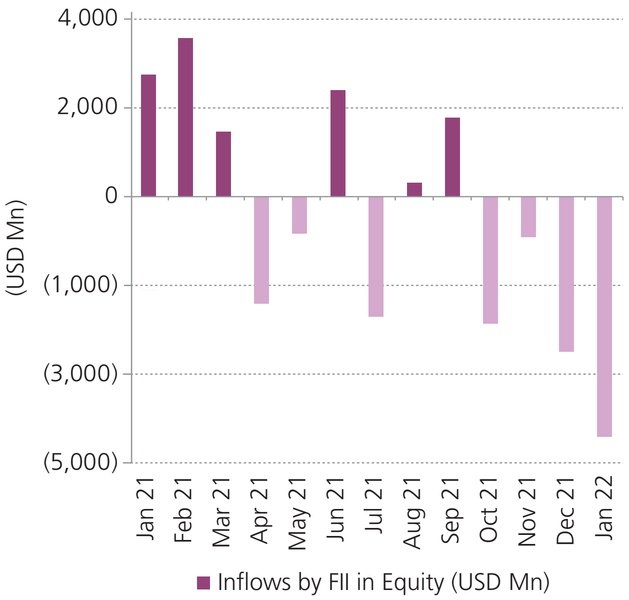
SECTOR PERFORMANCE

In sectoral trends, Utilities, Energy and Financials ended the month in the green zone while IT, Consumer Staples and Healthcare were the key laggards. Among sectoral indices, IT and Healthcare fell 8% (MoM), while Consumer Durables fell 6.4%. Auto rose by 6.4% while Oil & Gas (6.4%), Bankex (7.8%) and Power (13%) were the best performers.

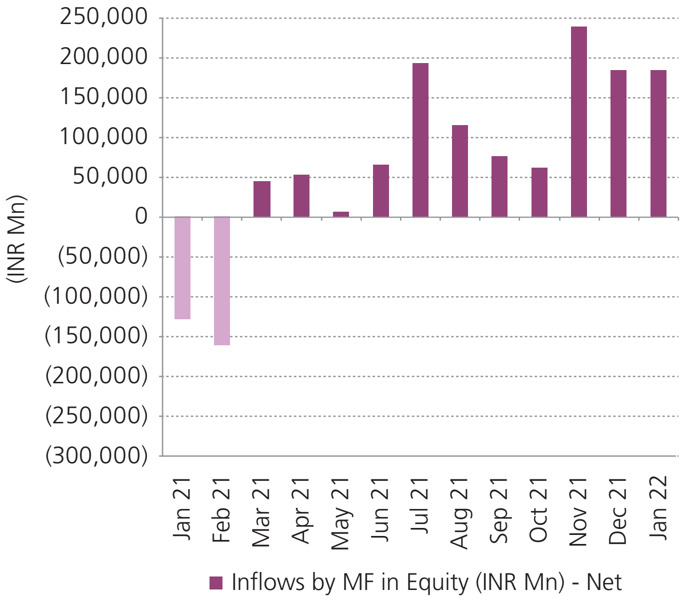
INSTITUTIONAL ACTIVITY

FIIs remained net sellers of Indian equities in January (-$4.5 bn, following -$1.7 bn in December). FIIs have been selling Indian equities for the last 4 months. DIIs recorded inflows of $2.9 bn in January, maintaining the buying trend observed since March 2021. Mutual Funds and Insurance Funds were both net buyers in January with $1.4 bn inflows and $1.6 bn inflows respectively.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

The IMF has cut India's GDP forecast for FY22 to 9% on concerns over the impact of the new Covid variant while the Economic Survey estimated India's growth between 8-8.5% for FY23.

December CPI bounced to 5.6%yoy from 4.9% (YoY) in November, while adjusting for food and fuel prices, core-core inflation remained unchanged at 5.5% (YoY) in December. However, vegetable prices have begun to correct from elevated levels, and this is likely to impart disinflationary impulses to the food price index.

November IIP (Index of Industrial Production) growth decelerated to 1.4% (YoY) from 4.0% in October, reflecting fewer working days because of Diwali, weak consumer durables goods demand and possible supply bottlenecks constraining core infrastructure sectors. Weak IP recovery over the past few months has prompted economists to downgrade India's growth projections.

India's Manufacturing and Services PMI in Dec'21 continued to remain in the expansion zone at ~55 levels but witnessed a fall from their November levels.

India's FX reserves remained close to an all-time peak, standing at $634 bn. FX reserves have declined by US$0.7 bn in the last 4 weeks. The INR depreciated over the month (down 0.4% MoM) and ended the month at 74.62/$ in January.

Benchmark 10-year treasury yields averaged at 6.60% in January (19 bp higher vs. December avg.). On month-end values, the 10Y yield was up and ended the month at 6.68% (up 23 bps MoM). Oil prices continued their momentum from the previous month, gaining 17.4% in January. Oil prices are now at 5-year highs.

Fiscal deficit for April-December came 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 January came in at Rs 1.38 tn (marginally higher than levels seen in December), up 15% YoY.

OUTLOOK

While Covid-19 cases have again surged in India due to the spread of the Omicron variant in January, thanks to a high level of vaccination and lower virulence, the hospitalization rate has been much lower than the Delta wave. India has also begun vaccination for children in the 15 to 18 age group from January 3, 2022. Also, precautionary doses for healthcare and frontline workers will be provided and people above the age of 60 have also begun.

Global back drop has become more challenging with US Fed clearly signaling rollback of quantitative easing policies and the likelihood of rate hikes from Mar'22. Crude oil prices have also continued to surge leading to a widening current account deficit for India. The sharp surge in global commodity prices has also led to sharp price increase and slower demand growth in some segments as well as margin pressure for corporates. However, growth rates for India should continue to remain strong in FY23 based on government and economist forecast. Overall, we continue to remain constructive on the economic recovery cycle and Indian equities going forward.

Source: Bloomberg, MSCI