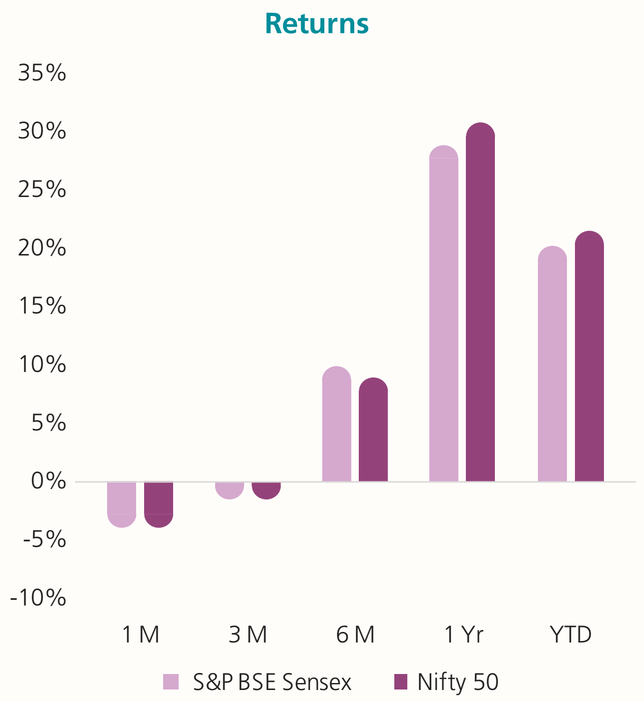
EQUITY MARKET REVIEW

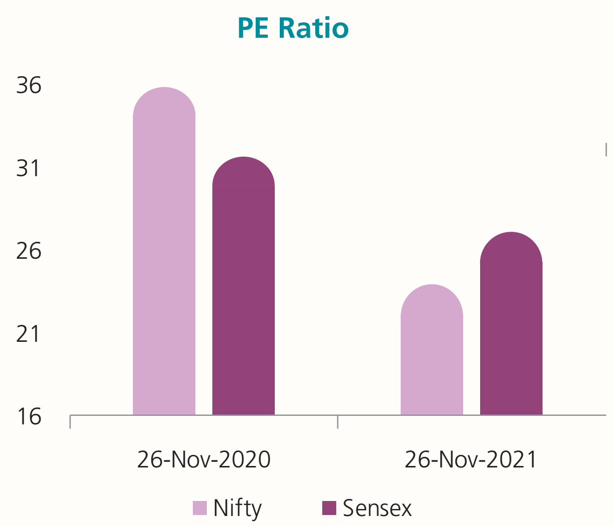
NOVEMBER, 2021

L&T Financial Services Mutual Fund

Nifty suffered the biggest monthly fall of 3.9% in November 2021 due to several factors ranging from a global risk-off driven by accelerated taper worries / Omicron concerns to the disappointing listing of India's largest IPO to close the month at 16,983. The BSE Midcap index also corrected 2.3% while the BSE Smallcap index was down only 0.2% for the month. Indian markets have still delivered strong 20%+ gains Year-to-date, supported by strong domestic & foreign inflow, accommodative monetary policy, improved vaccine access and subsequent pick-up in service sector activity.

Global equities corrected by 2.5% in November. The recent correction can be pegged to uncertainty over the impact of the new Omicron COVID-19 variant. MSCI India fell 3.1% (USD terms) and performed better than broader markets in November – MSCI APxJ/EM (-4.4%/-4.1%).





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

GLOBAL MARKETS

Worldwide, most major indices delivered negative returns, however, the US S&P500 outperformed and was up 1.1%. Euro Stoxx (-2.6%), Hang Seng (-7.5%), FTSE (-2.2%) and Nikkei (-3.7%) all declined for the month.

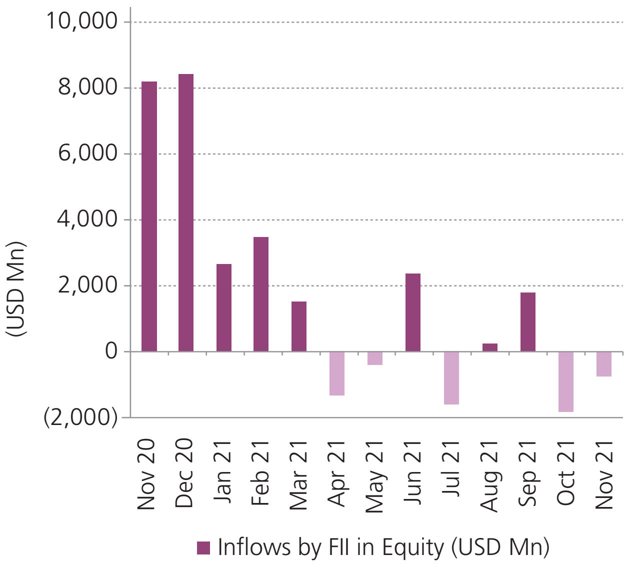
SECTOR PERFORMANCE

By sector, Utilities, Communication Services, Healthcare, IT and Industrials outperformed, while Financials, Material, Energy and Consumer Discretionary were notable laggards. Among sectoral indices, Power rose (3.6%), IT (2.7%), Healthcare (1.9%), while Metals (-9%), Banks (-8.7%), Auto (-5.3%), Oil & Gas (-3.5%) were the major losers.

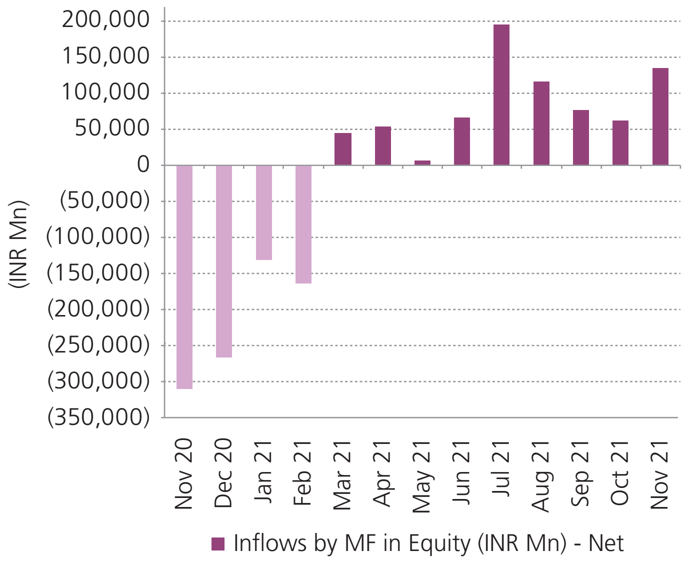
INSTITUTIONAL ACTIVITY

FIIs were minor net sellers in Nov (- $58mn, following -$2.3bn in October) as secondary market selling was offset by strong primary market participation. DIIs remained significant net equity buyers for the ninth month running (+$4.1bn, vs +$597mn in October). Mutual funds were net equity buyers at US$1.8bn while insurance funds net brought US$2.3bn of equities in November.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

India's GDP grew by 8.4% in Q2FY22. The rebound was broad-based. On the supply side, the services and agricultural sectors outperformed in Q2, while on the demand side, private consumption and investment led the rebound. Still, private consumption and the trade & transport sector remain 3% and 9% below their pre-pandemic levels (Q4 2019), respectively.

CPI for October came at 4.5% YoY, with upside surprise coming in from core CPI which rose to 6.1%, the first above 6% print in four months. Against this backdrop, the recent cut in excise duties will provide some much-needed relief.

September Industrial Production growth at 3.1% YoY was below expectation as IP contracted sequentially for a second successive month. IP has retreated back to 96% of pre-pandemic levels after peaking at 100% in July.

Oct PMI report was strong led by services recovery. In October, services PMI reached a 10-year high of 58.4. Forward looking new orders reached a decade high at 58.3. The services employment index, which has been in the contraction zone below 50 for the last 18 months, rose above 50 for the first time in October, increasing to 51.5.

India's FX reserves are close to its all-time peak, standing at $640bn currently. FX reserves have increased by US$0.3bn in the last four weeks. INR declined marginally (down 0.4% MoM) and ended the month at 75.17/$ in November. DXY rose 2% over the month.

Benchmark 10-year treasury yields averaged 6.35% in November (2bp higher vs October avg.). On month-end values, the 10Y yield was lower and ended the month at 6.33%. Oil prices suffered a dip after two months of price rally, shedding 16.9% to near $70/bbl in November as the new COVID variant in southern Africa sparked fears that renewed lockdowns and travel bans will hurt global demand.

Fiscal deficit for Apr-Oct came at Rs5.47tn or 36.3% of the budgeted FY22 deficit (at Rs.15.1tn or 6.8% of GDP). GST collections second highest since implementation and grew 24% YoY in October (Rs 1.3tn, from Rs 1.17tn in September).

OUTLOOK

Covid-19 vaccine administration continues in India at a rapid pace. Total Indian daily cases are falling, as single-day new cases have been below 20k for the past 53 days. As of 29 November, c.1.2bn shots have been administered in India (c.57% of population has taken one shot+).

Monsoon overall was near normal with India witnessing 99% of its long period average rainfall in 2021, although with significant variations across regions. Kharif output is likely to be satisfactory, despite the spatial/temporal fluctuations and reservoir level augur well for the winter crop.

The recent Omicron Covid-19 variant needs to be watched and has raised near-term uncertainty for the global economy and India. However, the recent correction in global crude and commodity prices should offer some relief from the rising cost pressures. Overall, increased vaccination efforts and removal of restrictions, normal monsoon, stimulative monetary policy and constructive government measures should help the economic recovery gain momentum in the coming quarters, in our view.

Source: Bloomberg, MSCI