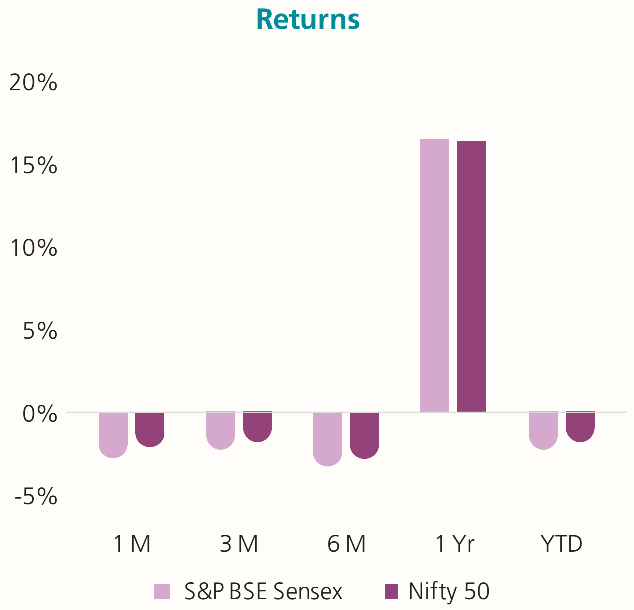
EQUITY MARKET REVIEW

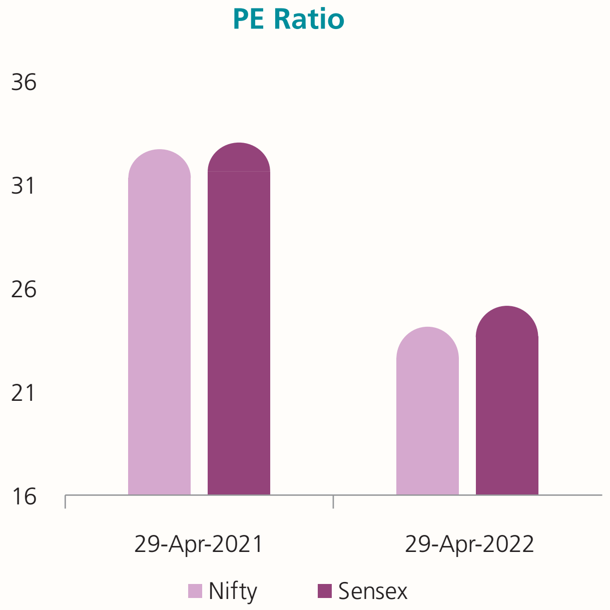
APRIL, 2022

L&T Financial Services
Mutual Fund

Nifty declined by 2% in April 2022 driven by weak global sentiment as geo-political pressures and inflation worries continued to drive FII selling. However, local buying support helped the BSE Midcap index and BSE Smallcap index to rise by 1.3% and 1.4%, respectively outperforming the Nifty.

Indian equities declined -1.7% ($ terms) but ended higher than broader regional markets in April (MSCI APxJ / EM: -5.4%/-5.7%)





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

GLOBAL MARKETS

Global equities fell sharply over the month (-8.1% MoM/-13.4% YTD). Geopolitics dominates the narrative as markets face the binary risk from spiking commodity prices and central bank tightening.

Worldwide, most major indices saw sharp declines with the US S&P500 down 8.8% driven by a sharp decline in some of the tech names. Nikkei (-3.5%), Hang Seng (-4.1%) and Euro Stoxx (-1.2%) also suffered declines, while FTSE UK (0.4%) ended almost flat.

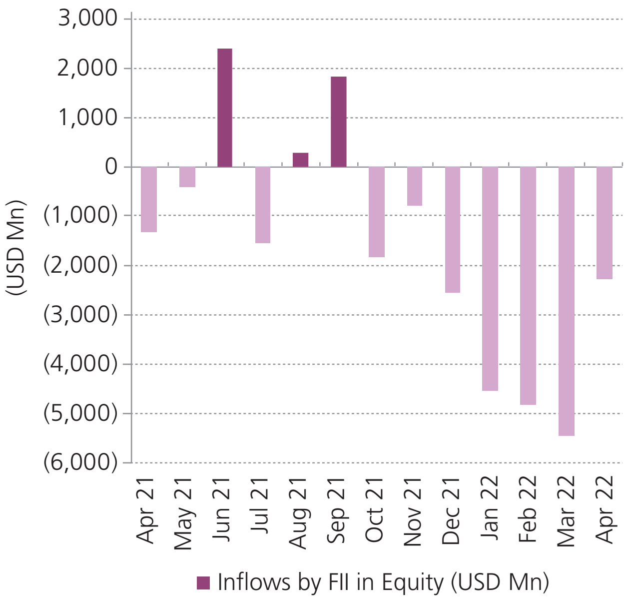
SECTOR PERFORMANCE

In sectoral trends, IT was the biggest loser (-12%) driven by slowing growth and lackluster earnings performance for most names. Real Estate (-4%) and Metals (-3%) were other sectors which saw decline. Banking and Healthcare sectors were almost flat for the month, while Oil & Gas (4%), Autos (4.8%) and FMCG (5.6%) saw a recovery in April. Power was the best performer up 18% in April but has also been the clear outperformer over the last 1 year across all time frames.

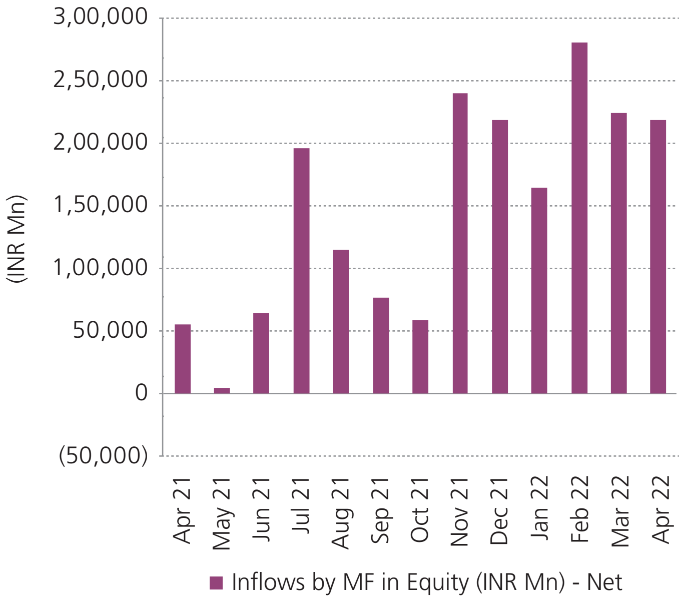
INSTITUTIONAL ACTIVITY

FIIs continued to remain net sellers of Indian equities in April (-$3.4 bn, following -$3.7 bn in March). This marked the 7th consecutive month of net equity outflows for FIIs, with YTD outflows of $16.9 bn. DIIs recorded inflows of $4.1 bn in April, maintaining the buying trend observed since March 2021. Mutual Funds and Insurance Funds were both net buyers in April with $2.9 bn inflows and $1.2 bn inflows respectively.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

CPI Inflation rose to 7% in March from 6.1% YoY in February well above market expectations driven by a sharp bounce in food inflation. The major impact of rising fuel cost is yet to be felt. Core-core inflation also continued to strengthen rising to 6.2% highlighting the inflationary pressures in the economy.

Rising inflation also forced RBI to move away from its accommodative stance as while the repo and reverse repo rates remained unchanged at 4% and 3.35%, respectively, it introduced an (uncollateralized) Standing Deposit Facility at 3.75% which is 40 bps above the current reverse repo rate to serve as the new floor of the policy corridor. Thus, effectively hiking the bottom of the corridor by 40 bps.

Index of Industrial Production (IIP) growth remained sluggish at 1.7% YoY in February although better than 1.3% YoY in January.

India's manufacturing PMI (54) and Services PMI (53.6) remained in the expansion zone in March. Services PMI showed improvement in March compared to February levels with the lifting of Covid restrictions.

India's FX reserves came in at $600 bn. FX reserves have declined by US$17.2 bn in the last 4 weeks. INR depreciated over the month (down 0.8% MoM) and ended the month at 76.43/$ in April.

Benchmark 10-year treasury yields averaged 7.08% in April (26 bps higher vs. March avg.). On month-end values, the 10Y yield was up and ended the month at 7.14% (up 30 bps MoM). Oil prices remained flat in April after gaining 5.7% in March.

On the positive side, GST collections stood at Rs. 1.42 tn in March (15% YoY).

OUTLOOK

The global macro-economic back drop has become more challenging and the near-term impact on India is likely to be negative. Impact of fuel price adjustments, rising global fertilizer and food prices and the pass-through of higher input costs to consumers, along with supply chain bottlenecks in various sectors will continue to push inflation higher and are likely to negatively impact economic growth and consumer demand. Higher inflation and government borrowing plan have already led to a sharp increase in government bond yields over the last few months. This is also likely to result in higher interest cost for other borrowers as well.

Higher government spending on infrastructure and measures to boost domestic manufacturing like PLI (Production Linked Incentive Scheme) remains a potential support for the economy in the current year. While we continue to remain constructive on Indian equities going forward, the recovery cycle is likely to be pushed out and more gradual impacted by the current geo-political disruptions.

Source: Bloomberg, MSCI