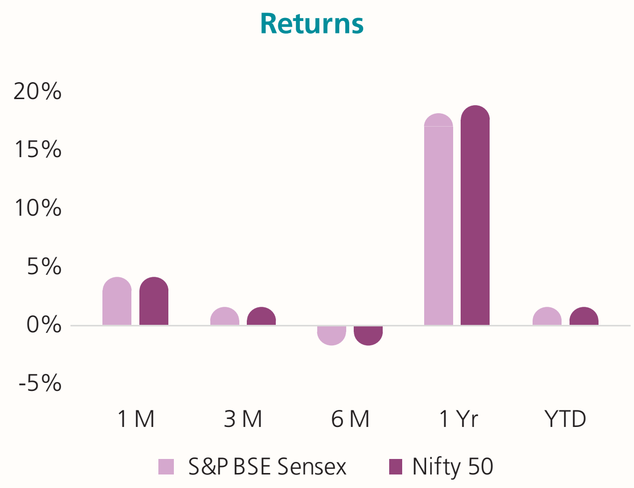
# **EQUITY** MARKET REVIEW

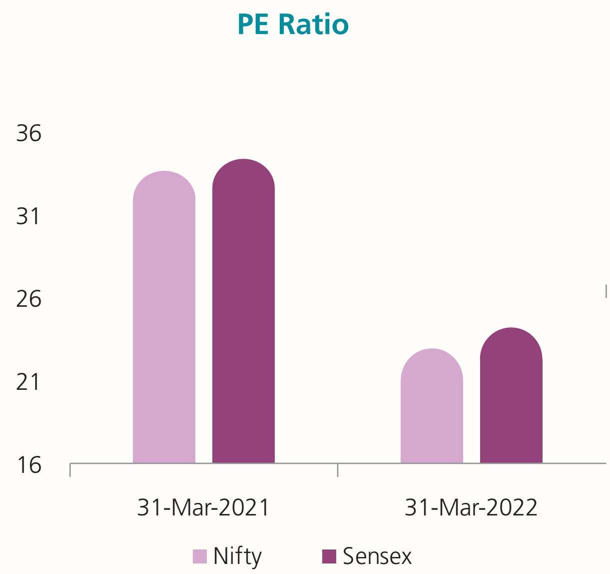
**MARCH, 2022**

L&T Financial Services
Mutual Fund

Key index Nifty50 bounced back by 4% in March 2022 following a 3% decline in February despite geo-political pressures and continued FII selling. The BSE Mid-cap index also recovered 3.2% while BSE Small-cap indices bounced back by 5.8%, outperforming the Nifty.

Global equities also made some recovery over March (1.9% MoM). Geopolitics dominates the narrative as markets face the binary risk from spiking commodity prices and central bank tightening. The effect of these factors is likely to be much bigger on consumer spending, with the drag of high energy prices compounded by central bank normalization. Indian equities rose 3.6% (US$ terms) outperforming regional markets in March (MSCI APxJ/EM: -0.9%/-2.5%).




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

## GLOBAL MARKETS

Worldwide, most major indices bounced back with the US S&P500 up 5.2%, Nikkei (+4.9%), FTSE UK (+1.4%) and Euro Stoxx (+0.6%). However, Hang Seng declined 3.2%.

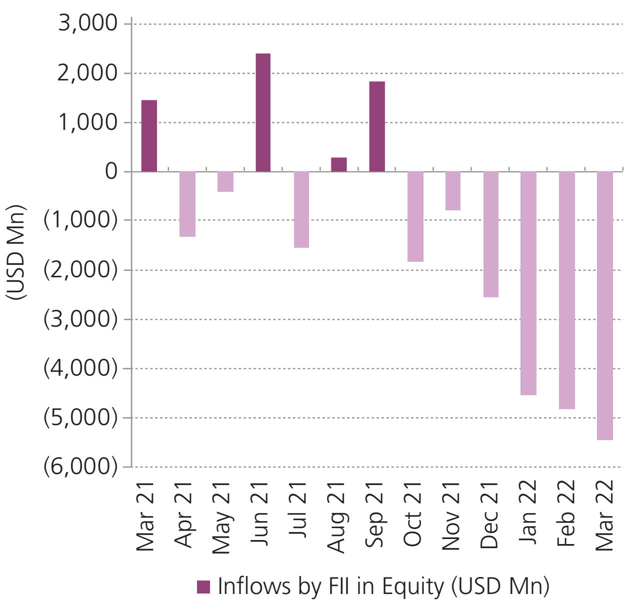
## SECTOR PERFORMANCE

In sectoral trends, most sectors recovered except heavy commodity users like Auto (-2.3%) and Consumer Durables. Banks also remained flat potentially impacted by the high pace of FII selling. The best performing sectors were IT (9%), O&G (8.2%), Metals (7.6%) followed by Realty and Healthcare.

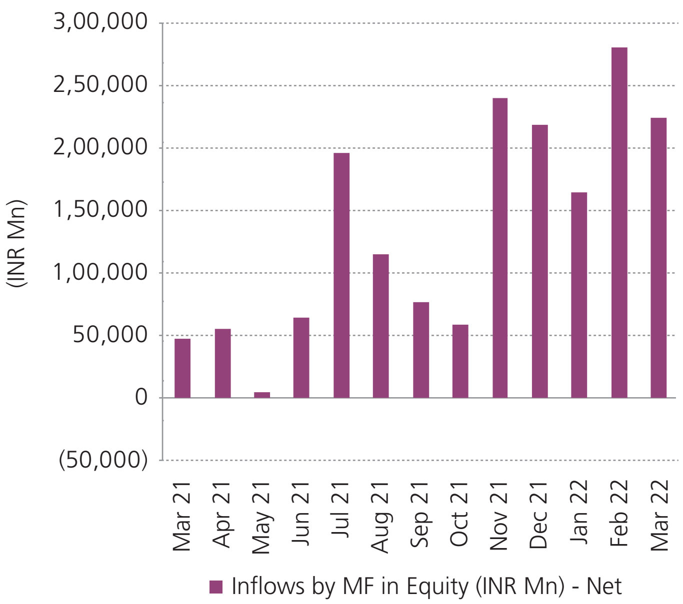
## INSTITUTIONAL ACTIVITY

FIIs continued to remain net sellers of Indian equities in March (-$4.8 bn, following -$5.0 bn in February). This marked the sixth consecutive month of net equity outflows for FIIs. DIIs recorded inflows of $5.2 bn in March, maintaining the buying trend observed since March 2021. Mutual Funds and Insurance funds were both net buyers in March with $3.1 bn inflows and $2.1 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 6.1% YoY in February from 6.0% in January, slightly above expectations. Core inflation however eased to 5.8% from 6.0% in January.

Index of Industrial Production (IP) growth improved to 1.3% YoY in Jan from 0.4% YoY in December indicating limited impact of the Omicron wave. However, weak numbers also continue to reflect the impact of supply bottlenecks like semiconductor chip shortage.

India's Manufacturing PMI (54.9) and Services PMI (51.8) continue to remain in the expansion zone in February improving marginally from January levels. Services PMI continues to remain much lower compared to December'21 levels.

India's FX reserves came in at $620 bn. FX reserves have declined by US$13.3 bn in the last 4 weeks. INR depreciated over the month (down 0.6% MoM) and ended the month at 75.79/$ in March.

Benchmark 10-year treasury yields averaged 6.83% in March (7 bps higher vs February avg.). On month-end values, the 10Y yield was up and ended the month at 6.84% (up 7 bps MoM). Oil prices continued their momentum from the previous month, gaining 5.7% in March.

Fiscal Deficit for April-February came at Rs 13.16 tn or 82.7% 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

While India emerged relatively unscathed from the Omicron wave, thanks to a high level of vaccination and lower virulence, the global macro-economic back drop has become more challenging and the near-term impact on India is likely to be negative. Pending fuel price adjustments, rising global fertilizer and food prices, the pass-through of higher input costs to consumers and services sector reopening pressures will continue to push inflation higher and are likely to negatively impact economic growth and consumer demand.

However, higher government spending on infrastructure and measures to boost domestic manufacturing along with RBI's accommodative stance should provide some offset. While we continue to remain constructive on the economic recovery cycle and 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