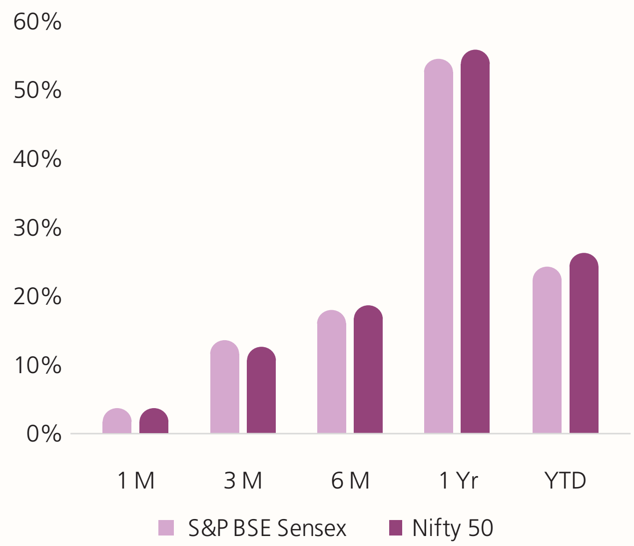
EQUITY MARKET REVIEW

OCTOBER, 2021

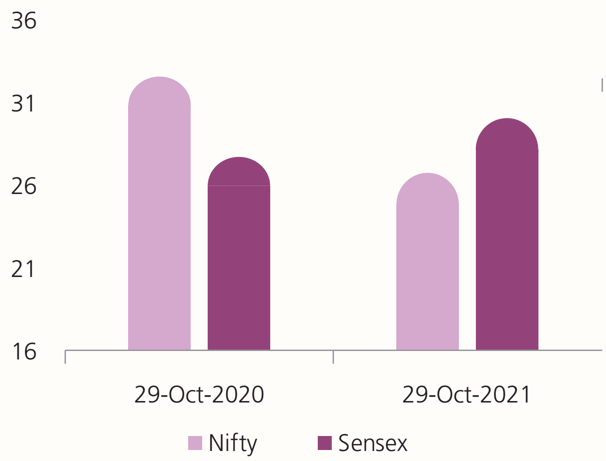
L&T Financial Services
Mutual Fund

Nifty hit a new high in Oct but then ended the month almost flat at 17,671 level. The broader market also took a breather in Oct with both BSE Mid-cap and BSE Small-cap indices also ending almost flat for the month. Indian markets are enjoying a considerable bull run, with Year-to-Date gains of 25%+, supported by strong domestic & foreign inflow, accommodative monetary policy, government reform measures, improved vaccine access and subsequent pick-up in service sector activity. MSCI India corrected slightly (under 1% in USD terms), underperforming the broader markets in October – MSCI APxJ / EM (+1.7%/+0.9%).

Returns



PE Ratio



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

GLOBAL MARKETS

After a sharp cut in Sep, Global equities bounced back and gained 5% in October as market digested some of the previous news in terms of China slowdown and more hawkish Fed and higher oil prices.

Worldwide, major indices delivered strong gains led by the US S&P500 up 6.9%, Euro Stoxx (+4.5%), Hang Seng (+3.3%), and FTSE (+2.1%). Only Nikkei (-1.9%) declined for the month.

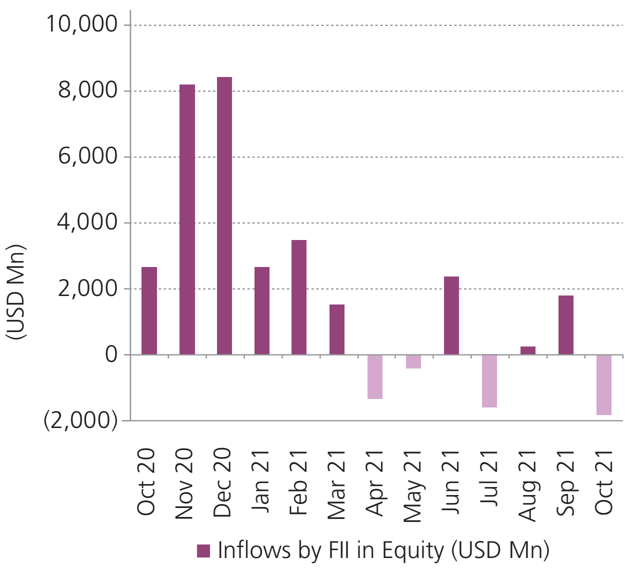
SECTOR PERFORMANCE

By sector, Consumer Discretionary, Financials, Energy outperformed while Industrials, Materials, Utilities, Communication Services, Healthcare, IT, and Consumer Staples were notable laggards. Among sectoral indices, Auto rose (6%), Consumer Durables (4.5%), Banking (4.5%), Power (4.3%) were major gainers while FMCG (-5.8%), Healthcare (-4.1%), Realty (-2.9%) and Infotech (-2.7%) were the major losers.

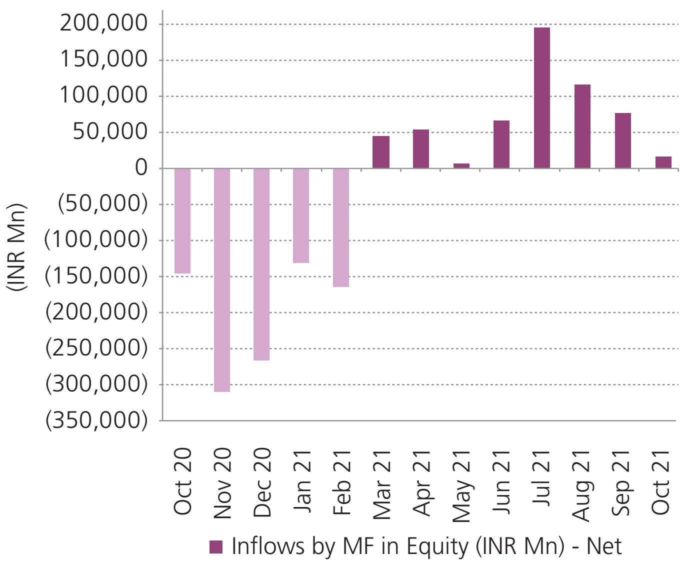
INSTITUTIONAL ACTIVITY

FIIs turned net sellers of Indian equities (-$1.5bn, following +$1.4bn in September). DIIs remained large net equity buyers for the eight-month running (+$597mn, vs +$809mn in September). As of Oct 28, Mutual funds were net equity buyers at US$212mn while insurance funds bought US$385mn of equities in October.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

IMF retained India's GDP growth forecast for FY22 at 9.5% (in-line with RBI forecast) and for FY23, IMF's forecast stood at 8.5%. With this, India retained the tag of the fastest growing large economy, both for FY22 and FY23.

RBI maintained status quo on rates while maintaining FY22 GDP growth forecast at 9.5%.

India's September CPI remained benign at 4.35%yoy. It was soft both on account of favorable base effects from last year and softer food prices. On a sequential basis, headline CPI was flat in September. For a third consecutive month, food prices contracted, declining 0.1% in September, thereby bucking the global trend of rising food prices. On a year-on-year basis, core-core inflation was 5.2% in September inching up from the 5.1% levels in August.

August IP was buoyant at 11.9% yoy on account of favorable base effects from last year. Sequentially, IP contracted 0.9% m/m, in August but on the back of strong gains in June and July. In level terms, IP has recovered to 99% of pre-pandemic levels in August.

September PMI recovered broadly. The manufacturing PMI increased 1.5pts to 53.7, with the output index jumping 3.0pts, and new orders rising by 1.8pts. The recovery in the manufacturing sector after May's lockdowns has been modest.

India's FX reserves are close to their all-time peak, standing at $640bn currently. FX reserves have increased by US$1.5bn in the last 4 weeks. The INR ended at ~74.88/USD, down 0.9% over the month.

Benchmark 10-year treasury yields averaged 6.33% in October (15bp higher vs. Sep avg.). On month-end values, the 10Y yield increased and ended the month at 6.39%. Oil prices continued to gain with a 6.5% increase in October, closing at $84/barrel.

The fiscal deficit for Apr-Sep came at Rs5.26tn or 35% of the budgeted FY22 deficit (at Rs.15.1tn or 6.8% of GDP). Gross tax revenues continued to beat expectations, with 1H collections at 53% of the full-year budget being 10 ppt higher than usual trend. GST collections grew 23% YoY in September (Rs 1.17 tn, from Rs 1.12 tn in August). This was the 11th consecutive month with collections of more than Rs1tn starting October last year (exception of June 2021).

OUTLOOK

Covid-19 vaccine administration continues in India at a rapid pace. The 7DMA of vaccine shots administered has increased sharply from under 2mn a day in the middle of May to over 6mn now, peaking in September at ~7-8mn. As of 29 October, over 1.05bn shots have been administered in India (c.53% of population has taken one shot+). We expect a majority of adults to be vaccinated by Dec 2021 but the larger cities are ahead and can possibly open ahead of the November festive season.

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.

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. However, market valuations are now well above its 10Y average and therefore factoring in a lot of these positives. Also, with several large IPOs hitting the market in Nov it could reduce some of the liquidity in the secondary market. Rising global crude and commodity prices could be a potential headwind if these price levels continue to sustain.

Source: Bloomberg, MSCI