EQUITY MARKET REVIEW

SEPTEMBER, 2021

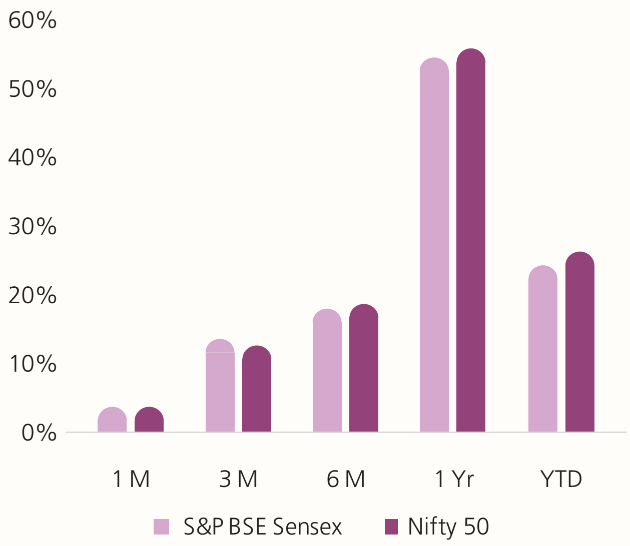
L&T Financial Services
Mutual Fund

Nifty continued to hit new highs in Sep and rose 2.8% in September closing at 17,618 levels at month-end. After a breather in August, broader market continued to outperform the Nifty with BSE Mid-cap and BSE Small-cap indices gaining 5.9% and 4.3% respectively. Indian markets are enjoying a considerable bull run, with Year-to-date gains of 25%+, supported by strong inflows both domestic & foreign, record low interest rates, government reform/relief measures (telcos, autos and banks), improved vaccine access and subsequent pick-up in service sector activity. MSCI India was up 0.5% (USD terms), significantly outperforming broader markets in September – MSCI APxJ / EM (-4.3%/-4.2%) as India remains relatively insulated from a potential China slowdown.

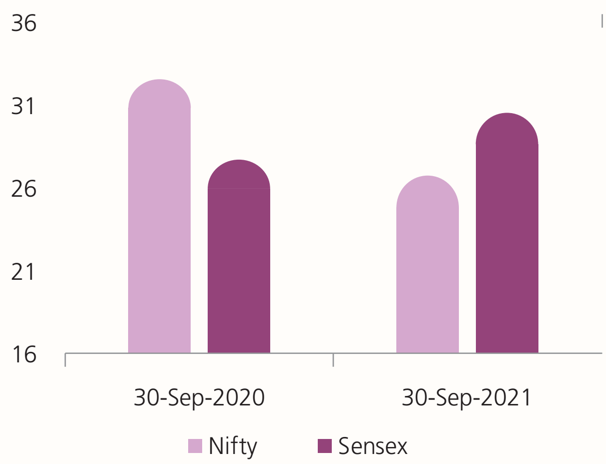
Global equities fell 4.3% in September driven by some concerns over downward shift in economic and business cycle momentum, a potential China slowdown (sparked by Evergrande concerns and power crisis) and a more hawkish Fed stance which led to an increase in US yields.

Worldwide, major indices tumbled driven by above mentioned concerns with US S&P500 down 4.8%, Hang Seng (-5%), Euro Stoxx (-3.4%) and FTSE (-0.5%). Only Nikkei (+4.9%) bucked the trend.

Returns



PE Ratio



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

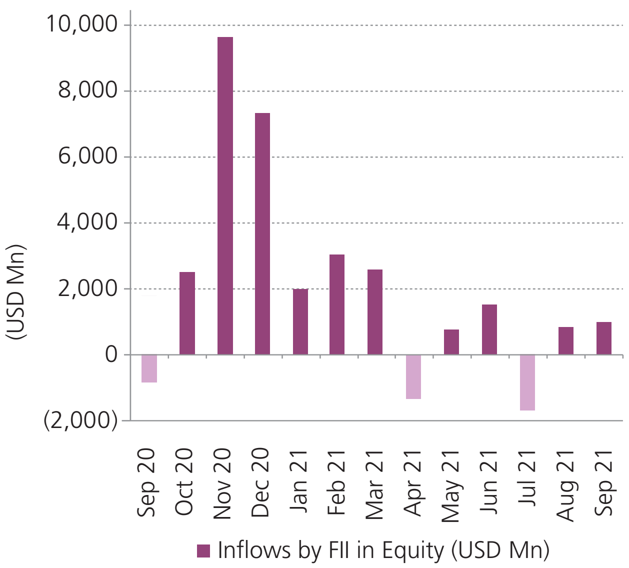
SECTOR PERFORMANCE

By sector, Energy, Utilities, Communication Services and Discretionary outperformed while Materials, Healthcare and IT were notable laggards in September. Among sectoral indices, Realty rose 33%, Consumer durables +11%, Power +9%, Oil& gas +7% were major gainers while Healthcare and Metals ended with marginal loss of 2%.

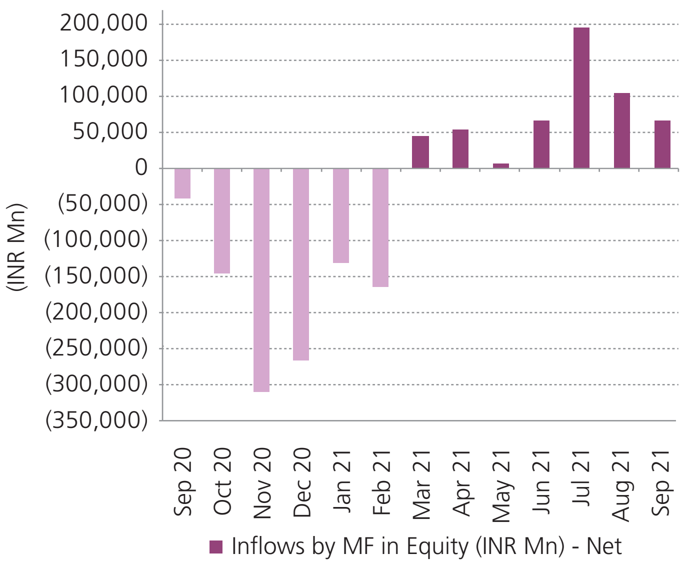
INSTITUTIONAL ACTIVITY

FIIs continue to be net buyers of Indian equities (+$1.4bn, following +$1.0bn in August). By quarter, Q1CY21 saw $7.3bn of inflows, while Q2 and Q3 ended at a modest $758mn and $714mn of net buying respectively. DIIs remained massive net equity buyers for the seventh month running (+$809mn, vs +$930mn in August).

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

India's August CPI came in slightly below expectations at 5.3%yoy. While the surprise was driven by volatile vegetable prices, food prices, more generally, continue to be soft. The softness in food inflation is contributing to July-September CPI tracking 80 bps below the RBI's forecast of 5.9%.

IP printed above expectations at 11.5% yoy in July. The buoyant year-on-year growth is on account of a very favorable base effect from last year. Sequentially, IP grew at 2.9% m/m, in July following an 8.7% increase in June as the economy continued to recover from the second-wave wherein May IP contracted 11%.

August composite PMI index rose from 49.2 to 55.4 (ending a 3mth period of downturn), and climbed above the expansionary threshold of 50. The manufacturing index fell 3pts to 52.3 while the services index rose by 11pts to 56.7—climbing significantly above 50 level - reflecting the relaxation of restrictions, fading risk-aversion and improved vaccine access.

India's FX reserves are close to its all-time peak, standing at $640bn currently. FX reserves have increased by US$22.7bn in the last 4 weeks. INR ended at ~74.24/USD, down 1.7% over the month

Benchmark 10-year treasury yields were flat and ended the month at 6.22%. Oil prices gained 10.6% in September, closing at $79/barrel. Oil prices rose helped by growing fuel demand and a fall in U.S. crude inventories as production remained hampered in the Gulf of Mexico after two hurricanes.

Fiscal deficit for Apr-August came at Rs4.68tn or 31.1% of the budgeted FY22 deficit (at Rs.15.1tn or 6.8% of GDP). GST collections grew 30% YoY in August (Rs 1.12tn, from Rs 1.16tn in July). This was the 10th 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 7.0/8.0mn now. As of 29 September, c.883mn shots have been administered in India (c.48% 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.

The Indian government announced a slew of reforms—cabinet approved PLI schemes for auto, drone and textiles sectors, announced a relief package for telecom sector and Bad Bank (below).

Finance Minister announced that the government will back guarantees worth Rs306bn (~$4bn) for the National Asset Reconstruction Company, which will take over bad loans worth Rs2trn (Rs900bn in first phase) from banks

After disappointing in July and August, monsoon gathered momentum in September (29% above average). This along with delayed withdrawal restored the expectations of normal average rainfall for the entire season. This supports outlook for a good winter crop with reservoir levels now above 5 year average.

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. Rising global crude and commodity prices could be a potential headwind if these price levels continue to sustain.

Source: Bloomberg, MSCI