EQUITY MARKET REVIEW

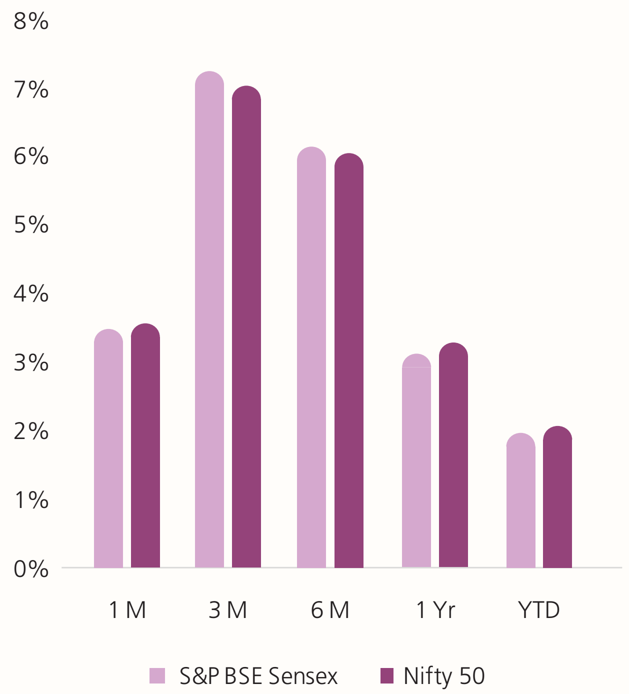
AUGUST, 2022

L&T Financial Services
Mutual Fund

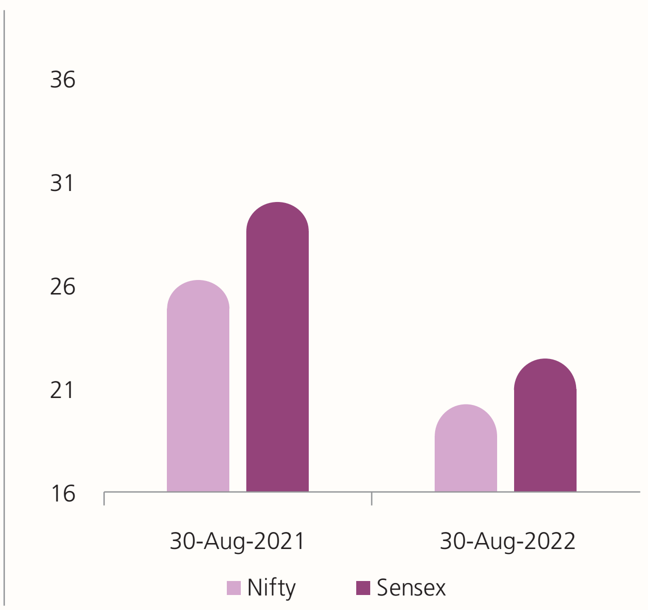
Nifty gained 3.5% in August after an 8.7% jump in July despite correction in global markets as FII's turned strong buyers during the month supported by decline in crude prices. BSE Midcap and BSE Smallcap indices continued to outperform the Nifty and gained 5.6%/5.9% respectively.

Global equities weakened across regions (-3.9% MoM/ -18.8% YTD) on concerns of further rate hikes by the US Fed and energy crisis in Europe. Indian equities rose sharply +3.9% (in USD terms) significantly outperforming broader regional markets in Aug (MSCI APxJ/EM: -0.5%/flat) which were weighed down by global correction and softer outlook for China.

Returns



PE Ratio



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

GLOBAL MARKETS

Worldwide, most major indices saw sharp correction in Aug with the US S&P500 down 4.2%, Euro Stoxx (-5.3%), FTSE UK (-1.9%) and Hang Seng (-1%). Only Nikkei JP (+1.0%) bucked the trend.

SECTOR PERFORMANCE

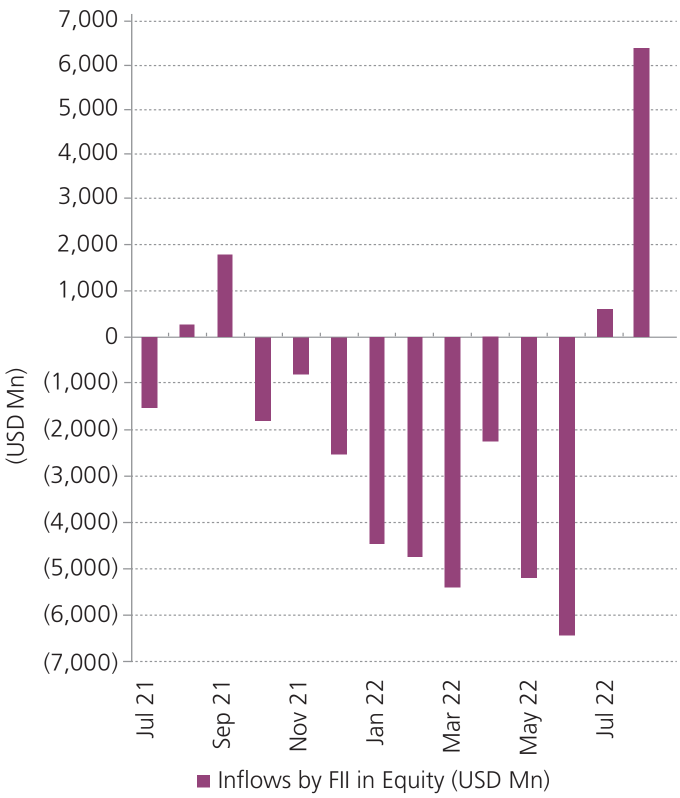
All sectoral indices except IT delivered positive returns in August. Power was the biggest gainer up 15% while Capital Goods gained 8%. Despite strong rally in previous months, Consumer Durables (8%) and Autos (6%) continued to register strong gains boosted by expectations of good demand during the upcoming festive season. Banking gained (5%) with FIIs turning buyers. Oil & Gas (7%) was also one of the strong gainers. Healthcare (0.5%) and IT (-2%) underperformed the market as earnings in these sectors continued to miss market expectations.

INSTITUTIONAL ACTIVITY

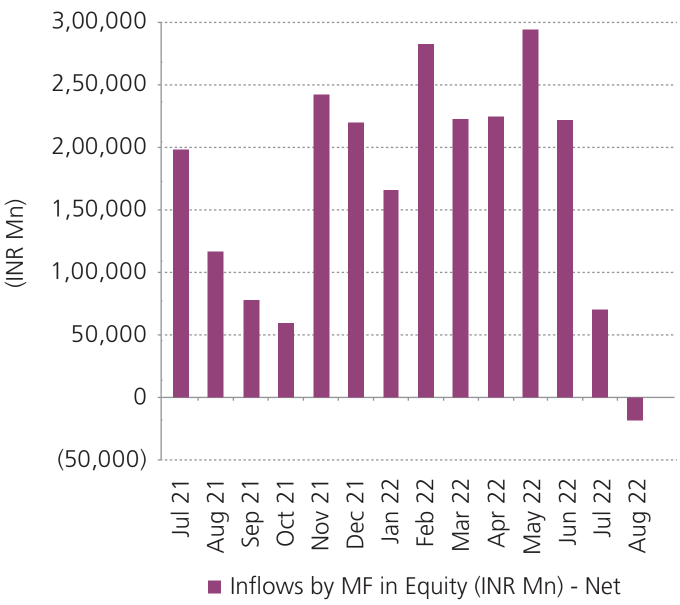
FIIs were buyers of Indian equities in August after reversing the previous trend of selling in July (+$6.3 bn, following +$0.8 bn in July). However, India has seen YTD FII outflows of $21.5 bn.

DIIs turned modest sellers in August (-$0.9 bn), reversing the buying trend observed since March 2021. Mutual funds and Insurance funds were both net sellers in August with $0.2 bn outflows and $0.7 bn outflows respectively.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

India's GDP rose 13.5%yoy in the June 2022 quarter (Q1FY23) driven by low base due to Covid 2nd wave in theJun-21 qtr. This growth was however slightly below market expectations.

RBI raised repo rate by another 50 bps in Aug'22 taking the Repo Rate to 5.40% as it continued to work towards trying to contain inflationary expectations.

July CPI softened to 6.7% yoy from 7.0% in June. However, year-on-year core-core inflation (standard core adjusted for petrol and diesel) inched up to 6.3% in July from 6.1% inJune on the back of unfavorable base effects.

June's Index of Industrial Production (IIP) was strong at 12.3% yoy but softened versus May growth of +19.6% YoY. Both months were aided by the low base of Covid 2nd wave.

Manufacturing PMI hit an 8-month high of 56.4 in July. While Services PMI has come down to 55.5 in July from 59.2 in June but it continues to remain in expansion zone.

India's FX reserves came in at $564 bn. FX reserves have declined by US$7.5bn in the last 4 weeks. INR depreciated sharply over the month (down 0.2% MoM) and ended the month at 79.46/$ in August.

Benchmark 10-year treasury yields averaged at 7.25% in August (14bps lower vs. July average). On month end values, the 10Y yield was up and ended the month at 7.19% (down 13 bps MoM). Oil prices declined sharply (-9.3%) over the month of Aug, following the decline of July.

GST collections continue to show strong growth with Jul'22 collections at Rs.1.49 trn (13.4% 3Yr CAGR).

OUTLOOK

Global geopolitical and macro-economic situation remains highly volatile with a higher US interest rates and increasing likelihood of a US recession adding to the mix. While crude price has continued to correct, overall energy basket remains elevated with higher gas and coal prices driven by geo-political factors.

We expect rural demand to improve supported by higher agri commodity prices along with forecast of normal monsoon although production is likely to take a hit due to weak rains in the northern plains. Also, higher govt. spending on infrastructure supported by buoyant tax collection should support economic growth in the near term. Over the medium term, partial shift of global supply chains away from China to India in certain sectors and measures like PLI (Production Linked Incentive Scheme) are likely to aid domestic manufacturing growth. While we remain constructive on Indian equities going forward sharp recovery in the market over the last couple of months implies valuations are now above long term despite high level of macro-economic uncertainty.

Source: Bloomberg, MSCI