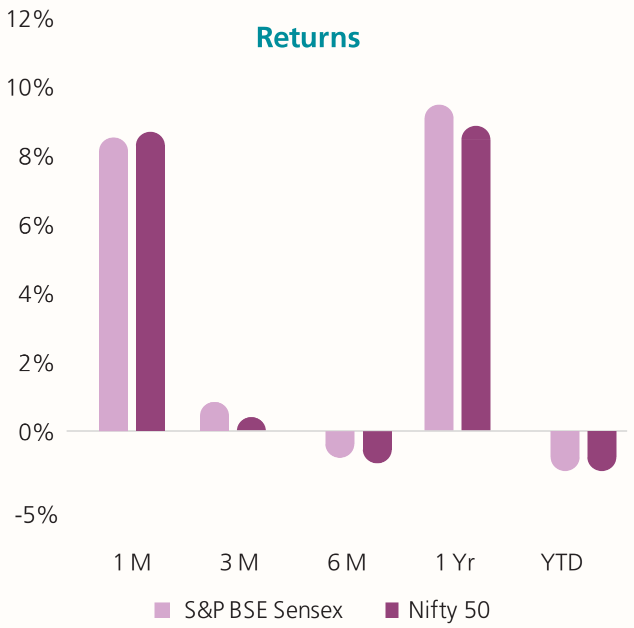
# **EQUITY** MARKET REVIEW

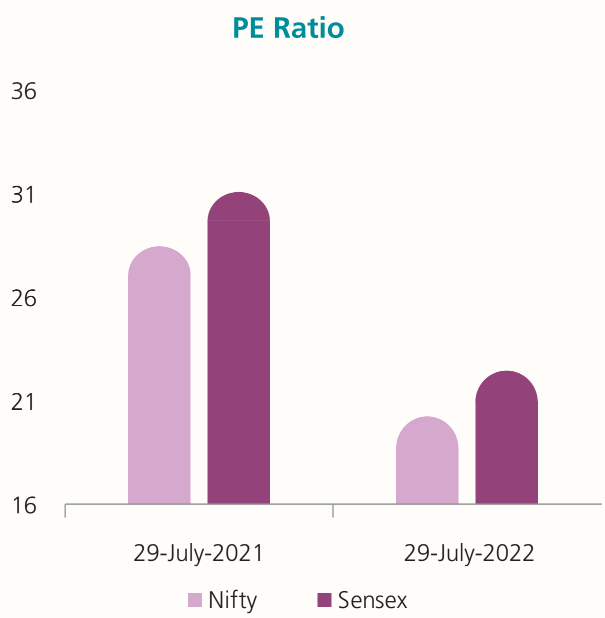
**JULY, 2022**

L&T Financial Services
Mutual Fund

The index Nifty50 gained 8.7% in the month of July 2022 along with a global market recovery as correction in crude and other commodity prices provided some relief on the inflation outlook. Finally, after 9 consecutive months of outflow Indian market again witnessed FII inflow. BSE Mid-cap index and BSE small cap Index also displayed a strong recovery and rose by 10.8%/9.2% respectively.

Global equities recovered by 6.9% (MoM) led by recovery in all regions ex China despite rising recessionary expectations on the back of US Fed raising interest rates further by 75 bps (225 bps in 2022 so far). Indian equities rose sharply by 9.2% (in USD terms) significantly outperforming broader regional markets in July (MSCI APxJ/EM: -0.4%/-0.7%) which were weighed down by underperformance of China.




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

## GLOBAL MARKETS

Worldwide, most major indices saw sharp recovery in July led by the US S&P500 up 9.1%, Euro Stoxx (7.6%), Nikkei JP (5.3%) and FTSE UK (2.9%). Only Chinese equities bucked the trend and Hang Seng declined by 7.8%.

## SECTOR PERFORMANCE

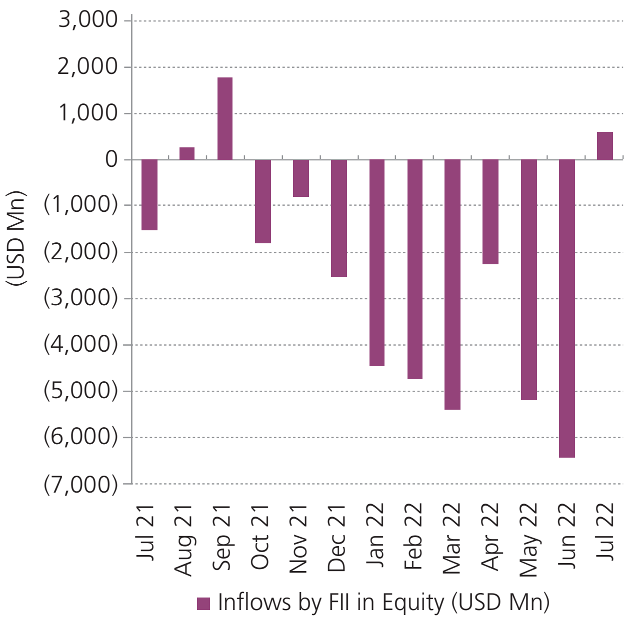
All sectoral indices delivered positive returns in July. Metals bounced back as the biggest gainer up 17% while moderating commodity prices supported strong rally in Consumer Durables (14%), FMCG (12.5%) and Autos (7%). Banking was also a strong gainer (12%) as FII selling abated while Healthcare (6%), O&G (5%) and IT (4%) underperformed the market. Oil & Gas was impacted by government regulatory changes while most IT companies missed earnings expectations.

## INSTITUTIONAL ACTIVITY

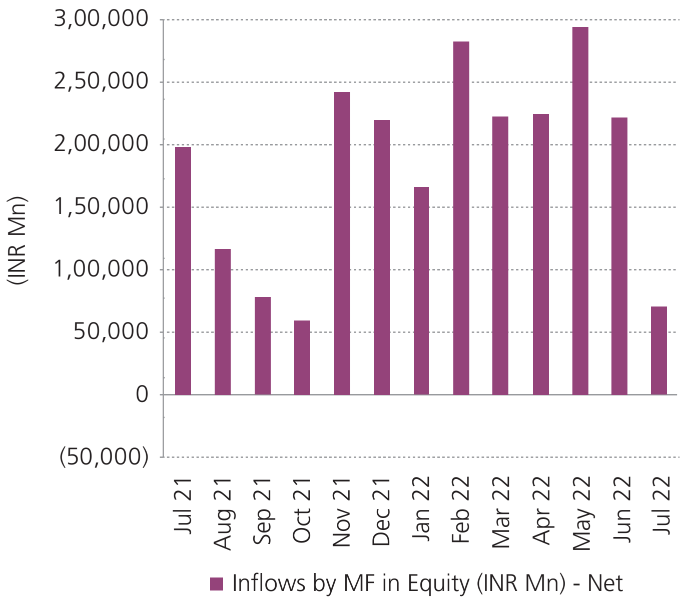
FIIs turned buyers of Indian equities in July, following 9 consecutive months of selling (+$0.7 bn, following -$6.3 bn in June). So far, India has seen YTD FII outflows of $32.7 bn.

DIIs recorded inflows of $1.3 bn in July, maintaining the buying trend observed since March 2021. Mutual Funds and Insurance Funds were both net buyers in July with $0.9 bn inflows and $0.5 bn inflows respectively.

**Inflows by FII in Equity (USD Mn) - Net**




**Inflows by MF in Equity (INR Mn) - Net**




## MACRO-ECONOMIC DEVELOPMENTS

The IMF slashed India's growth outlook for FY23 to 7.4% from an 8.2% forecast in April saying that the revision reflects mainly less favorable external conditions and policy tightening.

June CPI stood at 7% (YoY) similar to July above the RBI's upper-tolerance band of 6% for a fourth consecutive month. Importantly, core-core inflation (standard core adjusted for petrol and diesel) stood at 6% (YoY) in June up from 5.5%, as the favorable base effects from May have faded.

May's Index of Industrial Production (IIP) continued to improve by 19.6% (YoY), largely driven by the low base of

Covid 2nd wave.

Manufacturing PMI (53.9) and Services PMI (59.2) continue to remain in expansion zone in June 2022, with Services PMI continuing its rise post first quarter of the year, primarily due to easing of Covid restrictions.

India's FX reserves came in at $572 bn. FX reserves have declined by US$21.8 bn in the last 4 weeks. INR depreciated modestly over the month (down 0.4% MoM) and ended the month at 79.27/$ in July.

Benchmark 10-year treasury yields averaged at 7.39% in July (10 bps lower vs. June avg.). On month end values, the 10Y yield was up and ended the month at 7.32% (down 13 bps MoM). Oil prices declined sharply (-6.1%) over the month of July after a smaller decline in June.

GST collections continue to show strong growth with June 2022 collections at Rs.1.45 trn (13% 3-Year 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. However, barring export outlook and modest weakness in the rupee things seem to be improving. Moderation in crude and global commodity prices should give more room to policy makers on interest rate and inflation front.

***We expect rural demand to improve supported by higher agri commodity prices along with forecast of normal monsoon. Also, higher government 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. We therefore continue to remain constructive on Indian equities going forward.***

**Source:** Bloomberg, MSCI