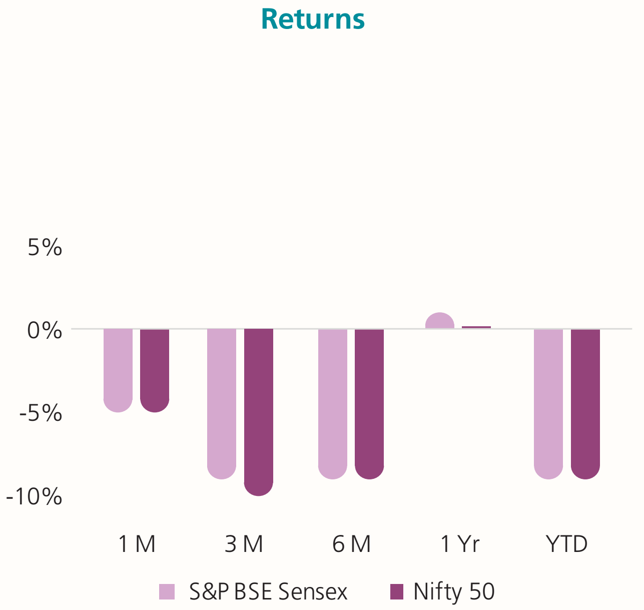
EQUITY MARKET REVIEW

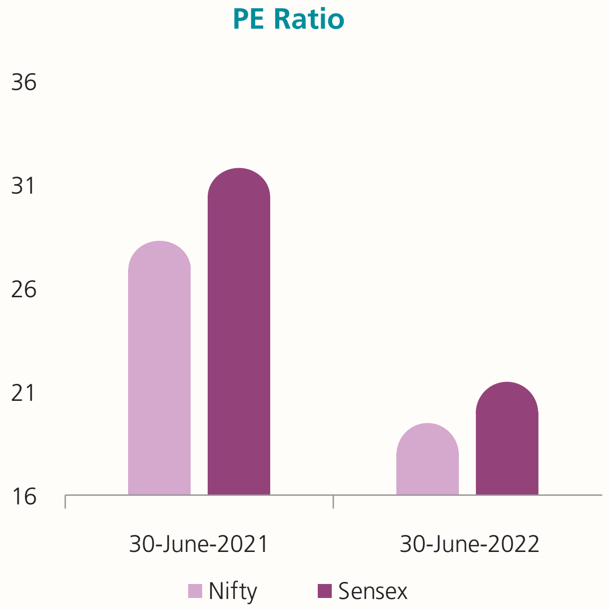
JUNE, 2022

L&T Financial Services
Mutual Fund

The Nifty50 declined by 4.8% in June 2022 on the back of a sharp global market correction, inflation worries, falling rupee and continued FII selling. BSE Midcap Index and BSE Small cap Index continued to underperform the Nifty and declined sharply by 6.2%/6.0%, respectively.

Indian equities declined 6.8% (USD terms), similar to the performance of broader regional markets in June (MSCI APxJ / EM: -6.2%/-7.1%).





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

GLOBAL MARKETS

Global equities fell sharply by 8.6% (MoM) in June 2022 as markets continue to battle key concerns on Geopolitics, the hawkish Fed stance in light of high inflation and the increasing likelihood of a US recession.

Worldwide, most major indices saw a sharp decline in June led by the US S&P500 down 9.2%, Euro Stoxx (-8.2%), FTSE UK (-6.4%) and Nikkei JP (-3.3%). Only Chinese equities bucked the trend and Hang Seng gained 2.1%.

SECTOR PERFORMANCE

In sectoral trends, Metals continued to be the biggest loser (-14%) again driven by a correction in global metal prices. Consumer Durables (-9%), Real Estate (-6%), Information Technology (-6%) and Banking (-6%) were other significant losers. Healthcare (-4%), Power (-4%), Oil & Gas (-3%) and FMCG (-3%) also ended in the red for the month.

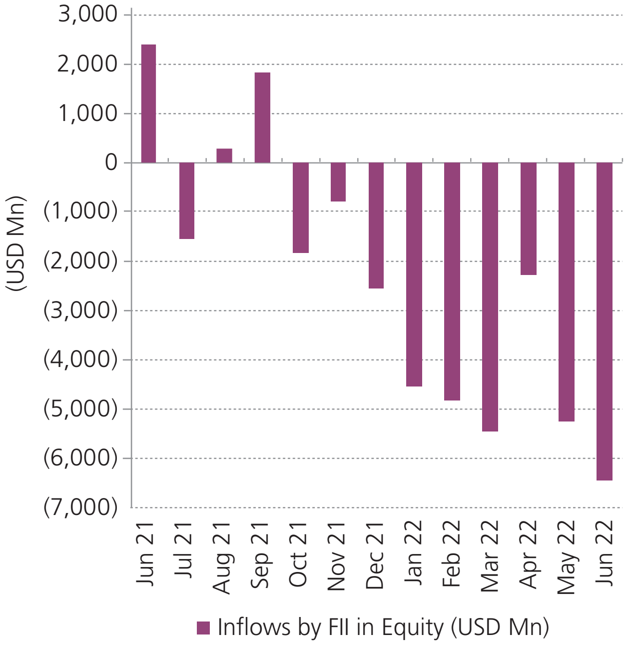
Only Autos (1%) gave positive returns during the month supported by expectations of a decline in the steel and other commodity prices helping auto earnings.

INSTITUTIONAL ACTIVITY

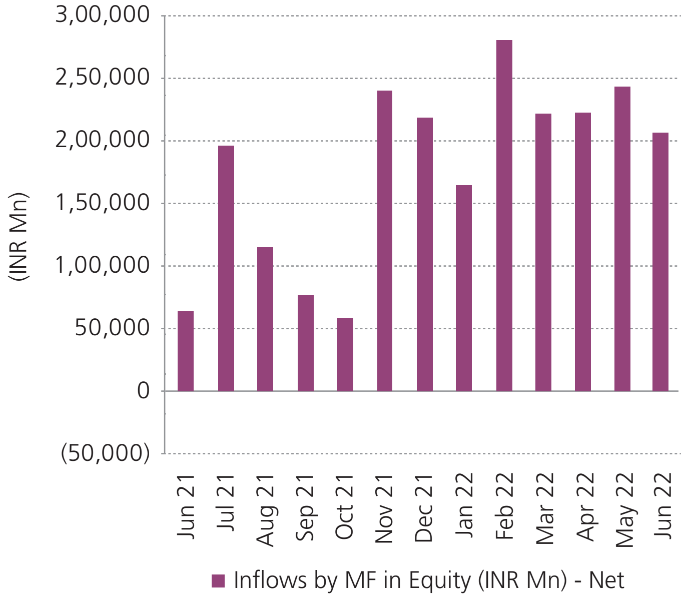
FIIs continued to be net sellers of Indian equities in June (-$6.3 bn, following -$4.9 bn in May). This marked the 9th consecutive month of net equity outflows for FIIs, with YTD outflows of $28.5 bn.

DIIs recorded inflows of $5.7 bn in June, maintaining the buying trend observed since March 2021. Mutual funds and insurance funds were both net buyers in June with $2.6 bn inflows and $3.1 bn inflows, respectively.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

The World Bank cut India's economic growth forecast for the current fiscal to 7.5% from 8% as rising inflation, supply chain disruptions and geopolitical tensions taper recovery.

After a surprise 40 bps increase in repo rate in May, RBI further raised the repo rate by another 50 bps during June post the Monetary Policy Committee (MPC) meeting. RBI also increased its full-year 2022-23 CPI inflation forecast by a full 100 bps from 5.7% to 6.7%.

May CPI inflation remained elevated at 7% (YoY) although it came off from an 8-year high of 7.8% (YoY) in April. While core-core inflation (standard core adjusted for petrol and diesel) fell sharply to 5.5% (YoY) in May from 6.5% in April, it was largely on account of a favorable base effect.

Index of Industrial Production (IIP) growth continued to improve for a 5th successive month and was up 7.1%yoy which was much above expectations.

Manufacturing PMI (54.6) and Services PMI (58.9) continue to remain in the expansion zone in May'22, with Services PMI continuing its rise post first quarter of the year, primarily due to the easing of Covid restrictions.

India's FX reserves came in at $598 bn. FX reserves have declined by US$2.9 bn in the last 4 weeks. INR depreciated sharply over the month (down 1.7% MoM) and ended the month at 78.97/USD in June.

Benchmark 10-year treasury yields averaged at 7.49% in June (15 bps higher vs. May avg.) and ended the month at 7.45% (up 4 bps MoM). Oil prices declined marginally (-2.4%) over the month of June, after rising sharply in May.

Revenues of the Government of India have benefitted from stronger growth and inflation/higher commodity prices in FY22. Final gross tax collections (provisional) exceeded revised budget estimates (from Feb 2022) by ~Rs.2 tn ($26 bn). GST revenue collection for Apr'22 was at Rs 1.44 trillion up 56% year on year.

OUTLOOK

The 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. Higher global crude and commodity prices along with supply chain bottlenecks in various sectors continue to keep inflation at elevated levels. While Government and RBI are now focusing on containing inflation, a higher fiscal deficit has led to further strengthening of bond yields. This is likely to result in higher interest cost for other borrowers as well.

On the positive side, we expect rural demand to improve supported by higher agri commodity prices along with a forecast of a 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. Also, ***market valuations have also become more reasonable after correction over the last two months. We, therefore, continue to remain constructive on Indian equities going forward.***

Source: Bloomberg, MSCI

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