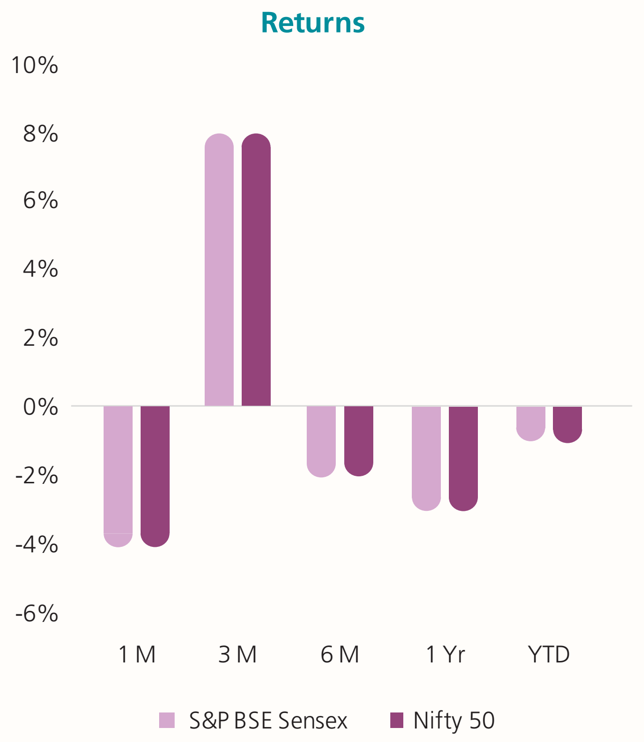
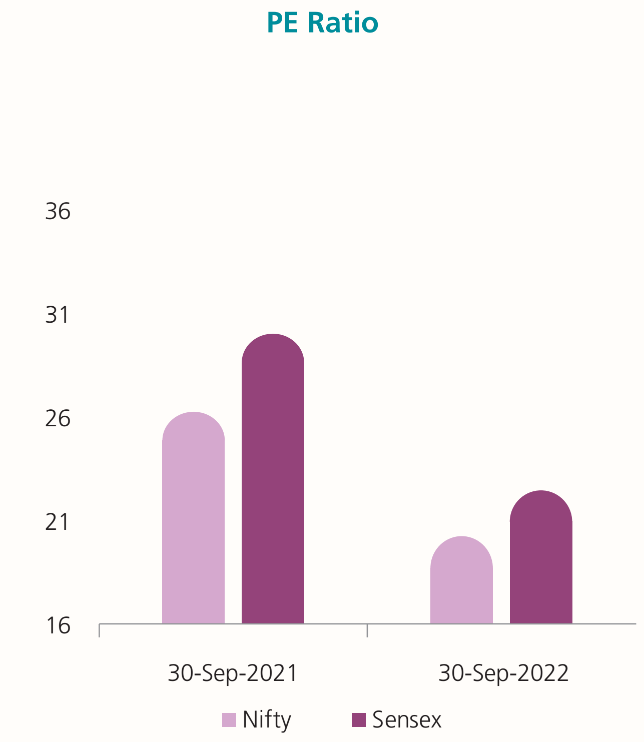
EQUITY MARKET REVIEW

SEPTEMBER, 2022

Nifty50 declined 3.7% in September 2022 driven by a sharp global correction as FIIs turned sellers again on a hawkish Fed and a weaker rupee. BSE Midcap index and BSE Small cap Index continued to outperform the Nifty but declined 2.2%/0.7%, respectively.

Global equities weakened across regions (-9.7% MoM/ -26.7% YTD) as likelihood of recession in US increased with Fed aggressively raising rates in order to contain inflation contrary to market expectations. Indian equities also declined 6.3% (US$ terms) in September, but outperformed the region and its EM peers (MSCI APxJ/EM: -12.9%/-11.9%) as China's zero Covid policies continued to weigh on the region and overall EM index.





*Less than 1 year Absolute returns, Greater than or Equal to 1 year Compound Annualized returns

GLOBAL MARKETS

Worldwide, all major indices saw sharp correction in Sep with the US S&P500 down 9.3%, Euro Stoxx (-6.6%), FTSE UK (-5.4%) and Nikkei JP (-7.7%). Hang Seng HK (-14%) was one of the worst performers globally.

SECTOR PERFORMANCE

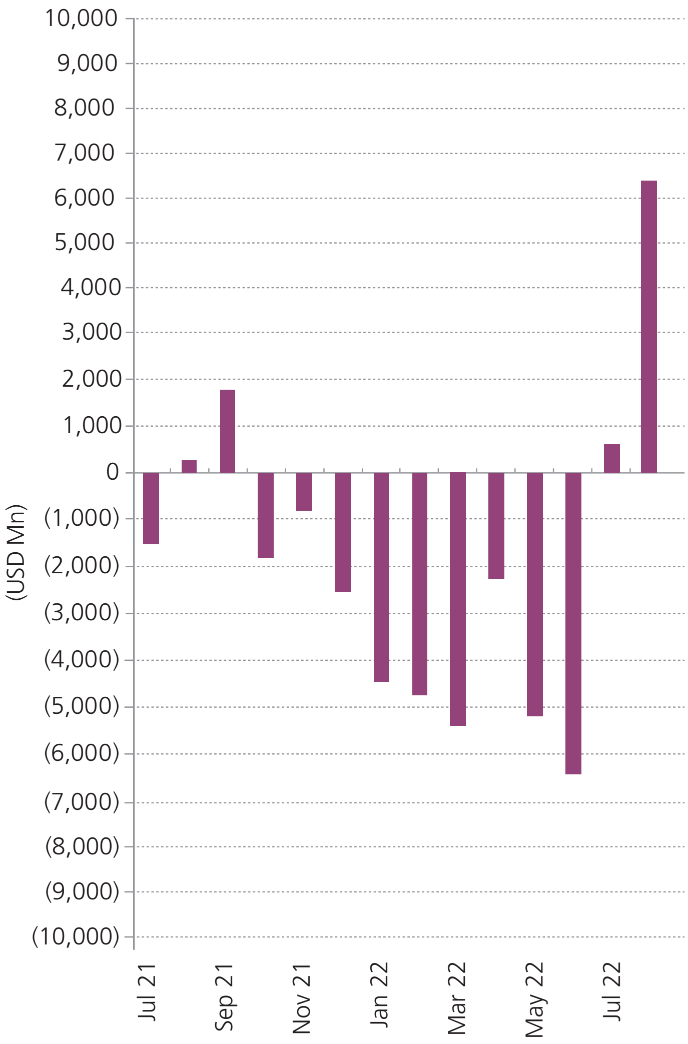
All sectoral indices except Defensives i.e. FMCG (1.4%) and Healthcare (1.4%) delivered negative returns in September 2022. Power, Oil & Gas and Realty (all down 9%) were the biggest losers while Metals (-6%) and IT (-5%) continued to correct on rising global slowdown concerns. After a strong run over last 6 months Autos (-4%) also saw some profit booking. Banking declined (-2.5%) with FIIs turning sellers again.

INSTITUTIONAL ACTIVITY

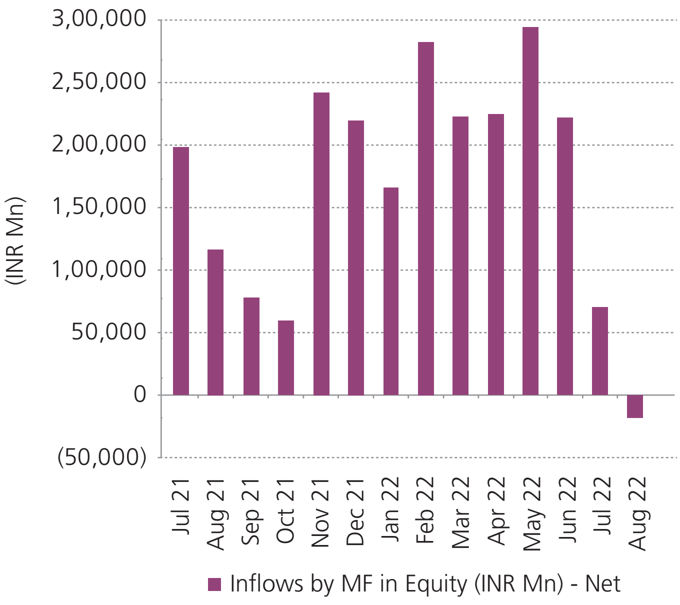
FIIs again turned sellers of Indian equities in September (-$1.4 bn, following +$6.8 bn in August). So far, India has seen YTD FII outflows of $22.4 bn.

DIIs saw buying of $1.8 bn in September, with YTD inflows of $32.6 bn. Mutual funds and Insurance funds were both net buyers in September.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

RBI cut its FY23 GDP growth expectation from 7.2% to 7% but retained its inflation forecast at 6.7%.

August CPI remained high at 7% vs 6.7% (YoY) in July. This was largely because food prices re-accelerated after declining in July. However, year-on-year core-core inflation (standard core adjusted for petrol and diesel) was slightly lower at 6% in Aug versus 6.2% in July.

Index of Industrial production (IP) growth fell sharply to 2.4% (YoY) in July from 12.7%yoy in June (low base effect of 2nd Covid wave). Sectorally, there was a broad-based drop across all categories, especially Consumer Durables, Capital, and Primary Goods.

Manufacturing PMI/ Services PMI for Aug continued to remain buoyant and comfortably in expansion zone at 56.2/57.2, respectively.

India's FX reserves came in at $538bn. FX reserves have declined by US$23.5 bn in the last 4 weeks. INR depreciated sharply over the month (down 2.3% MoM) and ended the month at 81.35/$ in September. In the last 12 months, INR (-8.7%) though weaker, has performed better than the broader EM FX (-12.3%).

Benchmark 10-year treasury yields averaged at 7.23% in September (2 bps lower vs. August average). On month end values, the 10Y yield was up and ended the month at 7.4% (down 21bps MoM). Oil prices declined sharply by 10% in Sep following a 9% month over the month in Aug.

GST collections continue to show strong growth with Aug'22 collections at Rs.1.44 trn (13.5% 3Yr CAGR).

OUTLOOK

Global geopolitical and macro-economic situation remains highly volatile with the aggressive tightening by the Fed raising the likelihood of a US recession in addition to the slowdown in Europe and China. 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 and normal monsoon. Higher reservoir levels augur well for the winter crop as well boosting rural sentiment. 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 few months implies valuations are now well above long term despite high level of macro-economic uncertainty.

Source: Bloomberg, MSCI

Disclaimer: The article (including market views expressed herein) is for general information only and does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may receive this information. The data/information used/disclosed in the article is only for information purposes and not guaranteeing / indicating any returns. The article provides general information and comparisons made (if any) are only for illustration purposes. Investments in mutual funds and secondary markets inherently involve risks and recipient should consult their legal, tax and financial advisors before investing. Recipient of this document should understand that statements made herein regarding future prospects may not be realized. Recipient should also understand that any reference to the indices/ sectors/ securities/ schemes etc. in the article is only for illustration purpose and are NOT stock recommendation(s) from the author or L&T Investment Management Limited, the asset management company of L&T Mutual Fund ("the Fund") or any of its associates. Any performance information shown refers to the past and should not be seen as an indication of future returns. The value of investments and any income from them can go down as well as up. The distribution of the article in certain jurisdictions may be restricted or totally prohibited and accordingly, persons who come into possession of the article are required to inform themselves about, and to observe, any such restrictions.

For distributor's circulation only.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.