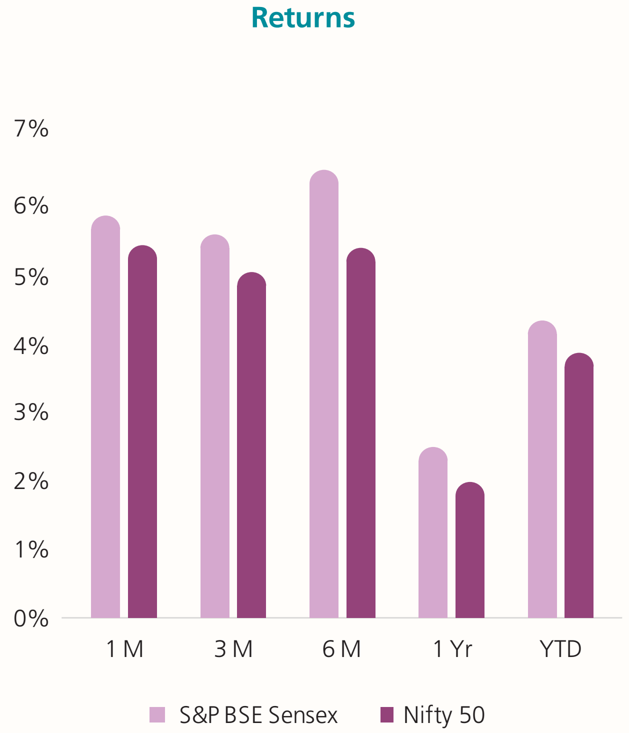
EQUITY MARKET REVIEW

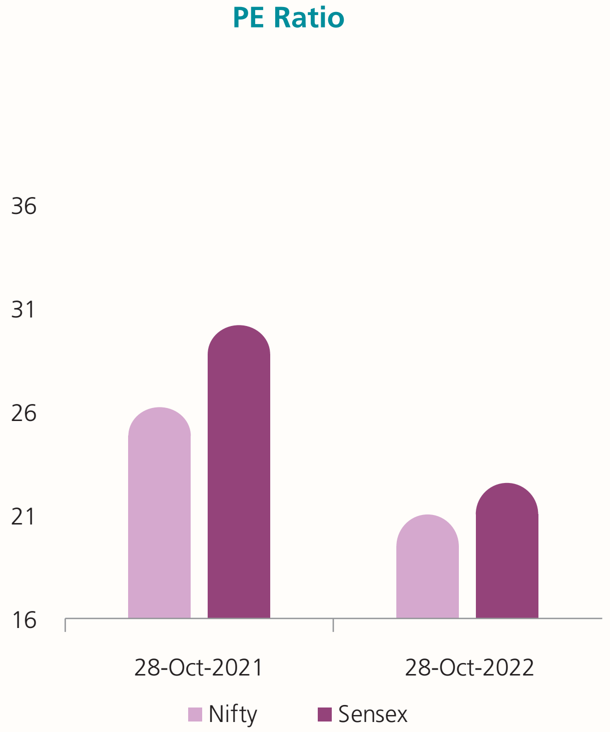
OCTOBER, 2022

L&T Financial Services
Mutual Fund

Nifty gained 5.4% in the month of October and reclaimed the 18,000 mark driven by a sharp global market recovery. However, BSE Midcap and Smallcap indices underperformed gaining only 2% and 1.3%, respectively, thus breaking the recent trend of outperformance. The Smallcap Index is now underperforming the Nifty by 4.6% over the last 6 months while BSE Midcap index is 1.4% behind the Nifty over the same period.

Indian equities rose 2.5% ($ terms), while outperforming the region and its EM peers (MSCI APxJ/EM: -4.2%/-3.2%) which continued to be dragged down by a fresh round of selling in China.





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

GLOBAL MARKETS

Global equities (6% MoM/ -22.3% YTD) bounced back across regions ex China on hopes of a potential Fed pivot.

Worldwide, most major indices saw a bounce back after a sharp correction in Sep with the US S&P500 up 8.8%, Euro Stoxx (6.3%), FTSE UK (2.5%) and Nikkei JP (6.4%). Hang Seng HK (-14%) was one of the worst performers globally. International markets have also been supported by a strong USD. A strong dollar can be helpful for the earnings of non-US markets such as Japan, Eurozone, and the UK's FTSE100.

SECTOR PERFORMANCE

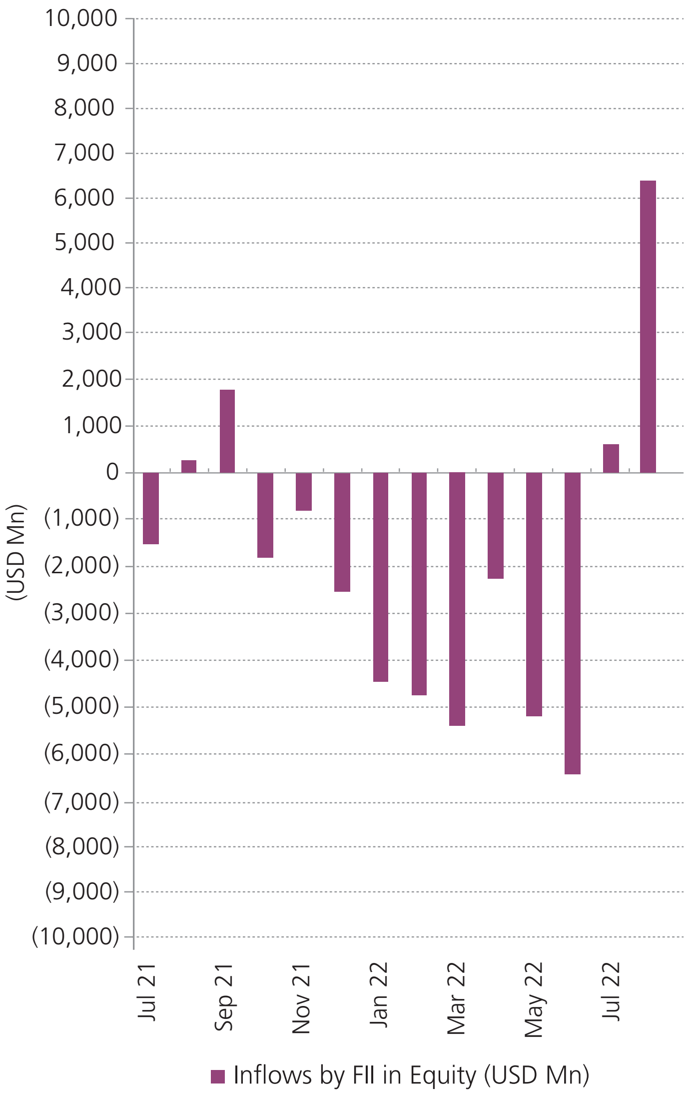
Banking was the best performer (7.3%) in Oct as FII selling abated. Defensives like FMCG (-0.4%) and Healthcare (2.4%) underperformed the Nifty. Power (2.5%) and Realty (3.4%) were also underperformers with rising interest rates. Most other sectoral indices returns were similar to the Nifty with Capital Goods (6.6%), IT (5.9%), Metals (5.6%), Autos (5.3%), and Oil & Gas (5%).

INSTITUTIONAL ACTIVITY

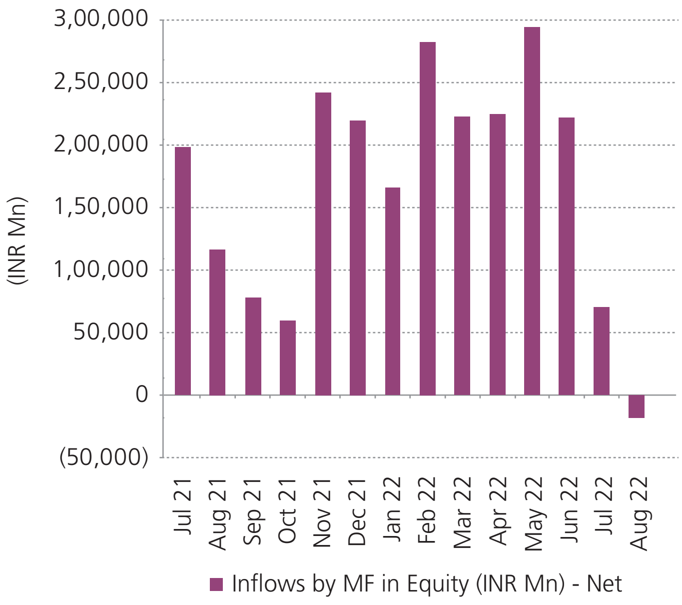
FII participation in October was nearly net-zero (-$5.2 mn outflows, following -$1.6 bn outflows in September). So far, India has seen FII outflows of $22.6 bn since Jan’22.

DIIs saw buying of $1.3bn in October, with total inflows of $33.8 bn since Jan’22.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

IMF lowered India's economic growth forecast to 6.8% in its latest World Economic Outlook, compared to 7.4% it had estimated earlier in July, citing the impact of external headwinds and weaker than expected 2Q growth.

India's CPI inflation accelerated to a 5m high of 7.4% YoY in September vs 7% in August due to surging food prices, thus staying above the RBI's upper tolerance band for ninth consecutive month. Core- inflation (standard core adjusted for petrol and diesel) was also higher at 6.3% YoY in September versus 6.2% in August.

Index of Industrial Production (IIP) growth declined to -0.8% YoY in August from +2.2% in July, with a broad-based deterioration across most categories.

Manufacturing PMI/ Services PMI for September, though down from August levels, continue to remain in expansion zone at 55.1/54.3 respectively.

India's FX reserves came in at $525 bn. FX reserves have declined by US$13 bn in the last 4 weeks. INR depreciated sharply over the month (down 1.7% MoM) and ended the month at 82.79/$ in October.

Benchmark 10-year treasury yields averaged at 7.44% in October (21 bps higher vs. September average). On month end values, the 10Y yield was up and ended the month at 7.45% (up 5 bps MoM).

Oil prices rose (8.3%) over the month of October breaking the declining trend since June. Oil prices rallied following production cuts announced by OPEC+.

GST collections continue to show strong growth with Sep'22 collections at Rs.1.48 tn (17% 3Yr CAGR).

OUTLOOK

Global macro-economic situation remains volatile driven by geo-political conflicts. Aggressive tightening by the Fed has raised the likelihood of a US recession in addition to the slowdown in Europe and China. Crude prices have also bounced back with production cuts announced by OPEC+ and the overall energy basket remains highly elevated with high gas and coal prices as well.

However, 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 government spending on infrastructure supported by buoyant tax collection should support economic growth in the near term. On the flip side, recent sharp increase in interest rates could be a headwind for housing demand growth. 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 average despite high level of macro-economic uncertainty.

Source: Bloomberg, MSCI

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