MUTUAL FUNDS Sahi Hai

LIC MUTUAL FUND

Equity Market Review

Mr. Yogesh Patil, Head - Equity

- After a strong performance in September, market continued its momentum in October. Both the key indices, Nifty and Sensex touched all time high levels in the middle of the month. However, gains were not sustained, and both the indices ended almost flat amid concerns over steep valuations, rising commodity prices, inflationary pressure and liquidity normalization signals by the central bank. Both Nifty and Sensex ended the month with marginal gain of 0.3%.
- On the macro front, CPI inflation further eased to 4.35% in September 2021 vs 5.3% in August 2021. The inflation is on the down path since the June and is well within RBI's targeted range of 2 plus/minus 4 percent, easing concerns of an immediate rate hike action by the Central Bank. IIP growth remained unchanged in August as growth was just 11.9% compared to 11.5% in July 2021.
- Other key developments during the month— (1) RBI MPC decided to keep policy rates and accommodative stance unchanged, (2) Tata group acquired Air India, (3) PM launched GatiShakti to boost India's infra development, (5) the minutes of the US FOMC's September meeting highlighted that the Federal Reserve Bank could reduce its asset purchases starting mid-November (6) Moody's changed India's sovereign rating outlook from 'negative' to 'stable'. (7) Fitch ratings cut India's FY2022 GDP forecast to 8.7% from 10% and (8) IMF retained India's GDP projections at 9.5% for the current fiscal year and 8.5% for the next year.
- On the sectoral indices front, Auto (+6.2%), Consumer durable (+4.5%), Banks (+4.5%), Power (+4.3%) and Capital goods (+2.7%) outperformed the key indices while FMCG(-5.8%), Healthcare (-4.1%), IT (-2.7%), and metals (-0.8%) underperformed the key indices during the month.

Benchmark Index	Latest Price	1 Month Return	3 Month Return	6 Month Return	1 year Return
BSE Sensex	59,307	0.30%	12.80%	21.60%	49.20%
CNX NIFTY	17,672	0.30%	12.10%	20.80%	51.40%
BSE Small-Cap	27,983	-0.40%	4.50%	29.10%	87.90%
BSE IT Sector	33,491	-2.70%	8.60%	27.30%	59.00%
BSE Mid Cap	25,278	0.10%	9.50%	24.40%	70.70%
BSE FMCG Sector	14,003	-5.80%	3.90%	11.90%	27.20%
BSE Cap Goods	26,673	2.70%	12.70%	31.70%	88.70%
BSE Cons Durables	43,219	4.50%	18.80%	33.70%	79.60%
BSE 500	23,990	0.20%	10.30%	21.80%	57.50%
BSE Healthcare	25,034	-4.10%	-4.30%	6.40%	30.00%
BSE 200	7,639	0.30%	11.10%	21.30%	55.30%
BANKEX	44,651	4.50%	13.90%	19.70%	61.50%
BSE 100	17,921	0.20%	11.30%	20.80%	52.60%
BSE Auto	25,338	6.20%	12.70%	16.90%	43.00%
BSE Power	3,338	4.30%	27.60%	34.50%	94.90%
BSE Oil & Gas	18,143	-0.90%	17.50%	21.00%	51.80%
BSE Realty	3,985	-2.90%	25.20%	61.50%	125.70%
BSE Metal	20,017	-0.80%	-4.70%	12.30%	147.60%

Capital flows:

After two months of net buying, FIIs turned net sellers for the month. Net equity selling by FIIs stood at ₹ 13,550 Cr (USD 1809mn) in Oct 2021. Cumulatively, FIIs bought equity worth ₹ 1,70,155 Cr (USD 23,188mn) in last twelve months i.e. from Nov20 – Oct'21 and DIIs sold equity worth ₹ 9,993 Cr (USD 1,421mn) for the same period. (As on Oct 2021 Source: SEBI) (Oct 2021 Avg. 1 USD = INR 74.90)

Outlook

- Global economy continues to remain on strong footing led by increased activity in both developed and emerging economies. Interest rates continue to remain benign as the key Central Banks – US Federal Reserve and ECB maintained their stance on the interest rates. However, risk is emerging from the commodity prices leading to increased input prices across economies. This could be one of the key risks for global economies in the near term.
- On the domestic front, economic activity is slowly inching towards normal as reflected by the various indicators such as freight carried by rail, power demand, diesel consumption etc. GST collection in October 2021 is highest in the last six months and reflects the underling buoyancy in the economic activity. We have seen strong uptick in the credit growth led by personal and SME segment as the festive season approaching. Lower number of covid cases have built up a strong momentum for the festive season and this could provide the much-needed demand push in the economy. This should be positive for corporate sales growth in the near to medium term.
- However, rising input prices including crude and gas could play a spoilsport in the near term. We believe the increase in prices is due to issues in the global supply chain which is expected to ease soon. September inflation is almost at the 12 month low and the four month average inflation is at 5.4% and is within the RBI's targeted range of 2 plus/minus 4 per cent. However, we need to be watchful of the inflation trend in the near future.
- The Indian market has been a key investment destination among Global investors who are looking to invest in emerging markets. India has already leapfrogged to become the third-largest recipient of FDI in the world. Reforms such as GST, corporate tax cuts are leading to increased formalisation of economy which should be positive from the overall economic growth perspective.
- While the market has been focusing on the positive news inflows on the economic front and scaling up new highs, risks could emerge from the higher commodity prices and inflation – both Domestic as well as Global. Rising US bond yield, surge in crude oil prices, fear of contagion from China's property giant Evergrande and ongoing debt ceiling debate in the US weighed on sentiment. These economic risks may have negative impact on the equity markets in the short term. While near term could be bleak, we continue to like India's long term growth story. We prefer to focus on existing leaders who are likely to disrupt/ innovate in their businesses to ensure that their leadership or competitive advantage remains strong. Value creation is imperative in investment viz, high standards of governance, high capital efficiency, strong moats and sustainable growth.

In the end, we would like to take this opportunity to wish our investors a very happy festive season and a prosperous new year.