MUTUAL FUNDS Sahi Hai

LIC MUTUAL FUND

Equity Market Review

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Market Review

- Global capital markets continued to remain volatile amid rising concerns on geo-political issues in Eastern Europe, rising bond yields, persistent higher commodity prices resulting in higher inflation. India was also impacted by these negative global cues which got further aggravated by modest start of the earnings season and commodity inflation. Due to these negative cues, market sentiment remained weak and key indices – Nifty and Sensex declined by 2.1% and 2.6% respectively on MoM basis.
- On the macro front, Mar'22 inflation surged to near 7%, reflecting a broad-based increase in food and non-food inflation. Inflation has crossed the RBI's upper tolerance limit of 6% for the third consecutive month, with Q4FY22 and FY22 averaging 6.34% and 5.50%, respectively. Food inflation (7.68% YoY; 1.4% MoM) largely drove the spike (rural food inflation topping 8%), with higher prices of edible oils and supply-chain dependent perishable items (meat, fish, fruits and milk).
- IIP grew by a meagre 1.7% in Feb'22 despite a low base. Output was slightly below pre-Covid levels, reflecting supply disruptions and basic/intermediate input bottlenecks impacting industrial growth as also seen in easing PMIs. Manufacturing grew barely 0.8% (-5.5% MoM), led by segments like transport equipment, electrical equipment, Pharma and electronics; Motor vehicles picked up pace. Mining and electricity grew 4.5% YoY each. Use-based consumer durables (-8.2% YoY) and non-durables (-5.5% YoY) contracted sharply, while growth was seen in Infra (9.4% YoY), primary goods (4.6% YoY) and intermediate goods (4.3% YoY), with a sequential decline across sectors. Going ahead, rising input costs could impede the recovery process through lower corporate profits and consumption.
- Other key developments during the month—(1) the RBI kept repo rate unchanged at 4%, (2) World Bank cut India's FY2023 GDP growth forecast to 8% from 8.7%, IMF cut India's FY2023 GDP forecast to 8.2% from 9% earlier, (3) US Fed chairman hinted towards 50bps rate hike, (4) DCGI granted emergency use authorization to Covaxin for 6-12 years age group and Corbevax for 5-12 years age group and (5) RIL and Viacom18 announced a strategic partnership with Bodhi Tree Systems to form one of the largest TV and digital streaming companies in India.
- On the sectoral indices front, Power (+18.1%), FMCG (+5.6%), Auto (+4.8%), Oil & Gas (+4%) outperformed the indices while IT (-12%) and Realty (-4.2%) underperformed the key indices during the month.

Benchmark Index	Latest Price	1 Month Return	3 Month Return	6 Month Return	1 year Return
BSE Power	4,776	18.10%	21.30%	43.10%	92.50%
BSE FMCG Sector	14,082	5.60%	4.60%	0.60%	12.60%
BSE Auto	25,210	4.80%	-4.50%	-0.50%	16.30%
BSE Oil & Gas	19,498	4.00%	4.40%	7.50%	30.00%
BSE Small-Cap	28,612	1.40%	-2.10%	2.20%	32.00%
BSE Mid Cap	24,418	1.30%	-0.80%	-3.40%	20.20%
BSE Cons Durables	42,667	0.90%	1.80%	-1.30%	32.00%
BSE Healthcare	24,341	0.20%	1.00%	-2.80%	3.40%
BSE Cap Goods	27,371	-0.50%	-6.10%	2.60%	35.10%
BANKEX	41,534	-0.50%	-4.70%	-7.00%	11.30%
BSE 500	23,552	-0.60%	-0.70%	-1.80%	19.60%
BSE 200	7,486	-0.70%	-0.40%	-2.00%	18.80%
BSE 100	17,575	-0.80%	-0.20%	-1.90%	18.50%
CNX NIFTY	17,103	-2.10%	-1.40%	-3.20%	16.90%
BSE Sensex	57,061	-2.60%	-1.60%	-3.80%	17.00%
BSE Metal	21,655	-3.20%	14.10%	8.20%	21.50%
BSE Realty	3,529	-4.20%	-7.40%	-11.50%	43.00%
BSE IT Sector	31,990	-12.10%	-7.90%	-4.50%	21.60%

Capital flows:

FIIs continued to be net sellers for the 7th consecutive month. Net equity selling by FIIs stood at INR 17,144Cr (USD 2.2bn) in April'22. Due to continuous selling since last seven months, FIIs have turned net sellers to the tune of INR 147,495cr (USD 19.5bn) in last twelve months i.e. from May'21 – April'22. On the other side, DIIs bought equity worth INR 240,171Cr (USD 31.9bn) for the same period. (As on April'22 Source: SEBI) (April'22 Avg. 1 USD = INR 76.20)

Outlook

- The ongoing geo-political tension between Russia and Ukraine has pushed the energy prices and the base metal prices higher. Global markets will continue to be volatile till these issues persist. Till then, world economies may need to face issues of higher inflation as well as supply chain bottlenecks.
- Along with this, rising Covid cases in China and imposed lockdown in key industrial cities are also impacting the global supply chain. We believe the situation may take longer than expected to normalise which will result into higher input cost and higher inflation impacting the domestic markets. We have seen initial signs of the same getting reflected in Q4FY22 corporate earnings where some of the key OEMs have faced RM cost pressures. This may negatively impact the growth expectations of the corporate earnings in India.
- On the domestic front, while the lead indicators such as GST collection and income tax collection has been robust which give some cushion on the Government finance. Overall, key lead indicators of the economy such as freight rate index, diesel consumption remains modest. RBI has not raised the rate in April'22 policy but there are increased expectations of it raising the same sooner. However, if we observe the sovereign yield curve, we have seen sharp increase of approx. 50-80bps in the short-term rates.
- On the valuation front, while the headline multiple looks reasonable, the same is susceptible to corporate earnings trajectory. We do see some risk to corporate earnings due to rising energy prices, higher RM cost and weaker demand. As and when the downward revision in earnings is effected, valuation multiple may look higher which could further impact the investor sentiment. We continue to remain cautious on market valuation and tend to focus more on stock selection.
- Overall, despite near term concerns, over the medium to long term, the Indian equity market looks to be on strong footing as the earnings growth finally seems to be on track after a lull of last five to seven years and the recent correction in the markets has brought down the valuations near to historical levels in various pockets / sectors. The current ongoing geo-political events may pose a risk to equities in the near term, however, we continue to be bullish on India's long term growth story. We prefer to focus on existing leaders who are likely to disrupt/ innovate in their respective business segments to ensure that their leadership or moat remains strong. Value creation is imperative as our investment process is focussed on investing in companies having high standards of governance, high capital efficiency, strong moats and sustainable growth.