MUTUAL FUNDS Sahi Hai

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Equity Market Review

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- Year 2021 has ended on a good note for equity investors as both Nifty and Sensex have ended the year with gain of 24% and 22% respectively. This is the 6th consecutive calendar year where equities have given positive returns and of this 4 times the return were in double digit.
- December 2021 saw a good amount of volatility led by concern on rising interest rate in developed economies and its impact on the capital flow to emerging economies like India. Concerns related to health emerged again as new variant of Covid virus "Omicron" emerged and most countries especially South African and European countries saw spike in cases. However, lower hospitalization rate and mild symptoms in most of the patient has resulted in some positive sentiment among market participants. Given this backdrop, India indices – Sensex and Nifty too recovered from their mid-month lows and ended the month on a positive note with a gain of 2.1% and 2.2% respectively.
- On the macro front, Nov CPI inflation inched up to 4.91% compared to 4.5% in October 2021. The inflation has been in the tight range since June 2021 and is well within RBI's targeted range of 2 plus/minus 4 percent. Core inflation (ex-food, fuel and intoxicants) clocked 6.30%, as expected, with a sequential momentum of 0.4% MoM, slightly lower than 0.7% MoM in Oct'21.
- Industrial production grew 3.2% in Oct'21 vs. 3.3% growth in Sep'21. The growth rate has moderated in the last two months on expected lines. Sequentially, IIP growth picked up by 4.3% in Oct'21 (-2.4% prior), mainly as the economy functioned with minimal restrictions and as firms adapted to the new regime. Manufacturing and electricity output increased sharply, while mining output moderated slightly. Eight core industries, which constitute 40.3% of IIP, registered 7.5% growth YoY in Oct'21 (vs. 4.5% in Sep'21) and indicated a sequential improvement across sectors, except electricity. The manufacturing PMI (57.6) remained in an expansionary state for the fifth straight month in Nov'21.
- On the sectoral indices front, IT (+10%), Cap goods (+6.9%), Metals (5.6%), Consumer durable (+3.9%), Auto (3.5%) and Health care (+2.8%) outperformed the key indices while Banks (-0.9%), FMCG (+0.7%) and Realty (+1.1%) 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	58,254	2.10%	-1.50%	11.00%	22.00%
CNX NIFTY	17,354	2.20%	-1.50%	10.40%	24.10%
BSE IT Sector	37,844	10.10%	10.00%	25.60%	56.10%
BSE Cap Goods	28,751	6.90%	10.70%	25.30%	53.40%
BSE Metal	19,246	5.60%	-4.60%	3.10%	65.90%
BSE Small-Cap	29,458	5.40%	4.90%	16.70%	62.80%
BSE Cons Durables	44,768	3.90%	8.30%	25.80%	47.30%
BSE Auto	24,818	3.50%	4.00%	4.40%	19.20%
BSE Healthcare	26,206	2.80%	0.40%	2.40%	20.90%
BSE 500	23,811	2.30%	-0.50%	10.90%	30.10%
BSE 200	7,537	2.00%	-1.10%	10.50%	27.60%
BSE 100	17,626	1.80%	-1.40%	10.10%	25.00%
BSE Mid Cap	24,970	1.10%	-1.10%	10.80%	39.20%
BSE Realty	3,841	1.10%	-6.40%	40.20%	55.00%
BSE Power	3,482	0.70%	8.80%	26.40%	68.80%
BSE FMCG Sector	13,785	0.70%	-7.30%	2.00%	9.30%
BSE Oil & Gas	17,508	0.00%	-4.30%	8.20%	24.30%
BANKEX	40,409	-0.90%	-5.40%	2.70%	12.60%

Capital flows:

FIIs continued to be net sellers for the month (both in Primary and secondary market). Net equity selling by FIIs stood at ₹ 19,026 Cr (USD 2523mn) in Dec 2021. Cumulatively, FIIs bought equity worth ₹ 20,789 Cr (USD 3039mn) in last twelve months i.e., from Jan21 – Dec'21 and DIIs bought equity worth ₹ 93,837 Cr (USD 12,511mn) for the same period. (As on Dec 2021 Source: SEBI) (Dec 2021 Avg. 1 USD = INR 75.40)

Outlook

- Global equity markets are on strong footing as supply chain bottlenecks are seems to be loosening up and concerns related to rising inflation and consequential increase in global interest rate is seems to have been widely accepted by investors. However, inflation may surprise on the positive side given sharp correction in global commodity prices led by demand slowdown in China. Growth in key developed market remain stable which should continue to remain supportive for the Emerging market economies.
- On the domestic front, the key lead indicators such as GST collection, freight carried, electricity consumption – all continues to point towards a continued recovery in the economic activities. Monthly GST collection in Q3FY22 is at Rs.1.3lakh cr compared to Rs.1.1 lakh cr in Q2FY22 and approx. Rs.1 Lakh cr in Q3FY22 – reflects the bouncy in the economic activities at the ground level. Similar kind of trend is also visible in personal income tax collection as well as corporate tax collection. This augurs well for the overall Government Financials. Improved financials should help Government to speed up expenditure especially on the capex side which may provide further boost to domestic growth.
- Capex investment seems to be coming back in the economy. New announcements of industrial and infrastructural capacity expansion projects worth Rs.2.1 trillion were made in the quarter ended December 2021, as per the preliminary estimates by CMIE's CapEx service. This is 41% higher than the same quarter last year. And it may rise even more as more data comes in. The revised estimates of new investments were Rs.2.2 trillion for the September 2021 quarter and Rs.2.7 trillion for the June 2021 quarter. This supports the argument of increased capex in the economy.
- Given the strong improvement in economic activities supported by Government spending, we may see economic growth to remain robust led by both capex investment and consumer spending. This augurs well for corporate earnings. We may see further earnings upgrades for corporates related to these sectors which augurs well for overall market sentiments.
- If we look the key economic data points with long term focus, it does show a strong footing for the future leg of growth. India has crossed the per capita GDP mark of USD2000 and given the increase hiring activities and business activities, this number may see further uptick. The benefit of this should trickle down by way of increased discretionary expenses such and could finally give boost to sectors which are underpenetrated but have lot of potential to grow (i.e., Insurance and Financial investments, car ownership, House ownership etc). This along with supportive government policy could start a muti year cycle of growth for India – a positive from Equity investors point of view. However, risk may emerge in the form of inflation or rising interest rate and for that we would keenly keep eye on policymakers.
- Overall, the equity markets look to be on strong footing as the earnings growth finally seems to be on track after a lull of last five to seven years. While the market has been focusing on the positive news inflows on the economic front and scaling up new highs, risks could emerge from Global markets specially from US in terms of the rising bond yield which could alter the valuation band for equities. However, 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.