

Equity Market Review



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Market Review

- After a stable Jan'22, Feb'22 witnessed heightened volatility in Indian equity market (Nifty VIX touched 52 weeks high of 33.97 in Feb'22, currently at 27-28 levels) primarily on account of the global cues. At the start of Feb'22, investors were discussing about the possible rate hike in the developed markets and its impact on the global capital flows, however, post mid Feb'22 focus shifted towards the geopolitical tension between Russia and Ukraine and its probable impacts on global markets especially commodities. Russia did launch army operations against Ukraine, leading to a wave of negative sentiments in the global markets. Indian equities too were impacted and both the key indices – Sensex and Nifty were down by c.4-5% during the month.
- On the macro front, unfavourable base effect pushed Jan'22 headline CPI inflation slightly above RBI's tolerance limit as the reported number came in at 6.01% compared to 5.66% in Dec 21. Core inflation eased mildly to 6.20% as the impact of the telecom tariff hike was offset by the tax cut-led decline in motor fuels, while other core components barring housing saw stable sequential momentum.
- Industrial production growth eased to 0.4% in Dec'21 from 1.3% in Nov'21 led by mining (2.6% from 4.9% in Nov'21) and manufacturing output (declined by -0.1% from an increase of 0.8%). Within manufacturing, output of furniture and electrical equipment disappointed the most. Capital goods output contracted to 11-month low of 4.6% in Dec'21. Notably, IIP growth over a 2-year basis (2.6% in Dec'21) is back up to pre-pandemic levels – reflecting continued improvement post pandemic.
- Other key developments during the month— (1) the government prioritized economic growth over fiscal consolidation in FY2023 union budget. It targeted central GFD/GDP at 6.4% in FY2023BE, (2) the RBI kept policy rate unchanged. Meanwhile, the BoE, raised its key policy rate by 25bps to 0.5%. The ECB maintained status quo on rates despite record increase in inflation. The PBoC left its 1-year and 5-year loan prime rates unchanged, The BoK, in line with market expectations, left its policy rate unchanged. Reserve Bank of New Zealand (RBNZ) in line with expectations, raised its key policy rate by 25bps to 0.75%, (3) Indian government introduced green hydrogen policy, (4) real GDP in 3QFY22 grew 5.4% led by private consumption growth of 7% and (5) five Indian states have gone for assembly election; results will be announced on 10th Mar'22.
- On the sectoral indices front, Metals (+9.5%), Consumer Durables (+2.8%) and Power (-2.1%), outperformed the key indices while Oil & Gas (-7.3%), Auto (-6.8%), Cap Goods (-5.1%), Banks (-4.4%), IT (-3.6%) and FMCG (-3.4%) underperformed the key indices during the month.

Benchmark Index	Latest Price	1 Month Return	3 Month Return	6 Month Return	1 year Return
BSE Metal	20,784	9.50%	14.10%	1.00%	51.50%
BSE Cons Durables	43,099	2.80%	0.00%	15.40%	35.70%
BSE Power	3,854	-2.10%	11.50%	31.90%	59.40%
BSE Sensex	56,247	-3.00%	-1.40%	-2.30%	14.60%
BSE Healthcare	23,356	-3.10%	-8.40%	-12.10%	12.00%
CNX NIFTY	16,794	-3.10%	-1.10%	-2.00%	15.60%
BSE 100	17,043	-3.30%	-1.60%	-1.90%	15.80%
BSE FMCG Sector	13,008	-3.40%	-5.00%	-10.80%	8.70%
BSE 200	7,248	-3.50%	-1.90%	-1.90%	16.60%
BSE IT Sector	33,503	-3.60%	-2.60%	-2.00%	37.20%
BSE 500	22,742	-4.10%	-2.30%	-1.90%	17.40%
BANKEX	41,636	-4.40%	2.10%	0.40%	6.80%
BSE Mid Cap	23,356	-5.10%	-5.40%	-2.10%	16.90%
BSE Cap Goods	27,658	-5.10%	2.80%	10.70%	28.50%
BSE Auto	24,616	-6.80%	2.60%	9.10%	7.30%
BSE Oil & Gas	17,315	-7.30%	-1.10%	1.40%	11.40%
BSE Small-Cap	26,662	-8.80%	-4.60%	-1.00%	32.30%
BSE Realty	3,466	-9.10%	-8.80%	12.40%	24.40%

Capital flows:

FII's continued to be net sellers for the month. Net equity selling by FIIs stood at ₹ 35,592 Cr (USD 4.7bn) in Feb'22. Due to continuous selling since last five months, FIIs have turned net sellers to the tune of ₹ 88,405 cr (USD 11.7bn) in last twelve months i.e., from Mar'21 – Feb'22. On the other side, DIIs bought equity worth ₹ 1,87,188 Cr (USD 25.1bn) for the same period. (As on Feb'22 Source: SEBI) (Feb'22 Avg. 1 USD = INR 75.00)

Outlook

- The ongoing geopolitical tension between Russia and Ukraine could have significant ramification on global trade scenario over near to medium term as most countries will align to new world realities. We have seen the impact on commodity prices which are inching up higher and the supply chain is also getting disrupted again after it stabilised post Covid pandemic. Along with this, the uncertain environment on the interest rate could further add to volatility in the markets. While we believe its too early to judge impact on the growth trend of global economy, we expect negative sentiments to prevail over near term which could impact the capital flows, especially to the emerging markets.
- On the domestic front, while the lead indicators such as GST collection, freight data, electricity consumption – all continue to show good traction on incremental basis, rising inflation has created concerns for the corporates and investors. India's Benchmark 10-year yield has risen sharply during the month as Government announced a sharp increase in gross borrowing for the year FY23. Interest rate also faces risk from higher than anticipated increase in inflation due to global developments.
- On the economic growth front, 3QFY22 GDP growth in YoY terms came in at 5.4% YoY (8.4% in 2QFY22). The moderation in activity is not only driven by the base effect as some moderation is expected after the 'V' shaped bounce back from COVID 2.0 in Sept'21, but the pace of expansion in 3QFY22 is underwhelming when considered in the backdrop of unwinding COVID restrictions across the nation. Overall pace of improvement has been curtailed by manufacturing on the supply side and investments as well as exports on the demand side. Personal consumption has improved despite higher inflation which means demand has been mainly driven by mid to high income households. In this backdrop, consumer sentiments improving is positive for the economy which we have been highlighting. We believe India will see a consumption led demand recovery growth as the per capita GDP has crossed the USD 2000 barrier and should flow down to growth in the non-discretionary consumption.
- Overall, the Indian equity markets 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 Geopolitical events may pose a risk to equities in the near term, 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 respective business segments to ensure that their leadership or competitive moat remains strong. Value creation is imperative as our investment process gives high regard to , high standards of governance, high capital efficiency, strong moats and sustainable growth.

Statutory Details Sponsor: Life Insurance Corporation of India.
Investment manager: LIC Mutual Fund Asset Management Ltd. CIN: U67190MH1994PLC077858

For further details, please refer to the Scheme Information Document, Statement of Additional Information & Key Information Memorandum cum Application forms, available on our website www.licmf.com and at the official points of acceptance of LIC Mutual Fund Asset Management Ltd.

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