MUTUAL FUNDS Sahi Hai

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Equity Market Review

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- After a strong performance since May2021 and touching lifetime highs in mid-October, Indian equity market indices consolidated during the first fortnight of November but eventually lost the momentum and turned negative for the month. Concerns of rising inflation, reversal in Fed stance on interest rate and below par Q2FY22 earnings performance led to such a fall. Sentiments were battered across global equity markets on 26th Nov'21 with the detection of a new COVID-19 variant – Omicron – in South Africa. This resulted in risk-off sentiment, with markets correcting by 2-3% globally, easing bond yields, and an 11% fall in Brent Crude prices. Indian equity indices too were impacted and both Nifty and Sensex indices lost 3.8% and 3.9% respectively on a month-on-month basis. Despite the pullback, India remains among the top performers in CY21, with the Nifty up 21% in CY21 YTD v/s a flattish performance of the MSCI EM Index.
- Primary market activity in India remains quite elevated, with a bunch of new age companies (Zomato, Nykaa, Policy Bazaar, Paytm, etc.) raising capital. Around INR964b has been raised in FY22 YTD, which is higher than INR909b raised in FY18.
- On the macro front, CPI inflation inched slightly higher in October to 4.48% compared to 4.35% in September 2021. The inflation is on a downward path since 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 stable as September IIP expanded 3.1% YoY, (2% on 2Y CAGR basis), similar to August (2% on 2Y CAGR).
- Other key developments during the month—(1) the Central government reduced excise duty on petrol by Rs5/litre and diesel by Rs10/litre, (2) the US Federal Reserve signalled in its two-day monetary policy meeting that it will soon begin reducing the pace of its monthly bond purchases, (3) US senate passed more than US$1 tn infrastructure bill, (4) Reliance Industries called off its deal with Saudi Armco, (5) in light of limited supply from OPEC+, the US, along with China, India, Japan, South Korea and UK decided to increase oil supply in the market by releasing their strategic reserves to cool down the rising crude oil prices—brent crude prices rose 17% in the month, and (6) telecom operators announced tariff hikes by at least 20% across basket.
- On the sectoral indices front, Power (+3.6%), IT (+2.7%), Healthcare (+1.9%), outperformed the key indices while Auto (-5.3%), Bankex (-8.7%), and Metals (-0.9%) 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	3,457	3.60%	18.30%	22.70%	72.90%
BSE IT Sector	34,382	2.70%	0.60%	24.60%	58.90%
BSE Healthcare	25,502	1.90%	-4.00%	3.90%	25.50%
BSE Cap Goods	26,893	0.80%	7.70%	19.50%	58.00%
BSE Small-Cap	27,937	-0.20%	3.80%	18.40%	65.60%
BSE Cons Durables	43,101	-0.30%	15.40%	29.10%	59.40%
BSE FMCG Sector	13,689	-2.20%	-6.10%	4.30%	16.70%
BSE Mid Cap	24,688	-2.30%	3.50%	13.50%	46.00%
BSE 500	23,277	-3.00%	0.40%	10.60%	37.00%
BSE 200	7,386	-3.30%	0.00%	9.80%	34.80%
BSE 100	17,319	-3.40%	-0.30%	9.50%	32.70%
BSE Oil & Gas	17,502	-3.50%	2.40%	6.30%	32.10%
BSE Sensex	57,065	-3.80%	-0.80%	9.90%	29.30%
CNX NIFTY	16,983	-3.90%	-0.90%	9.00%	31.00%
BSE Realty	3,800	-4.70%	23.20%	41.80%	84.30%
BSE Auto	23,989	-5.30%	6.30%	1.90%	19.20%
BANKEX	40,779	-8.70%	-1.70%	1.10%	20.30%
BSE Metal	18,218	-9.00%	-11.50%	-3.50%	78.30%

Capital flows:

FIIs continued to be net sellers for the month. Net equity selling by FIIs stood at ₹ 5,945Cr (USD 798mn) in Nov 2021. Cumulatively, FIIs bought equity worth ₹ 93,314Cr (USD 12,829mn) in last twelve months i.e. from Dec'20 – Nov'21 and DIIs bought equity worth ₹ 30,561Cr (USD 5,737mn) for the same period. (As on Nov 2021 Source: SEBI) (Nov 2021 Avg. 1 USD = INR 74.50)

Outlook

- Global economy continues to remain stable as the commodity prices started to cool off as the supply chain issues are normalising and global trade is back on track. As per UNCATD, in Q3CY21, the value of world imports and exports of goods hit $5.6 trillion in the third quarter of 2021, setting a new quarterly record. However, risk is emerging from new variant of Covid which led to some travel restrictions and other curbs put in by various Governments. This could negatively impact the global growth in the Q4CY21.
- 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. Inflation is within RBI's tolerance limit and IIP is also seeing some gradual pick up. GST collection has been upwards of Rs 1.3 lakh Cr supported by strong demand during the festival season.
- Corporate earnings for Q2FY22 singularly led by commodities such as Metals and Oil & Gas. Excluding these two sectors, aggregates performance was in line with analyst's expectations. Q2FY22 Nifty sales/EBITDA growth were in-line at 31%/21% YoY, while PBT/PAT growth came in at 40%/36% YoY. Key highlights were: 1) Technology: Q2FY22 marked the fifth quarter of robust QoQ revenue growth; 12 of 13 companies reported in-line/higher-than-estimated PAT. 2) O&G: Led by OMCs, the segment posted a better-than-expected performance on the back of strong marketing margins. 3) BFSI: Most banks demonstrated steady recovery in loan growth, led by the Retail, SME, and Business Banking portfolios. The growth outlook and asset quality showed sequential improvement. NBFCs saw sharp improvement in disbursements and collection efficiency. While the results have been good, there are no meaningful upgrade in corporate earnings which may create some near-term pressure on market valuations.
- A number of countries have reported cases of Omicron. Despite good vaccine coverage, several countries have re-imposed strict travel restrictions. At present India is not so much impacted but we need to keep a watch on rise in infection and daily cases. However, certain states have brough back some travel restrictions which could impact the economic activity at the ground level.
- 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 slow down in China 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.