

The markets were generally flat for the month of July, with the Nifty 50 barely ending in the green. However, as has been the recent trend, the broader markets did much better. Buoyed by institutional as well as retail interest, the S&P BSE Midcap ended up ~3% while the S&P BSE 250 Smallcap index recorded a healthy ~8% gain. Amongst sectors, metals and real estate were the best performing while autos & power lost the most. While markets ended flat, it was a volatile month, where investors were tested on negative print from higher inflation numbers, worry over the delta variant of covid and sell-off in Chinese technology stocks.

On the global front, benchmark indices in Hong Kong and Shanghai were down as Chinese tech and education stocks plunged sharply on regulatory steps. US markets rose 2% led by strong corporate results. Among other developments, Fed kept interest rates unchanged at their near-zero level, nor did it announce when it planned to let up on its \$120 billion in monthly bond purchases. Nevertheless, with inflation soaring quickly and some employment measurements finally starting to show sustained improvement, it did hint at considering such a move in the future. ECB kept its key interest rates unchanged, while OPEC+ agreed to gradually increase oil supply over Aug-Dec 2021. Amidst rising commodity prices, China raised export tariffs on steel products.

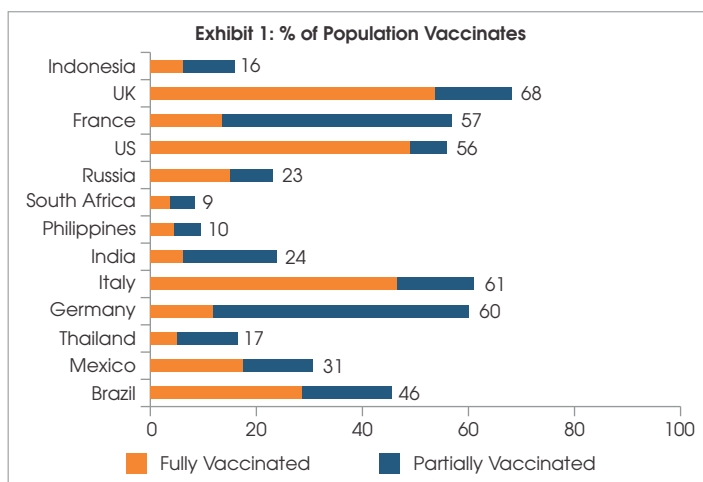
Foreign Portfolio Investments (FPIs) sold a good ~USD 1.3 bn worth of Indian equities. However, Domestic Institutional Investors (DIIs) bought ~USD 2.1 bn worth of equities, negating the FPI selling. The Consumer Price Index (CPI) eased marginally to 6.26% in June 2021 from 6.3% in May 2021. The Wholesale Price Index (WPI) of India eased from last month's record high as it rose 12.07% in June 2021. Index of Industrial Production (IIP) in India rose 29.3% year-on-year in May of 2021, below market expectations of 32% as regional lockdowns in most states to contain the second wave of the coronavirus pandemic hurt activities.

Gross tax revenue collections continue to beat government's budget expectations. Data suggests that gross tax revenues in 1QFY22 are up 97%, while expenditure growth is weak in 1QFY22 (0.7% increase) suggesting fiscal position is well managed. Fiscal deficit in 1QFY22 came in at just 18% of the full-year target, significantly lower than pre-Covid trend for the first quarter at ~60% of full fiscal year. Interestingly, Capital Expenditure trended in much higher reporting at 26% growth. Elsewhere, total Goods & Services Tax (GST) collections yet again surprised on the upside at ~INR 1.16tn (~USD 16 bn) for June 21 (~INR 928 bn i.e. ~USD 13 bn for May and ~INR 1,027 bn i.e. ~USD 14 bn for April).

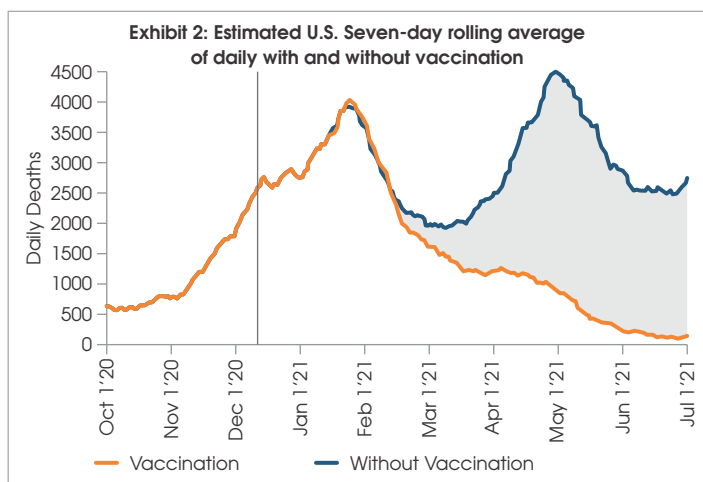
Source*: NSDL, PTI, ANI, Bloomberg, BSE

Covid Update

On the covid front, the focus globally is on the pace of the vaccination and efficacy. India's total dose count crossed ~450mn in July, of which ~98mn (~10% of adult population) were administered both doses. As per an interesting report, as of July 19, 2021, almost 50% of US population has been fully vaccinated and this has markedly curbed the pandemic there. If there had been no Covid-19 vaccination program, daily deaths from Covid-19 would have created a second wave (a "spring surge") - of nearly 4,500 deaths per day - potentially larger than the first wave of the year, which peaked at 4,000 deaths per day in January. Most of the additional deaths during the second 2021 wave (the shaded area of the Exhibit 2) would have occurred because of an increase and spread of the more transmissible Alpha variant, proving the efficacy of vaccines clearly.



Source: CEIC, Axis Capital, <https://ourworldindata.org/covid-vaccinations>



Source: <https://www.commonwealthfund.org>

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Earnings & Valuations

Q1FY22 quarterly results reported so far have been decent. IT / Commodities largely beat expectations while Financials / Autos / Pharma missed on account of margin pressure as we have been fearing. We continue to monitor the earnings season closely. Going forward, it will be critical to see demand continuing to recover as restrictions related to covid ease. Progress of monsoon which is so far normal would also be important to gauge the continued momentum in rural demand.

Market Outlook

Markets have been pretty strong, with the broader markets leading the way. Though earnings have kept pace in most cases, pockets of over enthusiasm are beginning to be seen. Primary markets are in a euphoric zone, with every listing reporting 50%-100% gains on listing. This has led to record over-subscriptions in most Initial Public Offerings (IPOs). The listing of India's first "start-up" so to say, is a welcome development as it brings in new category of investors, though valuations will always be a topic of debate. More such IPOs are expected in the near future. Although our view continues to remain positive over the long term, investors should expect intermittent sharp volatility in the markets. Careful discretion is advised as also staying away from 'tip-based' short-term investing.

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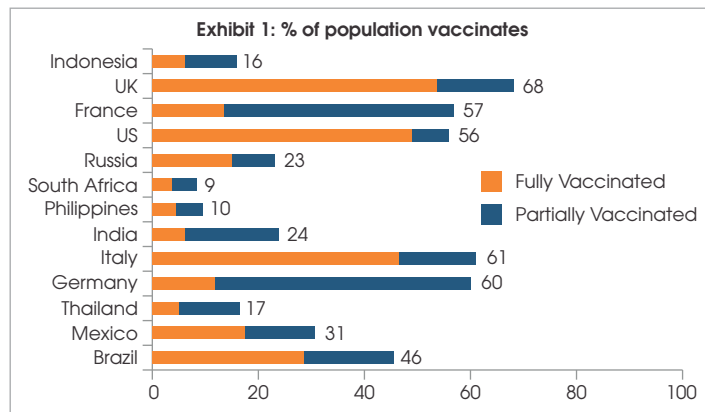
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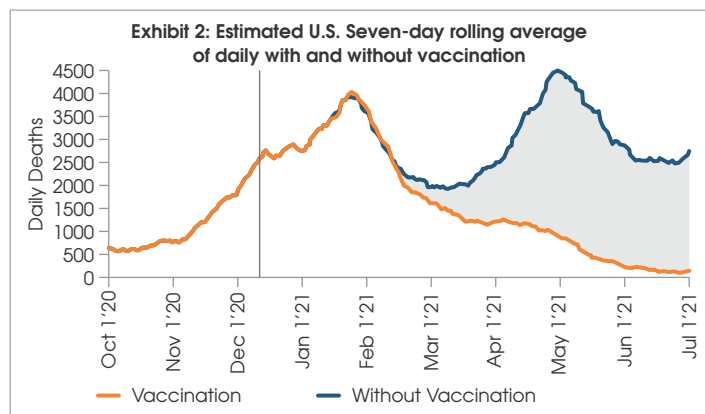
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