

October 2021

Indian equity markets ended September on a positive note and hit fresh record highs. Post the divergent performance in August between the broader market and headline indices, September witnessed gains across market cap. While Nifty 50 gained ~3%, S&P BSE Midcap and S&P BSE 250 Small cap indices also participated, gaining 6% each. News flow coming from US Federal Reserve meeting and a potential debt blowout in China kept the markets busy as well as cautious.

Debt crisis pertaining to one of the Chinese property developers, Evergrande, with its liabilities mounting to ~USD 300 billion surfaced, which led markets to worry about a possible contagion effect. However, the risk quickly receded with expectations of support from the Chinese government. Also, hints of starting Quantitative Easing (QE) tapering soon by US Federal Reserve also had some but not meaningful impact on global capital markets. The strength in US Dollar also led to some concerns, particularly in commodity stocks.

Indian markets witnessed net Foreign Portfolio Investment (FPI) inflows of ~USD 4 billion for the month September 2021, whereas Domestic Institutional Investors (DII) also recorded net inflows of ~USD 3 billion. Among the positives, Government revenues continue to be considerably higher than the budgeted in the current fiscal H1FY22. The net direct tax collections grew by 74.4% to ~INR 5.7trillion in H1FY22 (the highest-ever during the H1 of any financial year) vs. ~INR 3.3trillion collected during H1FY21. This would help government accelerate spending and push demand in H2FY22. Tax revenues are estimated to be higher than the budgeted targets for FY22. Index of Industrial Production (IIP) increased 11.5% in July of 2021, lower than 13.6% in the previous month, but above market forecasts of 10.7%. It is the fifth month of double-digit growth, due to low base effects from last year and as the economy recovers from the corona virus hit.

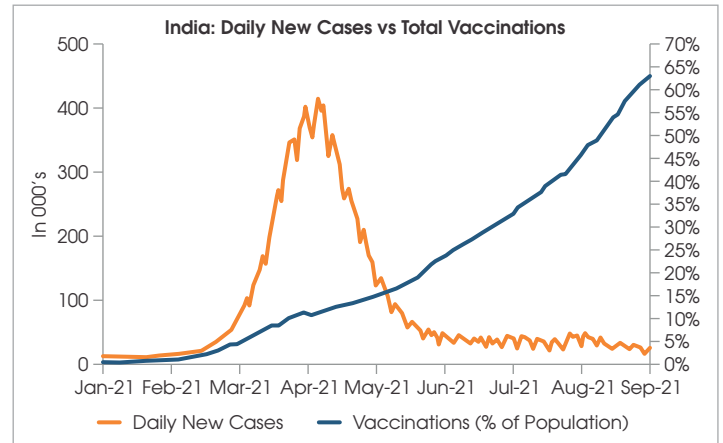
Consumer Price Index (CPI) Inflation eased for a third straight month to 5.3% in August 2021, from 5.6% in the previous month and remained within the RBI's 2-6% target range for the second month in a row. Wholesale Price Index (WPI) Inflation edged up to 11.4% in August 2021, from 11.2% in the previous month. Given the sharp increase in global energy prices of oil, coal and gas there is enhanced risk to domestic and global inflation. However, markets have been sanguine about inflation and bond yields and is expecting a gradual and modest increase in bond yields over the next 12 months on the back of central banks normalizing their monetary policy.

Good progress of the monsoons raised hope for strong economy recovery post the pandemic. Also, reduction in covid cases and the strong vaccination numbers coupled with optimism around the capex cycle revival also boosted sentiments. We believe that market resilience reflects strong investor sentiment driven by expectations of a strong cyclical economic recovery as the third wave impact of covid appears underwhelming.

## Covid Update

The cumulative number of COVID-19 vaccine doses administered in India has crossed 88 crores as on September 30, 2021 i.e. ~64% of the total population has been administered with at least one dose of vaccination.

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



Source: Worldometer. Note: The % of total vaccination shown in the above chart is calculated on total population of the country i.e., 139.3 crores.

We will be entering the earnings season as corporates report their Q2FY22 earnings. With Covid related concerns easing during the quarter across most of the country, we expect seamless earnings season without any major mishaps. However, some sectors may face headwinds in margins, led by higher raw materials prices, higher energy costs and higher shipping costs.

## Market Outlook

There has been significant momentum in the markets over the last few months which is also led by decent sectoral churn. What we are witnessing now is that laggard sectors of the last few years are now participating, including PSUs and Real Estate sector. We keep ourselves away from chasing momentum, while continuing to focus on businesses with sustainable profitability and decent ROEs. Fundamentals continue to remain strong even as we expect a very strong festive season led demand. We do expect near term volatility led by global or local news flow to continue, but corrections are expected to be short and swift.

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