Market Update

Abakkus
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January 2022

The volatility observed in recent months continued in December 2021. Nifty 50 gained ~2% in the final week of CY2021 after remaining under pressure throughout the month. Broader markets selectively did well with S&P BSE Midcap and S&P BSE 250 Small Cap gaining ~1% and ~5% respectively. Volatility was led by news on spread of Omicron variant of Covid-19 in various countries and chances of the third wave in India. FIIs recorded the longest selling streak in last 10Y (26 days) with them being net sellers to the tune of ~USD 1.7 bn in December 2021. Despite this, markets remained resilient as domestic institutions and domestic retail investors used the weakness as an opportunity to add to their investments. DIIs were big buyers with net inflows of ~USD 4.3 bn in December 2021.

RBI during the month kept the repo rate unchanged at 4% with an accommodative stance with a 5-1 vote. India's Manufacturing PMI eased to 55.5 in December 2021 from 10-month high in November 2021 at 57.6 and Services PMI eased to 55.5 in December 2021 from 58.1 in previous month. Headline CPI print for November 2021 surprised positively at 4.9%, which was driven by weaker than expected Food & Beverages inflation. Current account registered a deficit of USD 9.6 bn (1.3% of GDP) in 2QFY22 against a surplus of USD 6.5 bn in 1QFY22 (0.9% of GDP) and surplus of USD 15.3 bn (2.4% of GDP) in 2QFY21. The Indian Rupee did weaken against the US Dollar to an intra-month low of 76, but bounced back to close 2021 below INR 75. Union Cabinet cleared the PLI scheme for semiconductors. On vaccination front, PM announced vaccination for 15 to 18 age group and booster doses for healthcare, frontline workers and senior citizens. Ground level activity continues to improve. Urban movement indicators viz. transit/congestion/workplace-mobility were +3/+5/+13 MoM and all averaged above pre-COVID for the first time. Property registrations surged to a record in Delhi and to 5/6 months highs in Mumbai/Maharashtra. Passenger Vehicle registrations were 12% higher than Dec'19 levels.

Globally, the Bank of England became the first major central bank to raise interest rates and attributed persistent inflation to the surprise move. The US Fed also indicated a more aggressive taper and indications of at least three rate increases in CY2022. However, the markets were already factoring this and responded positively to the announcements.

Covid Update

Covid cases have surged to the highest level ever globally with US recording a million cases a day. India has also started seeing a surge, with cities like Mumbai, Kolkata, Delhi, etc. seeing a jump in daily cases. Several states have put covid related restrictions such as closure of theatres and gyms, night curfews and reduced capacity in restaurants, bars etc. The good news is that with over 1.4bn doses administered, ~60% of eligible Indian population was fully vaccinated. Vaccines for age group 15-18 years as well as a booster dose for people with co-morbidities and over 60 years of age have also been approved. While Omicron is spreading fast globally, the indications are that it is a fast spreading variant but much less severe. Recovery time for infected is also much shorter than earlier. The hospitalizations and death numbers have been quite low and that has given markets optimism that there is not much to worry as of now. Countries are also better prepared in terms of health care infrastructure and recent launch of covid pills have also been found to be effective. All in all, we believe that though the number of cases might rise in the near-term, the probability of a sharp fall pretty fast is very high. Hopefully the Omicron variant will act as a natural vaccine and lead to a herd immunity.

Market Outlook

As we move into CY2022, immediate focus, apart from Covid, will be on earnings and expectations from the Union Budget. We expect companies to positively surprise on the topline on back of strong festive season and the pent-up demand post lockdown. On the earnings front, we feel 3QFY22 can be a repeat of 2QFY22 with quite a few companies reporting lower margins due to input costs pressures. However, strong revenue growth should ensure that absolute profitability will be in line. Earnings outlook for FY22 and FY23 continues to be strong and the Union budget is expected to be pro growth and that can add to enthusiasm in the economy and the markets.

FII have been large sellers of Indian equity in the last quarter of CY2021, taking advantage of the huge outperformance of Indian markets vis-à-vis other markets, especially China. However, we believe that given the growth trajectory in the economy, FII flows should be very strong in CY2022. FDI flows should continue and CY2022 should be another record year in terms of inflows. Elections in few states are due over the next couple of months. Particularly results in large states like Uttar Pradesh will definitely be eagerly awaited by markets and can be a reason for some volatility.

Overall our view on Indian equities continues to be optimistic for CY2022. While return expectations have to be more rationale compared to the last 18 months, we do believe the CY2022 will need more hard work in picking the right stocks and segments.

Source: NSDL, PTI, ANI, Bloomberg, BSE

About Us

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Alternative Investment Fund

As per SEBI Circular No. SEBI/HO/IMD/DF6/CIR/P/2020/24 dated February 05, 2020, details of industry benchmark and AIF level performance versus Benchmark Reports are available at https://www.crisil.com/en/home/what-we-do/financial-products/alternate-investment-fundsbenchmarks.html#

Portfolio Management Services and Investment Advisory Services

You may refer the Disclosure Document available at https://www.abakkusinvest.com/disclosures for detailed disclosures.

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