Dear Investors,

Equity markets not just in India, but globally have been volatile since the past few months. In India, the broader markets have also seen a decent correction. A combination of the Covid 3rd wave- Omicron, inflationary environment, interest rate hike expectations and now the Russia-Ukraine standoff; have been the major reasons for this volatility.

While the near-term scenario will continue to be choppy, our view is that the current correction does provide an interesting entry opportunity for longer term investors. Our optimism is based on the following:

View on markets:

Last couple of months has been a challenging period for equity investors globally. Even in India, while the headline Nifty 50 has shown smaller correction, the broader markets have seen significantly higher drawdowns across sectors. While multiple challenges have been the reason, our take is that the markets had moved to a slightly over optimistic scenario and needed a reason to correct. Off course, quite a few such reasons have cropped up including inflation, interest rate increases, crude price rise and the Russia-Ukraine stand-off among others. Notwithstanding the fact that these headwinds are serious, we try to analyze various factors with logical reasoning and data points. Our conclusion: **The worst seems to be discounted and though we might not have a sharp V-shaped movement, markets should start to move into positive trajectory. Be Positive on Indian equities from a 2-3 year perspective.**

RUSSIA-UKRAINE:

Markets have over time generally overreacted near the geopolitical risks but over time, equity markets have not seen any sustainable major overhang. (e.g., Iran invasion of Kuwait caused markets to fall 17% and oil prices doubled but equities markets were back to peak level 4 months later).

We expect the Russian / Ukraine standoff to continue in some form or other, and one should closely track the developments. However, the investment decision has to be taken based on the fundamental and economic scenario both in India and globally. We believe that the probability of this flareup spreading to other regions of the world to be very minimal. Markets seem to have already digested the current situation and on the contrary any diffusing of the scenario will be a good catalyst for a sharp up move. It is a positive that NATO has preferred to stay away from military confrontation for now and is using the economic sanctions route to put extreme pressure on Russia as a means to defuse the situation.

Market behavior during conflicts. (India and Global markets)

Though not directly co-related, previous instances of military confrontation globally have not led to sustained pressure on equity markets. In fact, markets have moved higher once the issue was behind us. The table below lists a few of such instances in the past.

		S&P500 Performance (%)				
Date	**Conflict**	**-1m**	**-1w**	**+1w**	**+1m**	**+3m**
15-May-48	Arab-Israeli War	0.1	(2.7)	10.9	2.0	(0.8)
25-Jun-50	Korean War	2.4	1.6	(10.0)	1.5	4.9
1-Nov-54	Algerian War	(1.5)	(0.7)	6.9	15.5	19.4
1-Nov-55	Vietnam War	(3.2)	0.3	7.3	4.1	13.9
5-Jun-67	Six-Day War	(6.4)	(0.7)	3.3	6.5	7.7
8-Mar-69	War of Attrition	(4.7)	0.3	1.5	3.5	(6.0)
6-Oct-73	Yom Kippur War	(4.5)	1.5	(4.5)	(10.0)	(15.3)
29-Mar-76	Dirty War	2.7	(1.0)	(0.3)	1.4	2.9
22-Sep-80	Iran-Iraq War	3.5	1.2	1.2	4.1	2.8
2-Apr-82	Falkland Islands War	2.2	2.8	1.1	(6.5)	6.0
2-Aug-90	Gulf War	(2.2)	(1.2)	(3.3)	(8.2)	(11.3)
6-Apr-92	Bosnian Conflict	0.3	0.6	0.1	2.8	2.0

Closer home, the Kargil confrontation between India and Pakistan also saw a sharp correction in the markets in mid-1999. However, markets rallied sharply as realization dwelled that this would be a short-lasting conflict. Off course, strong global markets did lend a helping hand in this sharp rally.

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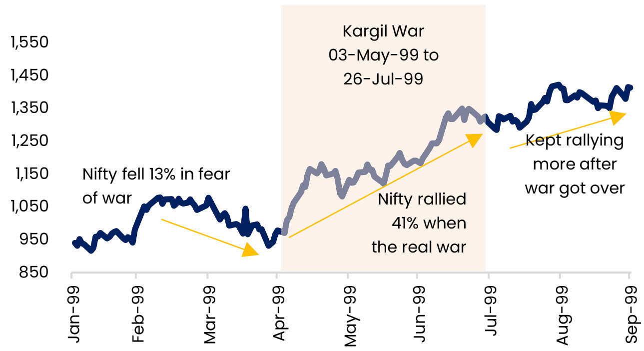
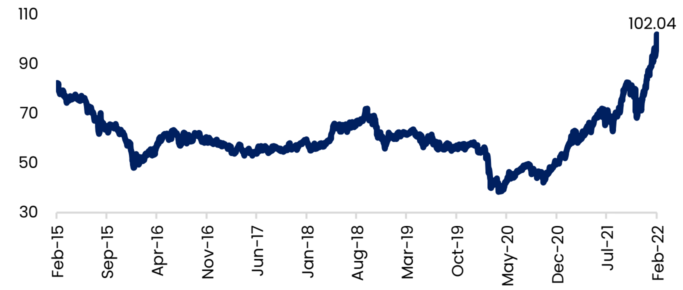
Nifty 50 Performance during Kargil War



Brent Crude (USD/bl)



Note: 7 year data as on February 24, 2022.

It is very evident that markets react with heightened volatility on expectations of a negative event. However, as the event unfolds and there is a realisation that the situation might get diffused, the rally in equity markets is much sharper.

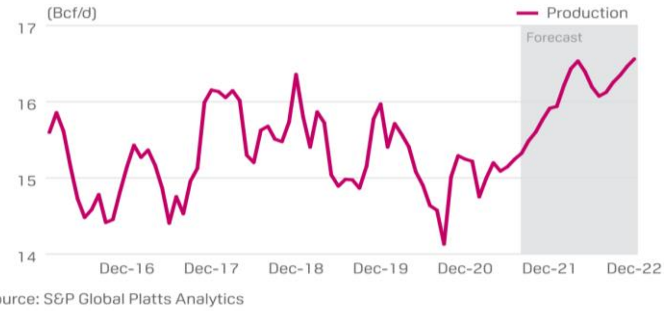
Crude oil prices:

Crude oil prices have flared up to over USD 100 a barrel. However, we believe that the probability of oil being closer to USD 70 per barrel by June/July 2022 is very high. A combination of the Russia/Ukraine situation diffusing (USD 20 per barrel rise is due to this event), additional production due to higher oil prices by OPEC+ countries, sharp increase in shale production in US and Canada, increase in production by countries such as Iran and winter led peak oil demand reducing with the advent of spring/summer; should lead to oil prices coming back to semblance. The long-term trajectory for fossil fuel prices should be softer as adaption of renewables and alternatives continues to gather pace.

Global oil supply is likely to remain constrained in the near term underpinned by OPEC+ producing well below its production targets and the US production remaining range bound. However, lifting of sanctions on Iran could provide some respite by gradually adding ~1.3 mn b/d of supply. Prior to the Russia event industry, experts were predicting oil supply to increase steadily at least till Jan-23 and this trend should only accelerate.

US and OPEC+ Supply to help normalise the 2022 balance

Canadian Production on path for new highs



Source: S&P Global Platts Analytics

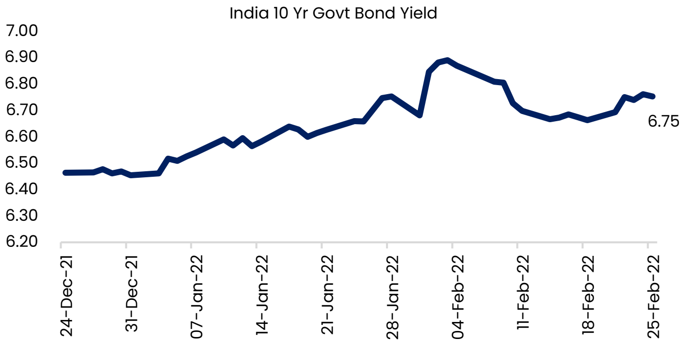
Supply: Broad based growth anticipated in '22 in base case

Source: Macquarie

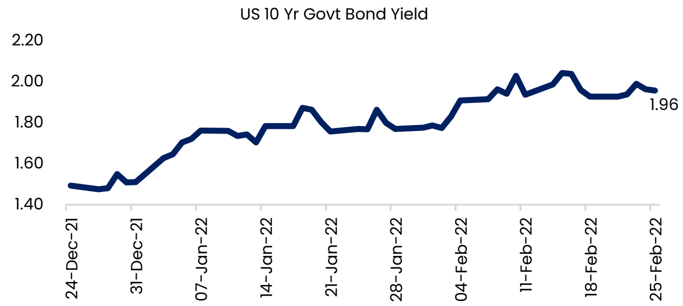
Inflation/Interest rate rise:

We feel Inflation and interest rate hike fears also seem to be now discounted by the markets. In fact, if our oil topping out view comes true, there might be a positive surprise on this front. US 10-year yields have reacted a bit from 2% to 1.94% and in India too, the 10-year yields have come off to less than 6.75% from 6.94% over the last week or so.

CME's Fed Watch tool showed that traders now see only a 9.5 percent chance of the US central bank hiking rates by 50 basis points as against 45 percent probability only a week ago. Similarly, traders are now nearly certain that the Fed will only raise interest rates by 25 basis points



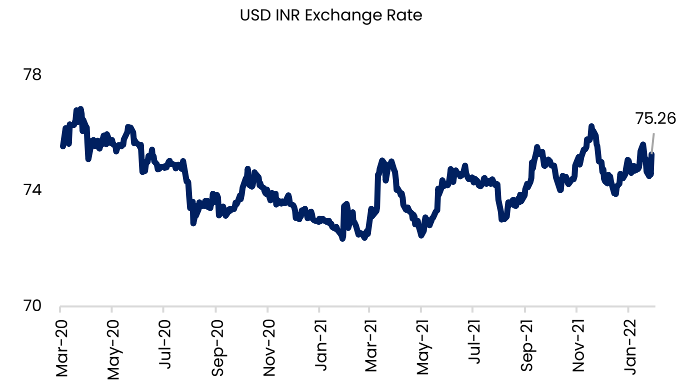
Note: 2 month data as on February 25, 2022



Note: 2-month data as on February 25, 2022

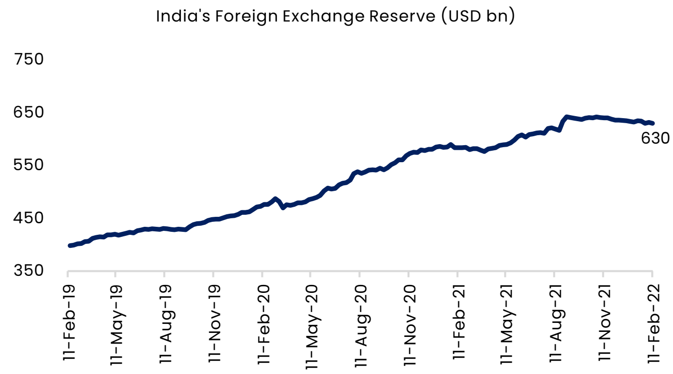
Stable Re/ Currency Stability:

Amidst all the global volatility and concerns off late, **INR has been very resilient**. INR in fact has appreciated to USD 75 levels vs the highs of 75.75 before the Russia/Ukraine crisis emerged. This move is despite crude prices hitting 7-year highs and huge FII outflows. This has been led by lower current account deficit (in fact surplus in 5 out the last 6 quarters) and strong reserves. We believe the INR performance showcases the strength of the Indian economy and should give comfort to long-term global investors.



Note: 5 year data as on February 24, 2022

Forex Reserves Data



Note: 3 year data as on February 11, 2022

Equity performance of major emerging markets

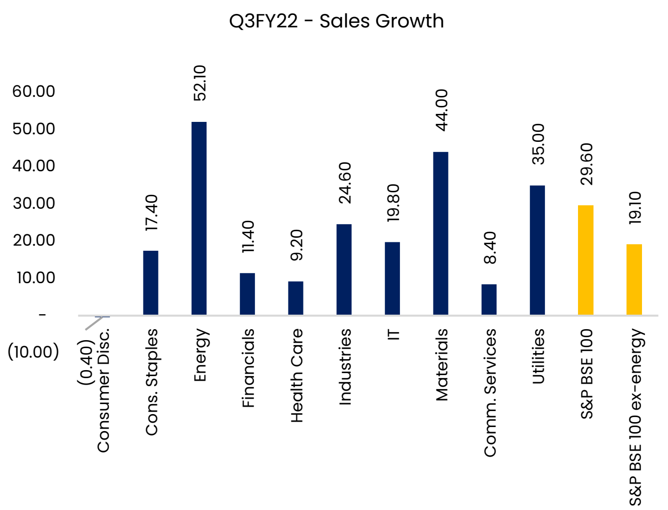
India has not only been the best performing in the emerging markets over the last 3-5 year period, but also the most stable. With global investors facing huge losses, first in China due to erratic government policy announcements and now in Russia due to the recent event, the advantage of investing in a very stable democracy like India could not have been more pronounced. We expect this to be a major reason for disproportionate inflows within the emerging market basket into Indian equities over the next few years. There is a fair chance that if sanctions are implemented then Russian markets might be removed from the MSCI/FTSE global indices and that will also lead to increase in weightage for Indian equities, leading to higher flows. India comes across as one of the best and most stable markets

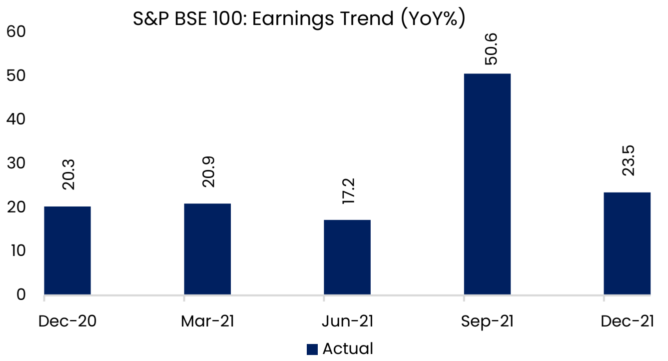
Country	1 year (%)	2 years (%)	3 years (%)	5 years (%)
Russia	(47.4)	(24.4)	(14.5)	(7.5)
China	0.0	14.7	7.2	2.8
Brazil	10.0	(3.4)	(5.3)	0.2
Turkey	(33.5)	(11.9)	(12.4)	(11.3)
India	**9.2**	**17.8**	**12.1**	**10.0**
Thailand	2.4	9.2	(1.1)	2.6
Indonesia	8.6	11.5	1.2	3.2
Malaysia	(3.9)	3.2	(3.8)	(0.4)
South Africa	9.3	21.2	6.2	4.1
Mexico	16.5	8.9	3.7	1.2

Note: Data as on Feb 24, 2022. Data in USD

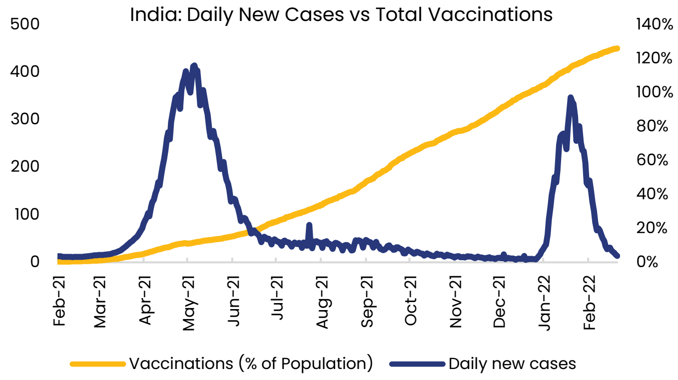
Corporate earnings have been strong for December quarter and the outlook going forward is also strong. A growth-oriented budget and normalcy in economy along with a strong latent demand should ensure that both GDP growth and corporate earnings growth should trend better than expected.

Aggregate top BSE 100 companies reported a strong 30% revenue growth and the trend here continues to be better than estimates. On the earnings front unprecedented inflationary pressures from rising commodity and energy prices have impacted near term margins leading to lower EBITDA but strong 24% PAT growth. We believe that revenue growth will take care of slightly lower margin and ensure healthy profit growth.





Amid all the noise, we have completely ignored the quick **allaying of Covid 3rd wave – Omicron fears**. Cases in India are now at all-time lows and the economy is back and truly on way to normalcy.



Source: Worldometers

Our View / Conclusion:

All in all, we believe that the current correction should be used as an opportunity to invest rather than be fearful. We continue to maintain our stand that the past two years market returns were extraordinary and will not be repeated but decent mid-teen returns over the next 3-4 years are still possible. A near-term event to be watched will be the state elections, particularly the outcome in Uttar Pradesh.

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Source: NSDL, PTI, ANI, Bloomberg, BSE, NSE, Abakkus Estimates

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