Market Update

February 2022

The volatility and sharp swings in global equity markets, witnessed over the last few months, continued in January as well; a result of hawkish Fed commentary, rising crude and commodity prices, inflation fears, rising yields and mixed corporate earnings. Indian markets were no different. Although the year 2022 began strongly, equities saw bouts of upswings as well as pullbacks throughout the month with Nifty 50 eventually ending the month flattish. The broader markets represented by S&P BSE Midcap and S&P BSE 250 SmallCap were marginally down during January. FIIs continued to be large net equity sellers of Indian equities to the tune of ~USD 4.5 bn in January. 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 2.9 bn in January.

Globally, there was heightened volatility led by Fed taper and expectations of rate hike. Wild swings were rampant, particularly in the tech and growth heavy NASDAQ-100. Sharp fall was witnessed in stocks of companies that have been recently listed at valuations not seen for a long time. The extent of volatility can be gauged by the fact that Facebook lost a record ~USD 250 bn in market cap in one day and Amazon gained a huge ~USD 200 bn in market cap, again in a single day.

CPI rose to 5.6% in December 2021, remaining within the central bank's 2-6 percent target range for a sixth consecutive period. WPI inched down to 13.6% in December 2021 from 14.2% in the previous month, which was the highest in more than a decade. IIP increased 1.4% in November of 2021.

Union Budget 2022

FY23 budget clearly shows the focus of the government to drive Capex growth (up 25% YoY to USD 100 bn) through government spending. CAPEX as a percentage of GDP at 2.5% is the highest in 24 years (since FY99). A lot of focus was on growth of the economy and creating employment opportunities by encouraging manufacturing and small businesses. Crucial announcements were made with respect to Digital Currency, Optical Fiber in all villages, 100% Electrification of Railways, Green Push, building Electric Vehicles Infrastructure including battery swapping policy for EV.

Indian Government had targeted a fiscal deficit at 6.8% of GDP for FY22. Despite huge relief packages announced due to the pandemic, government has managed to keep it at 6.9%. FY23 fiscal deficit has been budgeted at 6.4%. The positive is that both the tax revenues targets and divestment targets seem to be very conservative and actual numbers should be much higher. Bond yields though went up sharply by 20 bps to 6.9%, on higher borrowing numbers as per the budget. Overall, the markets responded to the budget quite positively.

Covid

India's Covid trajectory in the ongoing Omicron surge seems to be on a declining trend and there are early indications of a plateauing of cases in certain geographies. However, the trend needs to be observed and requires precaution. Most Cities and States are opening up and normalcy is returning in economic activity across the country.

The Ministry of Health and Family Welfare said on Monday that India's Covid-19 vaccination coverage has crossed ~1.6 bn. The ministry added that more than 10 mn precaution doses (3rd booster dose) have been administered across the country until 31st Jan 2022.

Market Outlook

The markets went into the Union Budget 2022 light and with low expectations. With 5 upcoming state elections, there were concerns that the Budget would be largely populist. However, announcements were positive for economic growth with focus on capital spending and private sector Capex. The revenue estimates seem to be conservative and hence we believe government borrowings may be below the estimates. With interest rate hikes getting factored in and global markets also showing signs of stabilizing, Indian markets also should stabilize with an upward bias.

With budget behind us, market focus will now move towards UP elections scheduled in March. The initial polls seem to be pro ruling party and if there are no surprises here UP elections can be a positive trigger. FII flows have been sharply negative in the recent past. However, we expect flows to start turning positive with growth rates in India looking surely strong. Corporate earnings growth trajectory also looks strong and valuations though not cheap, are not excessively expensive too.

We remain constructive on the Indian markets but clearly continuing to focus on fundamentals, earnings and earnings growth. New age companies have created great businesses. But for most of them their valuations and constant cash burn makes us believe that they are not suited for public market investors and are best avoided.

Source: NSDL, PTI, ANI, Bloomberg, BSE

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Contact us

Website: www.abakkusinvest.com | Email: info@abakkusinvest.com | Tel: 022-68846600

Corporate and Registered Address:

Abakkus Corporate Center, 6th Floor, Param House, Shanti Nagar, Near Grand Hyatt, Off Santacruz Chembur Link Road, Santacruz East, Mumbai - 400055. India.

LLPIN: AAM-2364