# Market Outlook

Abakkus
Believe in the Basics

**August 2022**

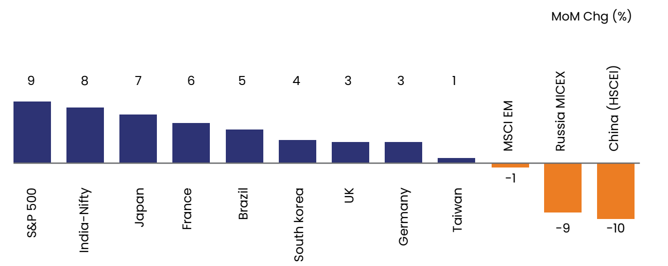
## Market Update

The month of July witnessed a very welcome and sharp rally in equities globally. After the sharp fall in the months of May and June, this up move did come as a boost to the confidence of investors. A sharp correction in commodities triggered views that worst of inflation is behind us. The ensuing fall in interest rate yields aiding the sentiments and a decent earnings quarter added to the optimism. Indian equity markets too participated in this global move and rallied sharply with NIFTY50 being up 8.7%, with S&P BSE Midcap and S&P BSE SmallCap 250 keeping pace. Real estate, metals and capital goods sectors saw the sharpest bounce and were followed by heavyweight Banking and FMCG sectors. There was also a visible change in FII behaviour towards Indian equities. After a record selling of ~USD 50 bn in the past 8-9 months, July saw a turnaround wherein FII's bought ~USD 0.6 bn. While the absolute figure is modest, it was the change in liquidity pattern which acted as a key catalyst. Domestic institutions remained net buyers with an inflow ~USD 1.3 bn. Over the past 12 months domestic institutions have increased their ownership in NIFTY50 by ~ 120 bps to 18% at the expense of FII's (Source: MOSL).

## India outperforms key global markets in Jul'22

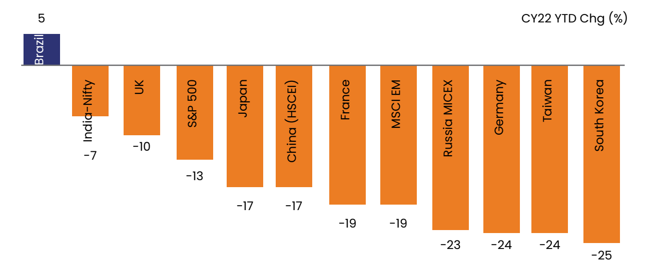
Indian equities continued to outperform major global equity markets in July. Even on a YTD basis in 2022, Indian equities have been better performer despite record FII selling, a reflection of a strong domestic economy and a robust growth outlook.

**World equity indices (MOM) in USD terms (%) - Jul'22**




Source: MOSL

**World equity indices YTD' CY in USD terms (%)**



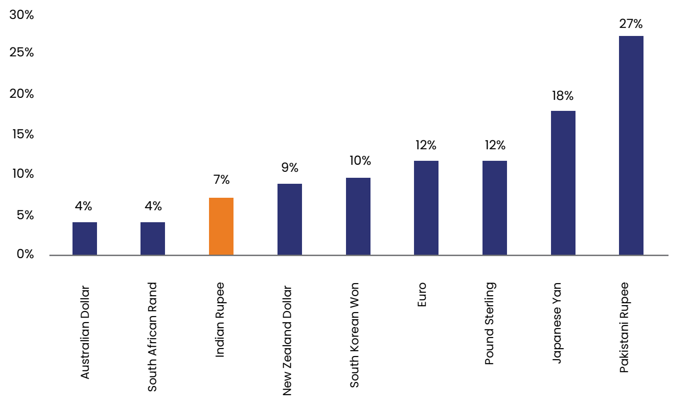

Source: MOSL

## Macro Update

India's July'22 manufacturing PMI came in with a positive surprise print of 56.4 vs 53.9 in June'22. On the economy front, domestic demand indicators remained strong with eight core sector IIP growing by 12.7% in June'22, against 9.4% a year-ago. IIP growth rose sharply in May'22 came in at 19.6% compared to 7.1% in April'22. GST collection in July'22 was second highest ever and at INR ~1.49 lakh crore grew by 28% Y-o-Y.

June'22 CPI inflation came at 7.0% YoY while wholesale inflation for June'22 saw marginal dip to 15.2% YoY, from 17 years high 15.9% YoY in the month of May'22. INR hit an all-time low of over 80 against the USD before regaining strength to 79. INR continues to be amongst the best performing currencies.

**Depreciation currencies against USD in Calendar Year 2022 (as on 8th August 2022)**




Source: Bloomberg, Data as of 8th August 2022

During the month, GOI announced windfall taxes on oil and refinery companies on July 1st. Following a decline in international prices, govt quickly reviewed and reduced the windfall tax on petrol, diesel, ATF and crude oil. GOI also revised GST rates for several items.

FY period: April-Mar, CPI: Consumer Price Index, WPI: Wholesale Price Index FII: Foreign Institutional Investors, GST: Goods & Services Tax, DII: Domestic Institutional Investors Fed: US Federal Reserve, IIP: Index of Industrial Production, GSec: Government of India Dated Securities, GOI: Government of India, FDI: Foreign Direct Investment, CAD: Current Account Deficit, YTD: Year To Date, CY: Calendar Year, WTI: West Texas Intermediate

Inflation numbers released with 1 month lag, Core Sector number released with 1 month lag, IIP number released with 2 month lag

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

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**Quarterly Earnings Update**

Domestic earnings season has been broadly decent so far with indications of healthy demand environment. Despite there being pockets of margin pressure, there has still been decent profit growth driven by price-action and operating leverage. Q1FY23 earnings season early trend for 91 companies out of NSE 200 shows sales growth at 41% YoY, albeit on a lower base. Margins though have come in at three-year lows, a function of sharp increase in input costs. Profit growth of 13% YoY has been strong, led by sharp increase in profits from the financial sector. (Source: Dam Capital)

**Market Outlook**

Most concerns that the markets face today are more global rather than local. Geo-political issues related to the Russia-Ukraine conflict and now the China-Taiwan standoff continues to be factors that merit tracking. Record inflation and sharp increases in interest rates have evoked fears of demand slowdown and recession/ stagflation worries.

However, there has been a sharp fall in commodity prices over the last couple of months. Our view on crude is also of a weakening trend (refer Market Update – July 2022) and off late WTI crude has indeed fallen to a five-month low of below USD 90 per barrel. This has led to a view that inflation would have peaked and interest rate increases going forward might not be as aggressive as seen recently.

Despite the spill over of the global geo-political tensions and financial market volatility, Indian economy has stayed on the path of improvement and economic revival. The movement of various high frequency indicators reiterates the momentum in the domestic economy. Economic cycle now has more legs (manufacturing revival, capex, global exports) vs consumption led earlier cycle. Macro-economic factors like fiscal deficit, forex reserves, liquidity etc are strong. India's macros are well placed within the emerging markets landscape and cannot be missed on global investment landscape.

Normal monsoons bode well for the rural economy and an ensuing normal festive season (last two years impacted due to covid restrictions) should aid robust consumer demand over the next few months.

Overall, we remain constructive on the equity markets. However, patience and careful discretion is going to be the better strategy going forward.

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**Principal Officer/Compliance Officer Details under IA:**

Mr. Biharilal Deora,
Tel: 022-68846600
Email: compliance@abakkusinvest.com

**For Queries/Grievances**

Email: compliance@abakkusinvest.com

**Contact Us**

**For Investor Service Queries**

Write to us at service@abakkusinvest.com or call at
+91 22 68846601 or +91 22 68846602

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

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| Website | : www.abakkusinvest.com |
| Email | : info@abakkusinvest.com |
| Telephone | : 022-68846600 |
| LLPIN | : AAM-2364 |