MONTHLY UPDATE
APRIL 2022

21 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

Apr, 2022

"Chains of habit are too light to be felt until they are too heavy to be broken."

- *Warren Buffet*

Equity markets

Indices	29th Apr 2022	31st Mar 2022	1 Month Return (%)	1 Year Return (%)
BSE Sensex	57,061	58,569	-3%	17%
S&P CNX Nifty	17,103	17,465	-2%	17%
BSE 100	17,575	17.724	-1%	18%
BSE Mid Cap	24,418	24,108	1%	20%
BSE Small Cap	28,612	28,216	1%	32%

Source: Bloomberg

During Apr'22, domestic equity indices had a subdued performance - large cap fell 1-3% MoM while the mid and small cap index outperformed, up 1% MoM. On a 1-year basis, the Small cap index has outperformed the large and mid cap indices. Over the past one year, Sensex and Nifty were up 17% each while BSE Mid cap and Small cap index were up 20% and 32% respectively.

During Apr'22, performance across the sector indices was mixed. The performance ranged from -12% to +6%. FMCG and Auto sector gained the most; up 6% and 5% respectively while IT and Realty sector underperformed; down 12% and 3% respectively. On a 1-year basis, Utilities sector is the best performing sector gaining 92% followed by Realty and Capital Goods sector respectively. FMCG and Auto are the bottom two sectors; up 4% and 8% each respectively.

The yield of benchmark 10-year G-sec moved to 7.14% at the end of Apr'22 from 6.84% at the end of Mar'22.

Global equity indices were mostly down during the month. The NASDAQ and S&P 500 were the worst performing indices, down 13% and 9% respectively during the month. On a 1 year basis, FTSE 100 has gained the most, up 8%.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	-2%	7%
Silver	-8%	-12%
Crude Oil	1%	63%
Copper	-7%	-2%
Aluminum	-13%	27%
Lead	-7%	5%
Nickel	-1%	80%
Tin	-7%	32%
Zinc	-2%	42%

Source: Bloomberg

All major commodities fell during Apr'22 except Crude which rose 1% MoM. Aluminum and Silver fell the most, down 13% and 8% respectively.

On a YoY basis, most major commodities have posted YoY gains. Nickel has appreciated the most up 80% YoY.

Macro Economic Data

Indicators	Jan-22	Feb-22	Mar-22	Apr-22	Comments
IIP (YoY, %)	1.5%	1.7%			Industrial output marginally grew by 1.7% yoy in Feb’22 vs. 1.5% yoy growth in Jan’22, mainly led by the increase in mining output (4.5% yoy in Feb'22) and electricity output (4.5% yoy in Feb'22). On the other hand manufacturing output marginally grew by 0.8% yoy in Feb'22.
Core Sector (YoY, %)	4.0%	6.0%	4.3%		Core sector output grew by 4.3% yoy in Mar’22 led by the increase in Fertilizers product (15.3%), Cement output (8.8%) and Natural Gas (7.8%).
RBI monetary policy (Repo Rate) (%)	4.00	4.00	4.00	4.4% (May'22)	RBI kept repo rate unchanged at 4% as on Apr'22 monetary policy. But on 4th May'22, RBI increased the repo rate by 40bps 4.4% and CRR by 50bps to 4.5%.
CPI inflation (%)	6.0%	6.1%	7.0%		CPI inflation rose to 7% in Mar’22 from 6.1% in Feb’22, led by the increase in food inflation from 5.9% in Feb’22 to 7.5% in Mar’22
Trade Deficit ($, bn)	-17.4	-20.9	-18.5	-20.1	In Apr’22, exports grew by 24.2% to $38.2bn, while imports grew by 26.6% to $58.3bn, as a result trade deficit widened to $20.1bn in Apr’22 vs. $18.5bn in Mar’22.
GST Collection ($, bn)	1384	1330	1421	1675	Total gross GST revenue collections in Apr’22 stood at Rs. 1,675bn, following Rs. 1,421bn collection in Mar’22.
FII Flows-Equity ($, bn)	-4.46	-4.74	-5.38	-2.24	On equity side, FPIs sold $2.24bn in Apr’22, following an outflow of $5.38bn in Mar’22. On debt side, FII sold $0.58bn in Apr’22, following an outflow of $0.74bn in Mar’22.
FII Flows-Debt ($, bn)	0.70	-0.41	-0.74	-0.58	
Exchange Rate (INR/USD)	74.97	75.49	75.81	76.52	Indian Rupee depreciated by 1% during Mar'22, as it closed at 76.5 in the end of Apr’22 from 75.8 at the end of Mar’22 per dollar.
GDP (%)					Real GDP grew by 5.4% in Q3 FY22 vs. 8.5% growth in Q2 FY22 led by the sharp jump in investment (8.3% in Q3 FY22) and HH consumption (7% in Q3 FY22)

Outlook

India was a relative outperformer in April when compared to both developed and emerging markets, with MSCI World posting returns of -8.4% and MSCI Emerging Markets -5.7%. Within the developed markets, the US was a relative underperformer with S&P 500 and Nasdaq returning -8.8% and -13.3% respectively.

After a rally since the start of Russia-Ukraine conflict, most commodities consolidated their gains in April. There has been some pullback from the recent highs, but the prevailing levels are still significantly higher than the pre-conflict period. Sustenance of prices at higher levels has worsened an already difficult situation as far as inflation is concerned.

After delivering on its first rate hike, the US Fed has become incrementally more hawkish on both the need to upfront rate increases as well as the overall quantum of rate hikes required. RBI also, in its recent MPC meeting, has decidedly shifted away from being dovish. The accommodative stance is now geared towards being withdrawn to ensure inflation remains within target.

Meanwhile, the Russia-Ukraine conflict has gone on for much longer than originally anticipated. The peace talks have not yielded any results so far and as of now, there's no visibility of a solution that is acceptable to all stakeholders. As a result, the possibility of a further escalation can't be ruled out. The resultant uncertainty has triggered a global risk-off which is visible in huge outflows that most emerging markets in general and India in specific have been witnessing. April saw FII outflows of $3.6bn taking the cumulative calendar YTD outflow number to $17.1bn. Most of the sectors and stocks that FIIs have been heavily invested in have been at the receiving end of this trend. Had it not been for the equally strong inflows that domestic institutions especially mutual funds have been receiving (DIIs were net buyers to the tune of $17.3bn of which MFs were $11.5bn), the markets may have been at lower levels.

The ongoing Q4 results season has been mixed so far. Results of domestic Consumer facing industries have shown a slowdown in volume growth because of significant price increases that have been taken to counter the rising raw material inflation. Gross margins have also taken a hit because of companies' inability to pass on the entire increase. IT companies, with a few exceptions, have reported strong revenue performance but have taken a hit on margins because of rising employee costs. Results in Financial sector have been very good on asset quality but mixed on margins and operating costs. The real brunt of recent commodity increase will be visible in Q1FY23 results which will keep pressure on earnings estimates.

At present, Nifty earnings are expected to grow at a CAGR of 22.5% from FY21-24. As discussed earlier, near term is going to be volatile given multiple headwinds, ranging from geo-politics to inflation to extent of rate hikes and pressure on earnings from slowdown and margins. In this overall context, valuations at 17.9xFY24 earnings are quite full, making us cautious in the short term. However, we would be optimistic from a medium to long term point of view as we expect a cyclical recovery in the economy and earnings after several years of sub-par growth.

Fixed Income Market

Fixed Income Market Review

The Russia – Ukraine war continues into its third month fuelling fears of higher inflation driven by the rising commodity prices and the supply constraints. Brent Crude Oil prices continued to remain elevated as western countries' sanctions on Russian output are tightened. However, China's stringent lockdowns to curb rising Covid cases has raised growth concerns, capping the rising oil prices. Brent crude oil closed higher at 107 per barrel. Inflation in US continued to surprise on the higher side with the last inflation rising to 8.5%, raising expectation of accelerated rate hikes, pushing the US 10yr yield sharply higher to 2.93% for the month from its previous month's close of 2.35%. In a surprise move, the RBI MPC shifted its monetary policy stance by being "less accommodative while focusing on the withdrawal of accommodation". The MPC also introduced the Standing Deposit Facility (SDF) and set it as the floor for the LAF corridor at 3.75%, thereby effecting an implicit rate hike of 40bps although the MPC unanimously voted to keep repo rate and the stance unchanged. The MPC sharply revised up its headline inflation forecasts for FY2023 to 5.7% from its earlier forecast of 4.5%. In view of the rising inflation concerns, the MPC shifted its priority to inflation control over growth. In the domestic market, resumption of GSec supply pushed the 10yr benchmark yield higher to 7.25% during the month, before a short-covering rally pulled it lower to 7.03%. The domestic 10yr benchmark bond closed at 7.14% against 6.84% at the end of the previous month.

Among data releases, India's CPI inflation rose to a 17-month high of 6.95% yoy, in Mar-22 from its previous reading of 6.07% in Feb-22. Core inflation (CPI Ex-Food Ex-Fuel) shot up to 6.3% from its previous reading of 6%. Headline WPI inflation for March 2022 rose sharply to 14.55%, compared to 13.1% recorded in February 2022.

India's trade deficit in March came at $18.5 bn lower than USD 20.9 bn of February. Among other economic data, IIP growth for February 2022 printed at 1.7%, higher than the revised reading of 1.5% in January 2022. Goods and Services Tax (GST) revenue collection for April came at an all time high of Rs 1,67,540 cr. India's Nikkei Markit Manufacturing PMI rose to 54.7 in April 2022, against 54 in the previous month.

Market Outlook –

With the war between Russia and Ukraine getting prolonged, commodity prices are expected to remain elevated. Across the globe Central bankers are concerned about inflationary pressures on the economy. In India too, the sudden shift of MPC's focus from growth to inflation will continue to put upward pressure on bond yields as more rate hikes are priced in. Emerging markets are likely to face pressure with regard to inflation and a depreciating currency as foreign capital rushes to safe haven assets. Expectations of accelerated rate hikes in the US, has inverted the US yield curve, putting pressure on EM bond yield as well. However, with China facing severe lockdowns to curb rising covid cases, faltering growth has raised concerns of a slowdown once again.

With an average supply of 32k crs per week, supply is likely to outweigh the demand and compel RBI to take some steps to keep the rising bond yields in check. But soaring commodity prices, coupled with monetary policy normalization, a huge bond supply and an adverse global bond yields environment are expected to lead to further hardening of bond yields, though any measures taken by RBI to provide support to the bond markets may slow down the pace of yield movements.