MONTHLY UPDATE
FEBRUARY 2022

21 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

Feb, 2022

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

\- *Warren Buffet*

Equity markets

Indices	28th Feb 2022	31st Jan 2022	1 Month Return (%)	1 Year Return (%)
BSE Sensex	56,247	58,014	-3%	15%
S&P CNX Nifty	16,794	17,340	-3%	16%
BSE 100	17,043	17,618	-3%	16%
BSE Mid Cap	23,356	24,613	-5%	17%
BSE Small Cap	26,662	29,227	-9%	32%

Source: Bloomberg

During Feb'22, domestic equity indices had a weak performance - large cap indices fell 3% MoM while the mid and small cap indices under performed with the BSE Mid and Small Cap Index, down 5% and 9% respectively MoM. On a 1-year basis, the mid and small cap index have outperformed the large cap indices. Over the past one year, Sensex and Nifty were up 15% and 16% respectively while BSE Mid cap and Small cap index were up 17% and 32% respectively.

During Feb'22, performance across the sector indices was mixed. The performance ranged from -9% to +9%. Metals and Consumer Durables sector gained the most; up 9% and 3% respectively while Realty and O&G sector underperformed; down 9% and 7% respectively. On a 1-year basis, Utilities sector is the best performing sector gaining 59% followed by Metals and IT sector respectively. Banking and Auto are the bottom two sectors; up 7% each respectively.

The yield of benchmark 10-year G-sec moved to 6.77% at the end of Feb'22 from 6.68% at the end of Jan'22.

Global equity indices were mostly down during the month. The SHANGHAI Index rose the most, up 3%.The DAX and CAC 40 were the worst performing indices, down 7% and 6% respectively during the month. On a 1 year basis, CAC 40 has gained the most, up 17%.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	6%	10%
Silver	9%	-8%
Crude Oil	11%	53%
Copper	3%	9%
Aluminum	11%	58%
Lead	6%	17%
Nickel	8%	33%
Tin	5%	72%
Zinc	2%	32%

All major commodities rose during Feb'22. Crude Oil and Aluminum gained the most, each up 11% MoM.

On a YoY basis, most major commodities have posted YoY gains except silver. Tin has appreciated the most.

Source: Bloomberg

Macro Economic Data

Indicators	Nov-21	Dec-21	Jan-22	Feb-22	Comments
IIP (YoY, %)	1.3%	0.4%			Industrial output marginally grew by 0.4% yoy in Dec'21 vs. 1.3% yoy growth in Nov'21, mainly led by the increase in mining output (2.6% yoy in Dec'21) and electricty output (2.8% yoy in Dec'21). However, manufacturing output marginally declined by 0.1% yoy in Dec'21.
Core Sector (YoY, %)	3.4%	4.1%	3.7%		Core sector output grew by 3.7% yoy in Jan'22 vs. 4.1% yoy in Dec'21 led by the increase in Coal (8.5% in Jan'22),cement output (13.6% in Jan'22) and Natural gas (11.7% in Jan'22).
RBI monetary policy (Repo Rate) (%)	4.00	4.00	4.00	4.00	RBI kept repo rate unchanged at 4% as on Feb'22 monetary policy.
CPI inflation (%)	4.91%	5.66%	6.01%		The CPI inflation rose to a 7-month high of 6% in Jan'22 from 5.7% in Dec'21 as food inflation rose to 5.6% in Jan'22 from 4.5% in Dec'21.
Trade Deficit ($, bn)	-21.1	-21.7	-17.4	-21.2	In Feb'22, exports grew by 22.4% to $33.8bn, while imports grew by 35% to $55bn, as a result trade deficit widened to $21.2bn in Feb'22 vs. $17.4bn in Jan'22.
GST Collection ($, bn)	1315	1298	1384	1330	Total gross GST revenue collections in Feb'22 stood at Rs. 1,330bn, following Rs. 1,384bn collection in Jan'22.
FII Flows-Equity ($, bn)	-0.79	-2.52	-4.46	-4.74	On equity side, FPIs sold $4.74bn in Feb'22, following an outflow of $4.5bn in Jan'22. On debt side, FII sold $0.41bn in Feb'22, following an inflow of $0.7bn in Jan'22.
FII Flows-Debt ($, bn)	0.13	-1.56	0.70	-0.41	
Exchange Rate (INR/USD)	75.09	74.30	74.97		Indian Rupee depreciated by 0.9% during Jan'22, as it closed at 74.97 in the end of Jan'22 from 74.3 at the end of Dec'21 per dollar.
GDP (%)		5.4%			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

Global equities continued their decline in February on backdrop of rising geopolitical risks with Russia attacking Ukraine towards the end of the month. All major western markets declined with Dow Jones, S&P 500 and Nasdaq in US declining by 3.5%, 3.1% and 3.4% respectively and DAX and CAC in Europe declining by 6.5% and 4.9% respectively in local currency.

Russia and Ukraine hold prominent position in production of several commodities- crude oil, aluminum, gas, sunflower oil, wheat, fertilizers etc, thereby raising likelihood of higher commodity prices and inflation. Brent crude prices rose 10.7% in February to close at US$101/bbl with price crossing triple digit mark after 7 years. Long term impact on gas markets also is worrisome as Europe gets 35% of total gas supply from Russian pipeline imports. The escalating tension comes at a time when inventories of many non-energy commodities are low. Western countries have imposed unprecedented sanctions against Russia and this could result in trade and supply disruption. Rising energy cost could further increase the cost of production for many commodities and stoke inflationary fear. We believe all this could weigh on global growth as well.

Indian equity markets also corrected amid Russia-Ukraine crisis. February month also saw by sharp rise in volatility with NSE Volatility Index rising by 30% over last month. Surging commodity prices including oil is a big worry for the Indian economy as it could widen current account deficit, drag growth and increase inflationary pressures. While the corporate India’s earnings growth has been robust so far, we believe headwinds are rising for coming quarters as we expect muted consumer demand to impact top-line growth and unprecedented rise in commodity prices to weigh on margins. FII’s continued to be net sellers in February with selling of USD 4.5bn while DIIs continued to remain net buyers with buying of USD 5.6bn.

We expect the global equity markets to remain volatile in near term on account of escalating geopolitical tensions, change in global monetary policy stance on back of inflation risks and elevated commodity prices. The situation in Russia-Ukraine conflict also remains highly uncertain; where further escalation of hostilities could increase risk averseness and any resolution could lift investor sentiments. In this overall context, we remain cautious in the near term. Nifty is now trading closer to its 5 year average at 19xFY23e against expected 20% CAGR growth. We remain optimistic from a medium to long term point of view as we believe gradual recovery in the economy and earnings to continue after several years of sub-par growth.

Fixed Income Market

Fixed Income Market Review –

Bond yields were volatile during the month as multiple events beginning with the the Union Government Budget followed by RBI monetary policy meeting and subsequently Russia-Ukraine war swayed bond markets. The union budget provided a nasty surprise to the bond markets with its significantly higher than expected government borrowing of 14.3trn for FY23, against expectations of about Rs 12.5 trn. Bond yields spiked to touch 6.97% before RBI cancelled the remaining bond auctions for FY22 and a dovish MPC further soothed the market nerves, resulting in bond yields falling sharply to 6.62%. Inflation in US continued to surprise on the higher side, resulting in US 10yr spiking on fear of faster than anticipated rate hikes. The 10yr UST yield rose sharply to a fresh high of 2.06% from its previous month's close of 1.78% before settling at 1.82%, for the month. Meanwhile, Brent Crude Oil price rose sharply from its previous close of USD 89.2 per barrel to USD 101 per barrel, as Russia declared war on Ukraine, thereby drawing multiple sanctions on Russia and oil traders shunning Russian crude. The domestic 10yr benchmark bond rose to 6.97% during the month, before closing lower at 6.77 %, though higher from its previous close of 6.68%.

Among data releases, India's CPI inflation rose to a 7-month high of 6.01% yoy, in Jan-22 from its previous reading of 5.59% in Dec-21. Core inflation (CPI Ex-Food Ex-Fuel) continues to stay elevated at 6%. Headline WPI inflation for January 2022 eased slightly to 13%, compared to 13.6% recorded in December 2021.

India's trade deficit in February came at $21.19 bn higher than USD 17.4 bn of January. Among other economic data, IIP growth for December 2021 printed at 0.3%, lower than the revised reading of 1.3% in November 2021. Goods and Services Tax (GST) revenue collection for February came at Rs 1,33,026 cr. India's Nikkei Markit Manufacturing PMI rose to 54.9 in Feb 2022, against 54 in the previous month, and the Services PMI also eased marginally to 51.8 in January from 51.5 in the previous month. Composite PMI rose to 53.5 in Feb 22 vs 53 in the previous month.

Market Outlook –

With the ongoing war between Russia and Ukraine, global dynamics have changed dramatically. Commodity prices have soared, fueling expectations of higher inflation in the coming months. Emerging markets are likely to face pressure with regard to inflation and a depreciating currency as foreign capital rushes to safe haven assets. Although RBI in its last MPC projected inflation to be well within its range for next fiscal year, with crude and other commodity prices shooting up meaningfully, RBI may have to reassess its projections.

With elections in major Indian states coming to the end of their polling phase, retail prices for petrol and diesel are likely to once again start increasing thereby pushing inflation higher.

RBI has been able to cool off rising bond yields post a record borrowing announced in the recent union budget by cancelling the remaining Gsec auction for the rest of FY22. But with the looming large bond supply for next fiscal, Indian bond markets are likely to be cautious and yields are likely to stay under pressure.

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.