

# MONTHLY UPDATE

## MARCH 2022



Mar, 2022

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

- Warren Buffet

### Equity markets

Indices	31 <sup>st</sup> Mar 2022	28 <sup>th</sup> Feb 2022	1 Month Return (%)	1 Year Return (%)
BSE Sensex	58,569	56,247	4%	18%
S&P CNX Nifty	17,465	16,794	4%	19%
BSE 100	17,724	17,043	4%	19%
BSE Mid Cap	24,108	23,356	3%	19%
BSE Small Cap	28,216	26,662	6%	37%

Source: Bloomberg

During Mar'22, domestic equity indices had a strong performance - large cap and mid cap indices rose ~4% MoM while the small cap index outperformed with the BSE Small Cap Index, up 6% 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 18% and 19% respectively while BSE Mid cap and Small cap index were up 19% and 37% respectively.

During Mar'22, performance across the sector indices was mixed. The performance ranged from -2% to +9%. IT and Oil & Gas sector gained the most; up 9% and 8% respectively while Consumer Durables and Auto sector underperformed; down 2% each. On a 1-year basis, Utilities sector is the best performing sector gaining 63% followed by Metals and IT 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 6.84% at the end of Mar'22 from 6.77% at the end of Feb'22.

Global equity indices were mostly flat to down during the month. The Nikkei Index rose the most, up 5% MoM. The Shanghai Composite and HANGSENG were the worst performing indices, down 6% and 3% respectively during the month. On a 1 year basis, S&P 500 has gained the most, up 14%.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	1%	14%
Silver	2%	3%
Crude Oil	7%	70%
Copper	6%	18%
Aluminum	5%	62%
Lead	1%	24%
Nickel	34%	105%
Tin	-5%	58%
Zinc	13%	48%

All major commodities rose during Mar'22 except Tin which fell 5% MoM. Nickel and Zinc gained the most, up 34% and 13% respectively.

On a YoY basis, all major commodities have posted YoY gains. Nickel has appreciated the most up 105% YoY.

Source: Bloomberg

## Macro Economic Data

Indicators	Dec-21	Jan-22	Feb-22	Mar-22	Comments
IIP (YoY, %)	0.7%	1.3%			Industrial output marginally grew by 1.3% yoy in Jan'22 vs. 0.7% yoy growth in Dec'21, mainly led by the increase in manufacturing output (1.1% yoy in Jan'22) and mining output (2.8% yoy in Dec'21). On the other hand, electricity output marginally grew by 0.9% yoy in Jan'22.
Core Sector (YoY, %)	4.1%	4.0%	5.8%		Core sector output grew by 5.8% yoy in Feb'22 vs. 4% yoy in Jan'22 led by the increase in Refinery product (8.8% in Feb'22), Steel output (5.7% in Feb'22) and Electricity (4% in Feb'22).
RBI monetary policy (Repo Rate) (%)	4.00	4.00	4.00	4.00	RBI kept repo rate unchanged at 4% as on Mar'22 monetary policy.
CPI inflation (%)	5.66%	6.01%	6.07%		The CPI inflation rose to a 8-month high of 6.1% in Feb'22 from 6% in Jan'22 as food inflation rose to 5.9% in Feb'22 from 5.6% in Jan'22.
Trade Deficit (\$, bn)	-20.6	-17.4	-20.9	-18.7	In Mar'22, exports grew by 14.5% to \$40.4bn, while imports grew by 20.8% to \$59.1bn, as a result trade deficit narrowed to \$18.7bn in Mar'22 vs. \$20.9bn in Feb'22.
GST Collection (\$, bn)	1298	1384	1330	1421	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)	-2.52	-4.46	-4.74	-5.38	On equity side, FPIs sold \$5.38bn in Mar'22, following an outflow of \$4.7bn in Feb'22. On debt side, FII sold \$0.74bn in Mar'22, following an outflow of \$0.4bn in Feb'22.
FII Flows-Debt (\$, bn)	-1.56	0.70	-0.41	-0.74	
Exchange Rate (INR/USD)	74.3	75.0	75.5	76.3	Indian Rupee depreciated by 1% during Mar'22, as it closed at 76.3 in the end of Mar'22 from 75.5 at the end of Feb'22 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

On the global front, March was an eventful month with Powell (Fed Chairperson) and Putin (Russian president) dominating the headlines. FOMC hiked rates by 25 bps and the updated dot plot implies a 25 bps rate hike every meeting. Powell also indicated that in addition to rate hikes, FOMC is likely to commence Balance sheet run off beginning next meeting. US Inflation projections were significantly raised by to 4.3% for Q4 2022 (vs. 2.6% earlier). The global policy backdrop has seen a significant u-turn in last 6 months. Both fiscal and monetary policies which were working in co-ordination to decisively support demand during the pandemic are now decisively moving towards taming inflation. This has resulted in increased volatility in risk assets.

With regards to the ongoing situation between Russia and Ukraine, there seems to be no sign of truce – however this has led commodity prices hovering at elevated levels – which can keep inflation sticky at elevated levels for long. Further, it also increases policymakers' dilemma whether to support growth (owing to war) or tame inflation.

On the domestic front, high frequency data remains mixed. GST collections, government capex spending continues to remain strong. Further core sector growth, electricity generation, credit growth are showing some signs of acceleration. However, demand especially for mass market products (2 wheelers, FMCG, etc.) continues to remain muted. With regards to inflation it remains elevated at 6%. Going ahead as well, there are upside risks to inflation as fuel price hikes have begun and even food inflation which was contained until now could start to move.

After significant correction in first two months, Nifty bounced back in March by 4%. The bounce was led more by cyclicals – banks, commodities, power, real estate, while some of the defensives like IT, pharma lagged. For the quarter as a whole, Nifty was largely flat. However, there was large polarization within it. Commodities (metals, energy) were up 20-25%, while defensive like IT and FMCG dragged the index lower. This can be attributable to a) Macro backdrop of rising rates, which hurts high PE stocks (defensives) a lot more and b) Continuous FII selling, leading to a larger sell-off in stocks with high FII ownership.

With regards to flows, FII selling remained persistent in March (although more concentrated in first half of the month). They sold ~USD5bn (INR40,000crores) worth of Indian equities in March. Cumulative in Q4FY22, they have sold equities worth INR1.1lakh crores (USD15bn) – one of the largest FII selling in a quarter and nearly double of that during Q4FY20. However, despite that market remained resilient owing to the strong domestic inflows. Monthly SIP number in March clocked a fresh high of INR12328 crores. This resilience of market amid high FII selling reflects the evolution and strength of Indian equities that has developed in recent years.

However, after two strong years of returns, FY23 outlook is more sombre. This is owing to a) Starting point of valuations being high (Nifty is trading at 20x 1Y forward PE), b) Policy support gets withdrawn globally, c) Lingering supply shocks which are now eating into demand and d) Some moderation in growth as pentup demand, especially for goods fades weighing on expectations and sentiments. Having said that, the longer outlook remains bright as domestically bank balance sheets are in a much better shape and on growth front as well, early signs of broadening of recovery are visible.

## **Fixed Income Market**

### **Fixed Income Market Review**

As the Russia – Ukraine war continues to escalate fears of higher inflation driven by the rising commodity prices and the supply constraints are dominating the financial markets. Brent Crude Oil prices rose sharply from its previous close of USD 101 per barrel to USD 139 during the month before closing at 104.7 per barrel. To tame the rising prices, US vowed to release 1million barrels per day for the next 6 months and urged other nations to follow suit. OPEC, however, in its last meeting, did not increase output to counter the supply side issue apart from it promised 0.4 MBD. In the FOMC meeting during the month, the Fed raised interest rates by 25 bps for the first time post Covid to help tame high inflation. Inflation in US continued to surprise on the higher side, raising expectation of accelerated rate hikes, pushing the US 10yr UST yield sharply higher to 2.54%, from its previous month's close of 1.82% before settling at 2.35% for the month. In the domestic market, the absence of supply in the bond market kept bond yields under check. The domestic 10yr benchmark bond rose to 6.9% during the month, before closing lower at 6.84 %, though higher than its previous close of 6.77%. At the end of the month, India released its H1-FY23 borrowing calendar at INR 8.45 trn, amounting to 59% of the full year borrowing versus a market expectation of 55%.

Among data releases, India's CPI inflation rose to an 8-month high of 6.07% yoy, in Feb-22 from its previous reading of 6.01% in Jan-22. Core inflation (CPI Ex-Food Ex-Fuel) continues to stay elevated at 6%. Headline WPI inflation for February 2022 rose marginally to 13.1%, compared to 13 % recorded in January 2022.

India's trade deficit in March came at \$18.7 bn lower than USD 20.9 bn of February. For FY22, trade deficit widened to USD 193 bn, highest since FY13 (USD 190 bn). Among other economic data, IIP growth for January 2022 printed at 1.3%, higher than the revised reading of 0.7% in December 2021. Goods and Services Tax (GST) revenue collection for Match came at an all time high of Rs 1,42,095 cr. India's Nikkei Markit Manufacturing PMI fell to 54 in Mar 2022, against 54.9 in the previous month, and the Services PMI rose up marginally to 53.6 in March from 51.8 in the previous month. Composite PMI rose to 54.3 in March 22 vs 53.5 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. Emerging markets are likely to face pressure with regard to inflation and a depreciating currency as foreign capital rushes to safe haven assets. With election behind us, pump prices have started to rise and its impact will likely be seen from next month inflation. With crude continuing to stay above USD 100/barrel, RBI is likely to reassess its inflation projection in the upcoming RBI policy. Expectations of accelerated rate hikes in the US, has inverted the US yield curve, putting pressure on EM bond yield as well.

With China facing lockdowns due to the recent surge in covid cases, fear of slow growth has once again started to emerge, keeping the hawkish central bankers in dilemma of balancing faltering growth and rising inflation.

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.