

MONTHLY UPDATE

NOVEMBER 2022



Nov, 2022

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

- Warren Buffet

Equity markets

Indices	30 th Nov 2022	31 st Oct 2022	1 Month Return (%)	1 Year Return (%)
BSE Sensex	63,100	60,747	4%	11%
S&P CNX Nifty	18,758	18,012	4%	10%
BSE 100	19,082	18,406	4%	10%
BSE Mid Cap	25,951	25,359	2%	5%
BSE Small Cap	29,520	28,818	2%	6%

Source: Bloomberg

During Nov'22, domestic equity indices continued their upward trend – Large cap indices rose 4% MoM while the Small and Mid cap Indices underperformed, up 2% MoM each, respectively. On a 1-year basis, the Large Cap indices have outperformed the Mid and Small cap Index. Over the past one year, Sensex and Nifty were up 11% and 10% each while BSE Mid cap and Small cap Index were up 5% and 6% each, respectively.

During Nov'22, performance across the sector indices was mixed. The performance ranged from -3% to +6%. Metals and O&G sector outperformed the most; up 5% each while Utilities and Consumer Durables sector underperformed; down 3% each MoM. On a 1-year basis, Utilities sector is the best performing sector gaining 36% followed by Auto and Capital Goods sector respectively. IT and Real Estate are the bottom two sectors; down 11% and 6% each respectively.

The yield of benchmark 10-year G-sec moved to 7.28% at the end of Nov'22 from 7.45% at the end of Oct'22.

All global equity indices rose during the month. The HANGSENG and SHANGHAI Index were the best performing indices, up 27% and 9% each respectively during the month while the NIKKEI Index rose the least, up 1% MoM. On a 1 year basis, FTSE rose the most, up 7% YoY.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	8%	-2%
Silver	16%	-3%
Crude Oil	-10%	21%
Copper	11%	22%
Aluminum	11%	-13%
Lead	11%	-7%
Nickel	24%	-5%
Tin	31%	34%
Zinc	12%	-42%

Major commodities rose during Nov'22. Tin and Nickel rose the most, up 31% and 24% each, respectively. Crude fell the most, down 10% MoM.

On a YoY basis, most major commodities have posted declines. Copper has appreciated the most up 22% YoY.

Source: Bloomberg

Macro Economic Data

Indicators	Sep-22	Oct-22	Nov-22	Dec-22	Comments
IIP (%)	3.1%				Industrial output grew by 3.1% yoy in Sep'22 vs. 0.7% yoy fall in Aug'22, mainly led by the fall in Mining output (4.6% yoy in Sep'22) and Manufacturing output (1.8% yoy in Sep'22)
Core Sector (%)	7.8%	0.1%			Core sector output flat in Oct'22 due to fall in Crude Oil output (-2.2% yoy), Cement (-4.3% yoy) and Refinery products (-3.1% yoy).
RBI monetary policy (Repo Rate) (%)	5.90	5.90	5.90	6.25	RBI increased the repo rate by 35bps to 6.25% in the 5th bimonthly MPC from 5.9%. Since May'22 RBI has increased the repo rate by 225bps.
CPI inflation (%)	7.4%	6.8%			CPI inflation eased to 6.8% in Oct'22 from 7.4% in Sep'22, led by the jump in food inflation from 8.4% in Sep'22 to 7% in Oct'22
Trade Deficit (\$, bn)	-25.7	-26.9			In Oct'22, exports declined by 16.7% to \$29.8bn, while imports surged by 5.7% to \$56.7bn, as a result trade deficit widened to \$26.9bn in Oct'22 vs. \$25.7bn in Sep'22.
GST Collection (\$, bn)	1477	1517	1486		Total gross GST revenue collections in Nov'22 stood at Rs. 1,486bn, following Rs. 1,517bn collection in Oct'22.
FII Flows-Equity (\$, bn)	-0.90	0.0	4.4		On equity side, FPIs purchased \$4.4bn in Nov'22. On debt side, FII sold \$0.20bn in Nov'22, following an outflow of \$0.4bn in Oct'22.
FII Flows-Debt (\$, bn)	0.51	-0.43	-0.20		
Exchange Rate (INR/USD)	81.55	82.39	81.60		Indian Rupee appreciated by 1% during Nov'22, as it closed at 81.6 in the end of Nov'22 from 82.4 at the end of Oct'22 per dollar.
GDP (%)	6.3%				Real GDP grew by 6.3% in Q2 FY23 led by the increase in HH consumption (9.7% in Q2 FY23) and investment (5.9% in Q2 FY23)

Outlook

Globally, stock indices moved up with S&P-500 index rising by 5.4% MoM. This was second consecutive month of positive return on back of 8% MoM gain in previous month. Market has rallied post lower than expected CPI in the US and build up of expectation that the peak in the rate hike cycle could be near now. The US consumer price index increased 7.7% YoY in October. The rise in inflation was less than consensus estimates – an indication that while inflation is still a threat to the US economy, pressures could be starting to cool. The strong recovery in the US market in the past two months (13.8%) is implying that the market is quite confident about a 'pivot' by the US Fed in its monetary policy over the next few months.

Indian equities reached an all-time high, helped by easing global macro headwinds and second consecutive month of FPI equity flows. FPIs remain buyers with inflows of US\$3.6bn. DIIs reversed their buying trend from the previous month, recording negative flows US\$177mn. YTD FPIs have sold US\$18bn and DIIs have bought stocks worth US\$33.4bn. While Indian equities gained (+5.1% MoM), it underperformed the region and its peers as MSCI APxJ and EM were up 17.4% and 14.6% MoM. India's YTD outperformance to EM is still high at 18ppt. China reopening and stalling USD are tactical supports for EM equities given negative sentiment and cheap valuations in the region.

2QFY23 results season ended earlier in the month with marginal cut in overall earnings. Growth and earnings upgrades were concentrated in Financials with Banks reporting better than expected performance on all parameters including growth, margins and asset quality. This robust performance helped offset sharp decline in sectors like Metals and Oil & Gas. Margins were under pressure ex-financials but top line growth was robust. Management commentary in Financials, Consumer Discretionary and Industrials continues to remain positive. We believe with easing of commodity prices and inflation, margin pressure should ease going forward.

The earnings growth remains strong for this year and the estimates for next year also look good. A stable macroeconomic environment, strong corporate earnings growth and consistent domestic inflows in the markets have contributed to this superior performance. However, risk and uncertainties persist in form of concerns of a deceleration in global growth, elevated levels of global inflation and interest rates and geo-political tensions. In view of the above, while markets hold promise over the medium to long term, one should moderate return expectations in the near term as valuations are quite full at 19x FY24e 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

Global bond yields softened in November, led by softening US inflation and expectations of the US Fed pivoting to less aggressive rate hikes soon. US treasuries initially hardened as the US Fed hiked interest rate by a fourth consecutive 75bps, but cooled thereafter as Fed chairman Powell commented on slowing the pace of rate hikes, though keeping rates higher for longer. The US CPI for October cooled from its previous month reading of 8.2% YoY to 7.7% YoY, lower than market expectation of 7.9%. The Bank of England raised interest rates by 75 bps for the first time in over three decades. The BoE lifted interest rates to 3%, the highest level since the 2008 financial crisis. UK inflation shot up to 11.1% in the month of October reaching the highest level since 1981, from 10.1% in September. The October figure beat market expectations of 10.7% YoY and was higher than the Bank of England's forecast peak. Eurozone inflation cooled from its record high of 10.7% in the month of October to 10% in the month of November.

Brent crude prices cooled off further during the month, in anticipation of global growth slowdown due to sharp rate hikes and China's zero Covid policy. Brent crude prices fell to USD 86.97 per barrel compared to its previous close of USD 92.81 per barrel. The US 10yr yield fell during the month to close at 3.61% much lower than its previous close of 4.05%. The domestic 10yr benchmark bond also fell, tracking the fall in global yields, and closed the month at 7.28% against 7.45% at the end of the previous month.

India's CPI eased to 6.8% for the month of October from 7.4% in the previous month broadly in line with market expectation, driven mainly fall in sequential momentum and as well as base effect. Core inflation (CPI Ex-Food Ex-Fuel) remained elevated at 6.2%. Headline WPI inflation for October 2022 printed at 8.4%, lower than 10.7% in September 2022 led by favorable base effect.

Trade deficit inched higher in October and remained elevated at US\$26.9 bn. Among other economic data, IIP growth for September came at 3.1% higher from the previous month's contraction of 0.7%. Real GDP & GVA growth moderated to 6.3% & 5.6% yoy in Sep vs 13.5% & 12.7% yoy respectively in Jun quarter on less favorable base. Goods and Services Tax (GST) revenue collection for November came at Rs 1.46lac cr. India's Nikkei Market Manufacturing PMI rose marginally to 55.7 in November 2022, against 55.3 in the previous month, and the Services PMI also rose to 56.4 in November from 55.1 in the previous month. Composite PMI also rose to 56.7 in November vs 55.5 in the previous month.

Monetary Policy December 2022 Highlights –

- The RBI once again raised the repo rate by 35bps to 6.25%, following a 5:1 vote (Dr. Jayanth Verma voted against the repo rate hike), highlighting sticky core inflation. Since May, RBI has raised the policy repo rate by a total of 225bps.
- The policy stance of “withdrawal of accommodation” was left unchanged in a vote of 4:2, two members (Dr Jayanth Varma and Dr Ashima Goyal) voted against.
- The RBI changed the real GDP growth projection for FY23 to 6.8% from its previous projection of 7 %
- The RBI kept the overall inflation projection for the current fiscal year unchanged at 6.7%.

Market Outlook –

With US inflation showing signs of easing and US Fed signaling a slower pace of rate hikes, global yields have reacted positively with the longer end of the yield curve falling down. The initial signs of softening inflation, though still at elevated levels, led to a minor relief rally as large rate hike expectations seem to have been pared down.

RBI is likely to note the recent appreciation in Rupee from its recent highs and the rise in India's foreign exchange reserves in the last month. The softening inflation and lower pressure on the Rupee, is likely to lead RBI to ease its pace of further rate hikes. Domestic bond markets are expected to closely track global data and RBI's decision in the coming MPC to take further cues. With India inflation peak behind us, expectations of an easing trend in inflation prints in the coming months, may temper any rise in bond yields. Indian bonds yields are likely to remain in a range in the near term.

However, we remain watchful of developments on the global inflation and growth data. Any sharp rise in crude prices / inflation coupled with strong growth data, can lead to markets pricing in more rate hikes from the Central banks and bonds yields rising thereafter.