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Market Outlook
December 2021

Economy

Snippets

Indian Economy has started to gather the momentum. The three major indicators like GDP growth, Fiscal Deficit & core sector growth shoes we are at pre pandemic levels. GDP growth for second quarter reached 8.40%, core sector growth at 7.50% & fiscal deficit for the first seven months came on at 36.30%.

Looking at Q2 growth, we will end up with double digit GDP growth for March 2022. RBI is projecting the GDP growth for full year to be around 8.50% - 9.50%. The GST collection for Nov 2021 came at Rs.1.35 lac crore, which is slightly lower than expectation but second highest collection so far. We do expect this trend to continue as economy and global travel is slowly opening up.

Unemployment rate is showing quarter on quarter improvement. Jan – Mar 2021 quarter reported unemployment rate of 9.30% which is closer to the pre pandemic levels of 9.10%
Though above data is for urban employment in formal sector, the unorganized sector & self-employment improved significantly with the consumption boom.

So barring Omicron threat, Indian Economy is expected to be in pink of the health. Robust tax collection of about Rs.6.85lac crore also indicates economy is recovering very fast.

Equities

As on 30th November 2021 Nifty on trailing basis is trading at P/E of 23.43 and P/B of about 4.25 times. Looking at growth in the coming financial year and the fact that we are in the month of December 2021, it is important to look at March 2023 numbers than that of March 2022 data.

Thus, from FY 2023 perspective Nifty is trading at 19.95 times. This indicates markets are not very expensive if one is looking at long term. Situation on ground is real indicator and today most of the industry in capex sector have their hands full. First time real economy and many manufacturers are looking at expanding capacities.

Q2 result season was also better than Q1 and festive season was one of the best for many sectors in the last decade. Financial sector including Private sector banks have shown significant growth in the profits and reduction in NPAs. All Public sector banks at June end reported net profit of over Rs. 14,000cr, which is 1.50 times higher than corresponding period of 2020-21. Manufacturing sector too benefited with the policy push and greater demand.

Nifty did touch 15600 briefly in the last week of Nov 2021 and we feel worst is over, provided current scare of Omicron doesn't escalate. FIIs did sell heavily and move to the IPOs for reasons known to them. They latched on the new economy stocks and sold liquid stocks specially banks and commodities.

We feel selling will subside soon and with local liquidity and inflows into mutual funds, markets will remain supported. Having said that we expect range bound situation till the budget and elections in UP in May of 2022 will be decisive factor for the market.

Large cap valuation is certainly attractive compared with Midcaps. New leg of this rally is likely to be dominated by some new leaders. The unabated IPO pipeline is slowly facing investor fatigued and looking at pricing aggression we don't feel it is a right space to look at. We will have another 70-80 IPOs lined up in next three months. Most of the large IPOs are mostly Offer for Sales (OFS) than any fresh capital raising for businesses. One needs to be careful in such cases, where IPOs are done just to give few investors an exit. Global investing to be done very carefully as FED tapering is expected to start earlier than expected and new threat of lock downs and shutting of countries after countries due to lower vaccination percentage even in developed nations will make it difficult for investment in different parts if the World.

India with good amount of vaccination and well controlled second wave may stand to benefit economically. Most of the MNCs have already shifted their bases from China, Malaysia, Philippines, Vietnam to India by making it global production hub.
Automobile is slowly recovering from chip shortage and eventually we will see broader manufacturing growth. Rest of the industries are reporting improving performance.

Though FIIs have sold about Rs.39.90k crore in November 2021 and Rs. 1.09lac crore since April 2021, we feel this is closer to its end and with improving corporate profitability market will start heading up slowly from current lows.
Next one year we feel banking will lead the rally followed by IT and capital goods sector. Rest of the sectors will also contribute at lower rate of growth. Midcaps & Small caps delivered 49.71% and 58.89% respectively. Whereas NIFTY delivered returns of 31.50% for trailing 12 months.

India growth story was founded on three to four major themes in 2021-22 namely re-opening theme, China Plus One Policy, Government step-up reforms like PLI Schemes, and lower interest rate regime. Barring lower interest rate, rest of the benefits continue. In case of interest rates, most of the corporate balance sheets are very healthy (which is evident from lower credit offtake) and overall reduction in debt compared with the size of corporate balance sheet.
Whereas housing loan at 6.50% is a big boon for housing sector and that is likely to continue.

Fixed Income

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Debt market activities were lackluster with the outbreak of new COVID variant in South Africa, yields across globe went down. With fall in crude prices and commodities including agri commodities, pressure on inflation is expected to cool off.

10-year G-sec yield moved down to 6.33% from 6.38% which was prevailing month ago. Corporate Bond yields too went down on account of good buying from, certain private banks, corporate treasuries, and PSU banks in 4-8 years maturity bracket. RBI is expected to address excess liquidity through VRRR option and likely to keep accommodative stance intact in the meeting schedules next week.

We still maintain stance of using floating rate funds and short-term bond funds for long term investors. One can also think of slowly allocating to corporate bond funds through STP manner by keeping funds in money market scheme. YTM of these funds have move up and will keep moving up which will help to build.

Happy to discuss further!

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