Volume 30
01 November 2022

Market Outlook November 2022

Global landscape

Oil

Brent-crude remain in the range of USD 90 - 96 for the month. It went up from USD 88 post OPEC meeting, where the decision was taken to cut oil production by 1 lac barrels/day. On the other hand, Russia is keeping oil production steady and not cutting production. India is managing oil from Russia over the last few months. Imports from Russia jumped from 1 % to 18%. This fiscal, India imported about 11.2 billion USD worth oil from Russia and saved about Rs.35000 crore in the bargain. We have Saudi and Iran options open and 83% of oil demand being imported may not pose a threat this year. Saudi Prince visiting India in mid-November is a good indication

Currency

Rupee depreciated to 83.18 per dollar before correcting to 82.288 with a lot of RBI intervention. Demand for gold, oil and FPI outflow, led to some kind of pressure on rupee.
One more factor i.e.- travel which was absent for the last two years also led to demand for USD recently
Currency depreciation against dollar this year –

Currency	
% depreciation against dollar since beginning of year	
Japanese Yen	-26.4
Bangladesh taka	-17.8
Chinese Renminbi	-13.4
South African Rand	-12.8
Indonesian rupiah	-12
Indian Rupee	-11.1

Global economy

Europe is definitely struggling with high inflation and real test will come in winter when higher oil and gas prices are likely to pinch the pockets.
According to IMF chief, half of European countries are heading for a recession. The economy is fighting the toxic mix of high inflation and low growth.
75% of global economy by market capitalisation are facing a slowdown. Global growth will be muted if we also consider about 4% to 4.5% growth in China due to lockdowns
Global picture looks very hazy and one needs to tread carefully.

Global inflation

Inflation is ruling high, and effects of monetary tightening measures will take some time to come in effect. Inflation is running amok, and one might see some slowdown in next month.
Inflation is still above 10% in Europe and USA which has affected housing sales. But job market is strong, and consumption is not affected as one would have expected.
Fed is targeting inflation levels of 2% and in the process, they have hiked rates by 300 Basis points till now. Now the housing loans in US will go to a level of 8% to 9% if 10-year yield goes to 5% with further rate hikes. This may not sustain as this rate cannot be more than emerging markets for a longer term.
There is a sense between the members that these measures may not bring down inflation to 2% and aggressive rate hikes will hurt the economy.
Rate Hikes done countries so far –

REGION	RATE HIKES BPS
US	300
UK	200
EU	200
INDIA	190

Equity market

October was a month of great surprise as both Sensex and Nifty went up against our expectation and many of us were caught on the wrong foot.
Market ignored all the bad news and after initial sell off, managed very well to recover in the US as it was oversold market.
Dow Jones is still down about 9% in one year and 11% from it is high, after a 14% recovery in October and Nasdaq is down about 28.8% in one year and 31.5% from it is high, after a 5% recovery in October.
India has fallen much lower as compared to other the major global markets. Nifty is just 300 points away from its all-time high as of 31st October. It is up 0.4% in one year and 1.8% down from its high after recovering about 7% in October. This shows that India has still decoupled so far from global markets as far as performance is concerned.

India Still Outperformer on a year to date basis			
			(in %)
Returns in dollar terms as of 28th October 2022			
Index	Region	MTD	YTD
Dow Jones	US	14.4	-9.6
Euro Stoxx 50	Euro Region	8.9	-26.4
FTSE 100	UK	2.2	-18.1
CAC 40	France	8.9	-23.2
DAX	Germany	9.3	-26.9
Nifty 50	India	2.6	-7.6
MSCI EM	EM	-3.5	-31.4

Source: Bloomberg

Early bird Q2 results suggest slowdown in corporate earnings and the end of post pandemic boom in margins and profit. Combined net of 441 firms up 5.8% YoY which is the slowest growth rate in 8-9 quarters now.

Looking at a great Diwali and pre-Diwali sales for most of the white goods, real estate, jewelry, and clothing sale there is no indication of any stress regarding economy. It indicates that the economy is in the peak of its health.
Apple recorded its highest-ever revenue in the last quarter. Airlines are flying full. Hotels a fully booked even at higher fares. Number of vehicles booked or bought recently shows all is well and India may not really face a slow down the way it is expected.
Dow and Nasdaq rallied last month based on the expectation that Fed may not go aggressively (as expected earlier) in their rate hikes, as that may cause deep wound to the economy. Fed may be on the verge of slowdown in hike and might end it by Jan 2023. This is expected to spark a global rally. We had a fear of FPI sell off due to stronger Fed hikes, which might not happen now. They actually bought Rs. 4178 crores on Monday,31 October. FII inflow in equity cash market in October stood at INR 1514.2 crore.
Looking at local liquidity as most of the mutual fund schemes was sitting on 3% to 4% cash at the end of September 2022. On top of it, SIP numbers are still going strong and have reached up to Rs. 12000 crores per month. This ensures a lot of support on the downside and this itself will limit any big downturn in the market.
Market rallied to 18100 on the back of liquidity. Journey from here looks critical looking at global set up.
FII Cash data-

EQUITY RS CRORES

DATE	GROSS PURCHASE	GROSS SALES	NET PURCHASE / SALES
Oct 2022	172,686.5	171,172.3	1,514.2
Sep 2022	181,364.2	193,247.6	-11,883.3
Aug 2022	203,409.1	149,415.1	53,993.9
Jul 2022	154,773.5	148,053.8	6,719.8
Jun 2022	112,815.3	162,023.5	-49,208.1
May 2022	149,412.9	186,081.6	-36,668.7
Apr 2022	169,432.8	189,901	-20,468.2

Points to watch

1. GST collection has been on track and growing as per expectation. Hopefully in 2023-24 in it win average around 1.5 Lakh crores a month going ahead
2. Income Tax collection will also rise, and compliance is growing with more than Rs.6.6 crores return filed already by 27th October 2022
3. Corporate earnings expected to achieve earnings growth of about 12 to 13% in the current fisca
4. Market valuation is in expensive zone, but we have seen liquidity which keep supporting it for want of other options. A mix of "growth at reasonable price" and "value" strategy will be an ideal investment strategy.
5. Our worry is global slowdown, and supply logistics which need to reach pre-covid levels. This may cap upside for Indian markets
6. Fortunately, commodities have cooled off in the first half which will release som margin pressure, but we are not out of the woods yet.

What investors need to do

Holding some cash at this level in uncertain times helps and looking at statement in standoff between China and Taiwan, South and North Korea, USA, and Russia, we believe 75% of the world's top nations at loggerheads. This is certainly not a comforting situation except for the fact that it all of it is outside of India.

We sincerely feel by passing day the chances of any significant correction in the market are fading fast. Market will react to global news flow and buying on dip strategy is advisable.

Looking at GDP growth of about 6.5 % and 6% inflation levels one can expect about 11% to 12% returns on equities.

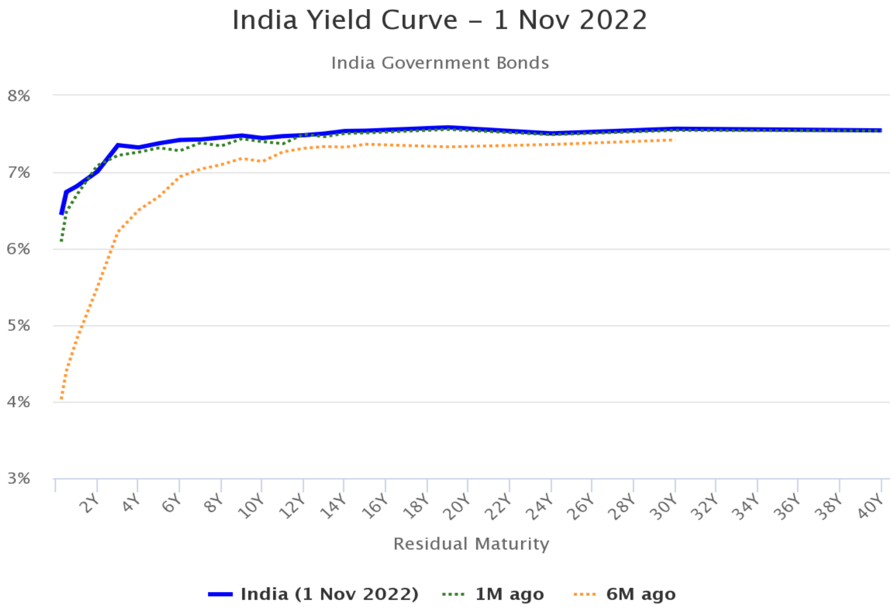
Like we mentioned earlier a "growth at reasonable price" (GARP) and "value strategy" will now be ideal.

Currency will depreciate looking at the inflation gap between India and US which is about 5% historically. Thus, Rupee depreciation is a given and nothing to panic. We need to restore our Forex reserves back to 670 to 700 billion USD from 5 70 billion USD which is possible with FDI and FPI inflow. Indian forex reserves have declined by $108 billion since Jan 2022.

Stable banking and stable politics will be important for India to face any eventual slow down on the back of global recession.

Fixed income

With RBI hiking rates by 50 basis point in the recent policy meeting, 10-year GSec shot up to 7.54 % and then cooled off to 7.42%. Some of the MPC members were against 50 basis point hike in the last meeting and are likely to put some breaks on the rate hike in the subsequent meeting. Thus, we see terminal repo rate to be around 6% to 6.25%. RBI need not follow Fed hikes as inflation appears to be getting under control in India .India will not attract the expected 30 to 40 billion dollars on account of its inclusion in Global bond index as taxation is major issue for FPIs and is difficult for them to give preferential treatment to India .Most of the banks and Institutions will try to shore up their capital base (looking at 18% growth in advances) we feel 10 year G Sec he has already peaked out and we may see it correcting if there is any favourable announcement in the upcoming MPC meeting.



We do not see RBI raising rates sharply and will mostly track Fed stance on inflation. Next course of action would depend on the Fed commentary in their meeting on 2nd November 2022 and our Monetary Policy Committee meeting scheduled on 3rd November 2022

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