

Market Outlook

March 2022

Equity Market

Positive outlook amidst transitory tensions

Despite the geopolitical tensions, higher crude prices and Fed rate hike, Indian markets were up 4%, ending the financial year with a 19% gain, probably on the back of the ruling party at the Centre winning 4 of the 5 state elections. While crude topped the \$130/barrel mark during the month, it ended the month at \$105/barrel with a 10% MoM gain. Sector-wise, IT, Energy, Realty, Pharma and Metals outperformed while Consumer, Banks and Auto underperformed during the month.

On the Macro front, Fitch Ratings downgraded its FY2023 growth forecast for India from 10.3% to 8.5%. January IIP print came in at of 1.3% YoY vs 0.7% in December. Current account deficit (CAD) widened to US\$23 bn (2.7% of GDP) in 3QFY22 (a 9-year high) from a deficit of US\$9.9 bn in 2QFY22. Retail fuel prices have started inching upwards after a 4-month hiatus.

Consumer inflation accelerated for the 5th straight month to a 8-month high of 6.07% in February of 2022. Food inflation increased to a 15-month high of 5.85%, with cost of oils and fats (16.44%), meat and fish (7.45%), and vegetables (6.13%) recording the biggest rises. Inflation stayed at the top of the Reserve Bank of India's target of 2%-6% for the second consecutive month. Wholesale price inflation rate in India rose to 13.11% in February 2022 from a 4-month low of 12.96% a month earlier and compared with market forecasts of 12.10%. This was the 11th straight month of double digit WPI inflation – for the first time in 30 years.

Inflation and fiscal risks have started to materialise in India. Fuel prices are finally rising; another ~INR12/lt (~11-12%) rise is estimated in petrol and diesel prices and a 29% hike in LPG cylinder prices is needed to fully offset the present under-recoveries. A first round impact of ~80bps on headline inflation is expected from a full pass-through, and alongside other inflationary pressures in the pipeline, inflation is expected to breach the RBI's 2-6% target range.

FII's continued their selling spree and sold Indian Equities to the tune of \$4.4bn, while DII's continued the buying in March to the tune of \$5.1bn. MFs and insurance companies were buyers of \$3.1/3.2bn of equities respectively.

Going forward

Geopolitical risks, surging Covid cases, higher commodity prices, high inflation and rates are macro risks which persist. However, we believe most of these issues could be transitory and we would be cautiously optimistic on Indian markets in the medium term. While FII's have been sellers in the recent past, DII's and Individual investors have been very active in Indian markets and have absorbed bulk of the FII selling. There is still a lot of scope for financialisation of Indian savings through equity markets and hence we would not be overly worried about continued exodus of FII money in the short term. Further, India offers the most diversified themes to invest in, among emerging markets, and many of these themes are structural in nature which should keep Indian markets in good stead. India continues to be one of the fastest growing economies with estimated growth of ~8% in FY23 in real terms and 12-13% in nominal terms which is healthy by any standards.

In the next 2 years' Nifty earnings growth is projected by consensus at ~17.5% - there is downside risk to these predictions. While the war is transient, liquidity withdrawal and rate hike are likely to stay. We are focusing on companies with visibility of earnings growth with higher certainty equivalent factor and not trading at very high valuations.

Debt Market

Yields higher but remain stable

Indian Bond yields drifted higher during the month of March 2022 as Crude prices turned volatile following the Ukraine crisis and the US Fed hiked the policy rate. After a volatile February, yields were comparatively stable in March as there were no Central government G-Sec auctions amidst strong demand from long only players like Insurance companies, PF and pension funds. Corporate bond spreads narrowed on the back of lower supply. The AAA PSU bonds are trading at 15/20 bps spread over Central government securities across the curve. The lack of supply helped in stabilising the yields even as yields rose on the back of higher Inflation across the developed market space. The US 10-yr yield increased by almost 50 bps during the month. PFI flows in debt were negative to the tune of \$787mn.

In spite of the Ukraine crisis and the resultant increase in crude prices and portfolio outflows from both debt and equity, INR was well behaved depreciating by 0.60% during the month. Crude rose by 7%. Bond Yields rose by 5 to 10 bps across. The RBI Governor and the Deputy Governor spoke during the month and their stance and tone continues to reflect dovish undertones and hence we believe that MPC will continue with the status quo on rates in the forthcoming April policy while preparing the market for a June hike in policy rates.


Going ahead we expect the curve to remain steep over the next one quarter as RBI is likely to hike rates slowly and gradually which will continue to support the shorter end of the curve while the longer end will remain under pressure on the back of a higher fiscal deficit.

Fixed Income Market


	February 2022	March 2022	Change (in bps)
Overnight rate (NSE MIBOR)	3.43%	3.90%	47
1 yr CD	4.87%	4.73%	-14
10 yr GOI Yield	6.77%	6.84%	7
USD/INR	75.34	75.79	45 paise
IIP (Monthly with 2 month lag)	0.70%	1.30%	60
CPI (Monthly with 1 month lag)	6.01%	6.07%	6
5 Yr AAA PSU spread (bps)	0	0	0
5 Yr OIS	5.77%	5.99%	23
US 10 Yr yield	1.92%	2.33%	42
CRR	4.00%	4.00%	0
Reverse REPO	3.35%	3.35%	0
REPO	4.00%	4.00%	0

Source: RBI Weekly Statistical Supplement & Bloomberg

Note: IIP has been revised lower for the previous reading.

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Source: BSE, RBI & Bloomberg

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