PINC

January 2022

Market Commentary

PIONEER WEALTH MANAGEMENT

The calendar year 2022 has started with a bang, with the benchmark indices showing strength. The positive start to the year was visible in the last fortnight of December, with analysts projecting a continuation of the bull run, though at a slightly moderate pace than what we saw in 2021. We believe that India has entered a period of an economic supercycle and that Nifty should hit a new high in 2022 as the corporate earnings cycle has reversed with rising Return on Equity (RoE), and positive earnings revisions. We feel that valuation concerns and Fed rate hikes may create volatility, but such times will give an opportunity to add cyclicals to the portfolio. Headwinds like inflation, global supply shortages and COVID-19 remain a concern for consumers, businesses and investors.

Data released over the past couple of days paint a divergent picture of the economy. On the macro front, exports were strong in December.
The manufacturing sector, captured by the Purchasing Managers' index, remained in expansionary mode even though growth moderated. Leading brokerage houses are predicting an upturn in the economic and capex cycle. The Nomura India Business Resumption index is at its highest level.

A noticeable change in the first week of this new month has been that FII's have turned net buyers in the Indian markets after being net sellers for the previous 3 months. In December alone in cash markets FII's sold net Rs 35,493 Crores. However up till 5th January alone they have turned net buyers having bought net Rs 2,513 Crores. On the other hand DII's have been constant net buyers having bought net Rs 31,231 Crores in December & Rs 2,608 Crores till 5th January. Augurs well for Indian markets going forward.

We also believe volatility to rise as markets spent most of 2021 trading on assurances from major central banks, and the US Federal Reserve in particular, that inflation would be transitory and monetary policy would continue to remain in uber stimulus mode. That powerful conditioning fuelled the "everything rally" in markets. 2022 will be different. Crucially, investors will have to take a view on the durability and impact of the inflation surge, global supply disruptions amongst key economic fiscal & monetary policies.

After consistently dismissing the threat of inflation, the Fed's (World's most powerful central bank) is now set to completely stop its asset purchases by the end of the first quarter. An increasing number of other central banks (not only in the emerging world but also in some advanced economies such as Norway and the UK) have already embarked on interest rate hiking cycles. All this comes at a time when fiscal policy in many countries is on the verge of being less stimulative, even though the Omicron coronavirus variant is damping economic growth.

However the RBI remains accommodative but has started normalizing liquidity in the system. the central bank will continue its liquidity normalization with a reverse repo rate hike in early 2022 (to reduce the present policy corridor) followed by repo rate hikes later in the year which will lead to some hardening of bond yields in 2022. Moreover Inflation is relatively better placed in India, it provides some elbow room on the monetary policy front. Also, the RBI has indicated that it will conduct OMOs & Operation Twists to help manage the yield curve in an efficient manner.

The central government's fiscal deficit for the first eight months of FY2021-22 (April-November) is the lowest in the last four years. At Rs 6.96 lakh crore, it is not only lower than during the same period in 2020-21, when the pandemic was at its peak, but it's also much lower than during April-November 2019 and 2018, during the years before the pandemic. Since it is the fiscal deficit that is a measure of the stimulus given to the economy by the government, the fact is that during the first eight months of FY22, the fiscal stimulus has been the least in the corresponding period in the last four years. The silver lining is the government now has enough dry powder to support growth in the final quarter of FY22. Moreover, as seen from the supplementary demand for grants in Parliament, the central government also intends to increase spending in the fourth quarter. That should help during the coming third wave.