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Market Commentary

PIONEER WEALTH MANAGEMENT

Economic costs of geopolitical conflict are spreading far and wide - with the supply of vital commodities impeded, partially due to conflict in Ukraine, and delays in manufacturing and shipping from China due to lockdowns. Globally Central Banks have turned hawkish in a bid to control higher than expected inflation. As a result, global financial markets, including India, are experiencing heightened volatility. At the same time, India is witnessing many positives in terms of rising share in global GDP & FDI inflows, GST collections scaling new highs, improving credit growth & capacity utilisation.

Clearly, the road ahead for retail investors is one of uncertainty as signals from all market indicators are mixed. Food prices are skyrocketing. Inflation is still high, but government measures such as cutting excise on fuel and curbing exports in some commodities bring the hope of prices cooling off. Demand is perking up after the pandemic, but manufacturers are stumbling over supply chain bottlenecks. Forex markets are volatile, so are equity indices. Cues from institutional investors are mixed—foreign institutional investors are heavy sellers in Indian equities while domestic institutional investors are net buyers over the past few months.

FII's continued their selling spree for the eight consecutive month, foreign investors pulled out a massive Rs 55,000 crore from the Indian equity market in May 2022. Foreign investors have pulled out a net Rs 2.48 lakh crore between October 2021 and March 2022. However The impact of massive selling by foreign investors has been absorbed by domestic investors, whether institutional or retail, to a significant extent.

This is aided by domestic equity market's fundamentals remain robust given healthy balance sheets, low debt-equity & improving ROE's leading to steady earnings growth outlook. The Q4 FY22 earnings so far depict a wide divergence between sectors adversely affected by rising raw material prices and those not directly impacted. It's been a mixed bag on corporate fundamentals too as portrayed by the recent March quarter earnings. A report states that on a 12-month basis (trailing twelve months) aggregate corporate profits of the top 1,000 companies by market cap has expanded.

Interestingly, industrials account for almost half the share of the profit pool, the highest in a decade. But the share of services, consumption and healthcare has dropped to a two-decade low of 27 per cent. Adding to this uncertainty are dark clouds of global geopolitical risks, sanctions arising from the Russia-Ukraine war, the US Federal Reserve's resolve to accelerate rate hikes and the high probability of a rate hike from the Reserve Bank of India when the monetary policy committee meets in early June.

The silver lining, however, is the expectation of strong economic growth despite these headwinds. The International Monetary Fund has projected that India's gross domestic product will grow at 8.2 per cent in 2022. This makes it the fastest-growing major economy in the world, almost twice faster than China's 4.4 per cent. Moreover the fact that two major economic centres in China are reopening brings hope to investors of a recovery. The winding down of lockdowns in Shanghai & Beijing along with signs that the Chinese government will provide monetary and economic stimulus measures to revive growth give confidence that one big fear can be set aside.

Yet, this does not rule out profit contraction in companies for a couple of quarters. The hope is that sharp interest rate hikes will help cool off commodity prices, but not go far enough to hugely dent demand. For now, the outcome of rate hikes, both globally and in India, is hazy and will keep policymakers, industry and analysts on the edge. Retail investors can only brace for a rollercoaster ride ahead.

The advance PMI data for the advanced economies show that the easing of COVID restrictions and pent-up demand are holding up growth, but high inflation is affecting demand. But more action by central banks is needed to get inflation down to manageable levels. A lot would depend on how inflation behaves, especially in the US market. Though the Indian government has taken steps to bring down inflation by reducing taxes on fuel and fiddling with import and export taxes. Unless inflation is controlled at the global level and interest rates start declining, markets are likely to be under pressure. In the Indian markets, the steps taken by the Indian government may nudge domestic investors to pump more money into the markets, but unless the global markets revive, Indian markets may linger between a consolidation & correction phase.