# Market Commentary

## PIONEER WEALTH MANAGEMENT

The uncertainty from geopolitical risks is increasing. With the Russia-Ukraine conflict intensifying, more nations are being drawn into the fray and the West is having no choice but to increase sanctions on an unrelenting Russia. India, in spite of its neutral stance, is not insulated from the economic fallout of this conflict. The flare-up in crude oil, metals and food grain prices will translate into a trade shock. The impact of high oil prices is already seen in February's widening trade deficit.

As a result, Indian equity markets slumped during the week as uncertainty on the Russia and Ukraine geopolitical conflicts continued to weigh on the market sentiments. News related to meeting between Russia and Ukraine provided some support for the benchmark indices initially, however global sell-off pushed the market sentiments in negative territory. Additionally, higher crude oil prices along with continuous selling of FII's also contributed to the losses.

As the timeline progressed, bourses continued to retreat after Finance Minister stated that surge in crude oil prices is "worrisome" resultant by the Russia-Ukraine geopolitical crisis. Crude Oil prices went north upto $115 per barrel. Market sentiments further worsened after Russian President authorized a "special military operation" in the eastern part of Ukraine initiating serious concerns for full-fledged war between two nations.

Not just oil, global commodity prices are being roiled on the back of supply disruptions, uncertainty on how demand will play out and wild speculation. Both the warring nations are among the largest producers of metals. For now, steel, nickel, aluminium and coking coal prices have skyrocketed.

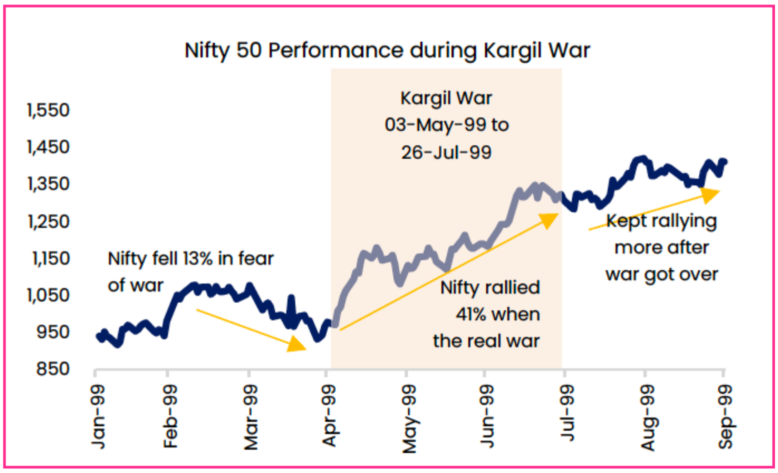
However, losses were restricted as the new sanction imposed by U.S. and U.K. appeared to be less severe for the Russian economy. Additionally, U.S. and NATO refused to send their soldiers to Ukraine, thus averting an extreme war-like situation. Further, the geopolitical turmoil has led to an expectation that the U.S. Federal Reserve may not aggressively increase interest rates in its March meeting.

Equity markets not just in India, but globally have been volatile since the past few months. In India, the broader markets have also seen a decent correction. A combination of the Covid 3rd wave- Omicron, inflationary environment, interest rate hike expectations and now the Russia-Ukraine standoff; have been the major reasons for this volatility.

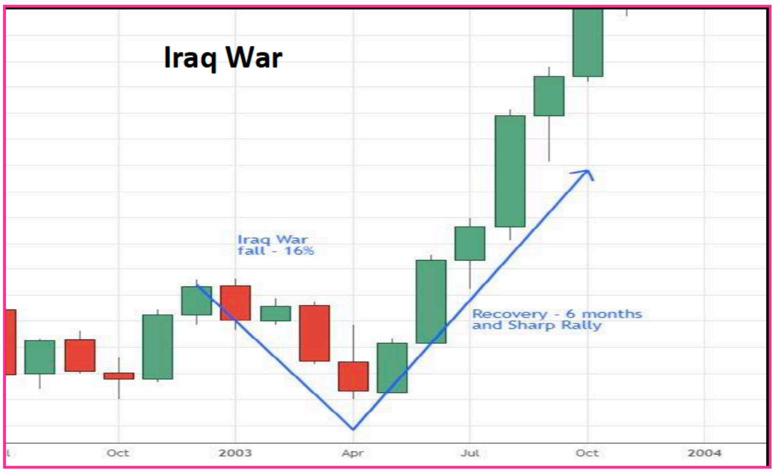
Markets have over time generally overreacted near the geopolitical risks but over time, equity markets have not seen any sustainable major overhang. For instance, Iran invasion of Kuwait caused markets to fall 17% and oil prices doubled but equities markets were back to peak level 4 months later. Closer home, the Kargil confrontation between India and Pakistan also saw a sharp correction in the markets in mid-1999. However, markets rallied sharply as realization dwelled that this would be a short-lasting conflict.

We expect the Russian / Ukraine standoff to continue in some form or other, and one should closely track the developments. However, the investment decision has to be taken based on the fundamental and economic scenario both in India and globally.

As It's very evident that markets react with heightened volatility on expectations of a negative event. However, as the event unfolds and there is a realisation that the situation might get diffused, the rally in equity markets is much sharper. This has been seen multiple times in the past which is represented in the following charts..






On the other hand we also feel Inflation and interest rate hike fears also seem to be now discounted by the markets US 10-year yields have reacted a bit from 2% to 1.94% and in India too, the 10-year yields have come off to less than 6.75% from 6.94% over the last week or so.  While the near-term scenario will continue to be choppy, our view is that the current correction does provide an interesting entry opportunity for longer term investors. We believe the worst seems to be discounted and though we might not have a sharp V-shaped movement, markets should start to move into positive trajectory. Be Positive on Indian equities from a 2-3 year perspective.