Market Outlook: December 2022

Dear Investors,

Equity market – India continues strong

Global equities breathed a sigh of relief as markets have exhibited enthusiasm on the back of:

- Lower-than-expected October CPI in the US, after series of higher than Street expectations prints, and
- China's softer stance at the G-20 summit, giving investor's confidence around easing off zero-COVID policy along with the crackdown.

In this global backdrop, Nifty has also been driven by better than expected recently concluded earnings season, keeping consensus earnings revision momentum rangebound.

Amidst this, MSCI world moved up 14% upmove in this quarter till date, of which 7% has come in during November and MSCI Emerging Markets is up 11% in this month, in $ terms. European markets outperformed US this month, while within emerging markets, outperformance was driven by strong upmove in Taiwan, China, Hong Kong and Korea on back of expectation of easing of volatile policy environment in China.

Indian markets, on the other hand were completely driven earnings performance of recently concluded earnings season, which was better than expectations for most ex-commodities sectors. This led to Nifty going up ~9.7% since September end. In terms of broader market, in INR terms, Nifty outperformed broader markets, with NSE500 being up ~7.5% compared to Nifty's 9.7% since September end while Nifty Midcap 150 and Smallcap 250 were up ~3.8% and ~4.9% respectively in the same period.

Sectorally as well recent earnings season has been the main driver. Barring global commodities like metals and oil and gas, earnings growth have been decent across the board. Notable performers have been from Auto and Banks, while consumer businesses were impacted by continued higher commodity prices. The bigger effect of lower commodity prices on consumer businesses earnings should be visible from Q4 FY23.

Automobiles: Auto volumes in 2QFY23 recovered across segments, supported by improvement in the supply of semiconductor chips and early festive season demand. Demand momentum sustained in Passenger Vehicle (PVs) and Commercial Vehicle (CVs), while 2Ws and tractors saw good recovery during the festive season. Commodity cost inflation moderated in 2QFY23, with residual raw material cost impact, which was more than off-set by price hikes, as reflected in gross margin improvement.

Consumer: Overall performance was majorly driven by value growth reflecting price hikes taken by companies. Discretionary consumption continued to report higher growth vs staples. While commodity costs have shown signs of stabilization, its positive effect on margins may take one more quarter to reflect in financials.

Financials - Banks: Banks witnessed a troika of positives with robust growth in loan book, improvement in Net Interest Margin (NIMs) and thereby superior profit growth aided by continued moderation in provisions. Credit growth at system level continue to remain strong. Sector as a whole has seen upward revision in earnings.

Financials – NBFCs: Strong disbursement momentum across product segments; asset quality held up well. Disbursements across most product segments viz. vehicle financiers, consumer finance companies continued to remain healthy in 2QFY23.

Technology: In-line quarter for IT companies despite the challenging macro environment and continued supply headwinds. While the near demand environment remains healthy, with demand driven by cost take out deals, managements are watchful of budgets for next year.

Key events during the month providing needed push for India's long term growth story:

India's Free Trade Agreement (FTA) with UK (under negotiations), UAE and Australia have the potential to support Indian exports as these 3 countries contributed ~13% of India's export demand pre covid (FY20). At a time when the global economy is staring at a slowdown, bilateral trade deals will be beneficial as it would help to limit any potential larger shock due to demand destruction by offering new markets at low/no duties. UAE and Australia are the two countries from where India basically imports most of its energy needs in the form of petroleum products, coal and copper ores and as such are critical to India's energy security and new energy needs. UK forms an important trading partner as India exports key commodities like electronic machinery, textiles, jewellery, and drug formulations among others to UK. There is also great potential for increasing exports in service sectors like IT/ITES, Nursing, education, healthcare, among others.

Given the current fabric of global geopolitics, India stands at a relative advantageous situation than its peers. Although India has some 'not-so-kind neighbors' and lingering border disputes with China, India's edge in global geopolitics comes from its macro-financial stability, political stability, democratic and rules based set up, relatively young population, and a vast consumer market. In last 5 years, India holds a surprising achievement - only country favored by both Russia and US, though due to completely different needs (Russia – oldest ally, US – sees India as counter to China) and its position has strengthened further due to vaccine diplomacy during Covid. In the backdrop of India's rising stature on geopolitical arena, India assumes G20 presidency. With India gaining influence over the G20's agenda, focus is likely to be on aspects that are pertinent to India like climate finance, reforms in institutions like the World Bank, the International Monetary Fund and the World Trade Organization among others. India's G20 presidency comes at a time when it aspires to become a $5 trillion economy and showcase to the world its digital prowess.

Together, the G20 members represent more than 80 per cent of world GDP, 75 per cent of international trade and 60 per cent of the world's population. The G20 is a strategic multilateral platform connecting the world's major developed and emerging economies. India's G20 Presidency is likely enable India to emerge as a key player in solving issues plaguing the world, both developed and developing.

Foreign Institutional Investors (FII) continue on their buying spree:

FII's continue to be durable buyers in Indian equities after selling $ 33bn+ between Oct-21 and Jun-22. While they invested $6.0 bn last quarter, Q3FY23TD they have invested net of $4.6 bn, of which $3.6 bn have come in November. Domestic Mutual Funds also have invested net of $1.3 bn during the quarter. We believe domestic flows are structural given the household financial savings rate and the potential to shift allocation towards equities. Rise in domestic equity savings pool can be structural. Overall flows strong FII flows have helped INR appreciate 1.4% against the dollar.

Month	India FII USD mn	India MF USD mn
Oct-21	-2271	785
Nov-21	-756	3232
Dec-21	-1741	2903
Jan-22	-4817	2212
Feb-22	-5018	3752
Mar-22	-3693	2904
Apr-22	-3816	2934
May-22	-4871	3804
Jun-22	-6342	2829
Jul-22	836	594
Aug-22	6791	-140
Sep-22	-1624	2299
Oct-22	1026	768
Nov-22	3586	544

Source: Bloomberg, ASK IM Research

Given the macro backdrop, it's important to focus on businesses that have strong long period earnings growth. Notwithstanding the global macro uncertainties, we remain positive on India growth story driven by India's superior growth profile vs large global economies along with sound macro-economic fundamentals, gradually reducing sensitivity towards oil prices (though long way to go), fall in commodity prices like oil, metals, fertilizers, which in turn can have positive implication on inflation and also government finances, anticipated benefits of reforms undertaken in the past including GST, RERA, IBC etc, strong manufacturing growth. We see sustained earnings growth in domestic oriented sectors vs global viz. IT and commodities. Domestic fundamentals too remain strong (visible in credit growth, order flow growth etc). The longer-term outlook remains bright, as domestically bank as well as corporate balance sheets are in a much better shape and on growth front as well and most macro indicators remain steady.

Happy investing.