

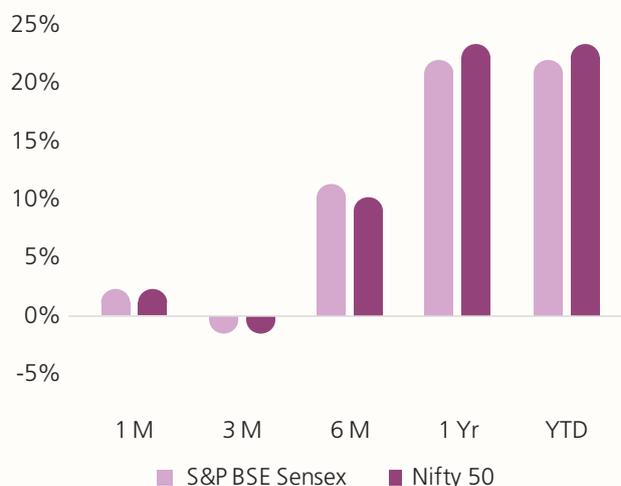


Nifty bounced back in December (2.2%) after a sharp fall in November to end the month at 17,354 mark. The BSE Mid-cap index also recovered 1.1% while BSE Small-cap index continued its strong momentum with 5.4% gains. Small-cap index was down only 0.2% in Nov.

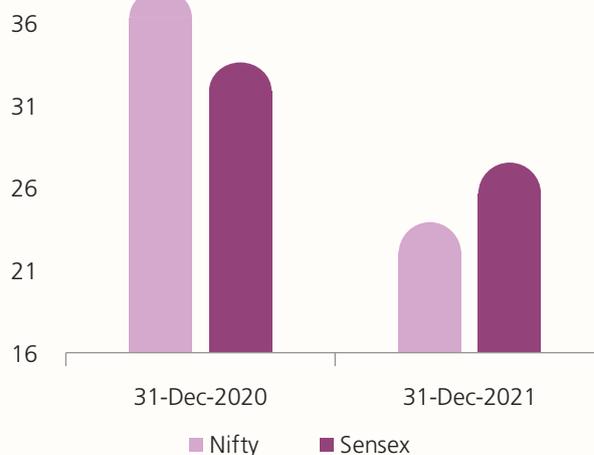
Nifty delivered 24% returns for CY21 while mid-cap and small-cap indices did even better up 39% and 63% respectively, supported by strong domestic inflows and retail participations, accommodative monetary policy, improved vaccine access and subsequent pick-up in service sector activity.

Global equities rose by 4% in December. 2022 is expected to see a global recovery and an end to the pandemic, owing to broad global immunization. Release of pent-up demand from consumers and corporates is expected to support a strong cyclical recovery, against the backdrop of benign monetary policy. Indian equities rose by 3.7% (\$ terms) outperforming broader markets in December (MSCI APxJ / EM: +1.7%/+1.6%).

Returns



PE Ratio



Past performance may or may not be sustained in the future.

GLOBAL MARKETS

Worldwide, most major indices delivered strong positive returns, with the US S&P500 up 4.3%, Euro Stoxx (+5.4%), FTSE (+4.6%) and Nikkei (+3.5%), only Hang Seng (-0.3%) declined for the month.

SECTOR PERFORMANCE



In sectoral trends, IT outperformed due to Accenture result's positive read-through while Telecom (giving up gains of Nov), Cement (price hikes rolled back due to weak demand) and Banks (largest FII selling) lagged. Among sectoral indices, IT rose (10.1%), Capital Goods (6.9%), Metals (5.6%) were the best performers while Oil & Gas (flat) and Bankex (-0.9%) were the major laggards.

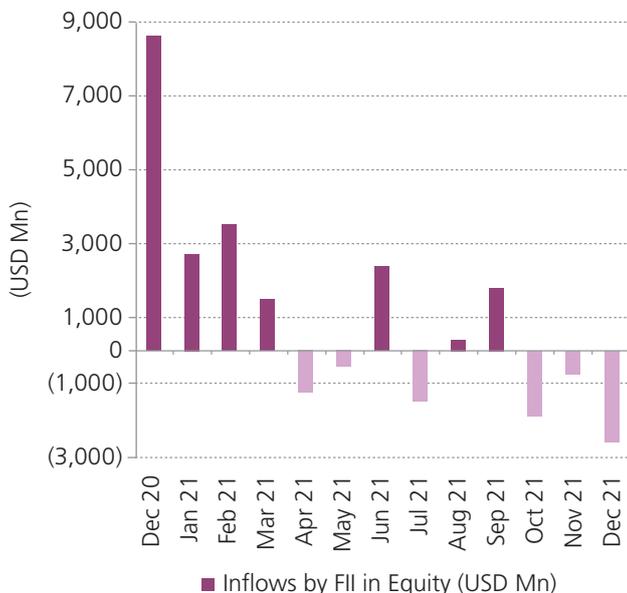
INSTITUTIONAL ACTIVITY

FII remained net sellers of Indian equities (-\$1.8bn, following -\$0.8bn in November). While FIIs have been selling Indian equities for the last 3 months, FIIs were net buyers to the tune of \$3.7bn in equities in CY21.

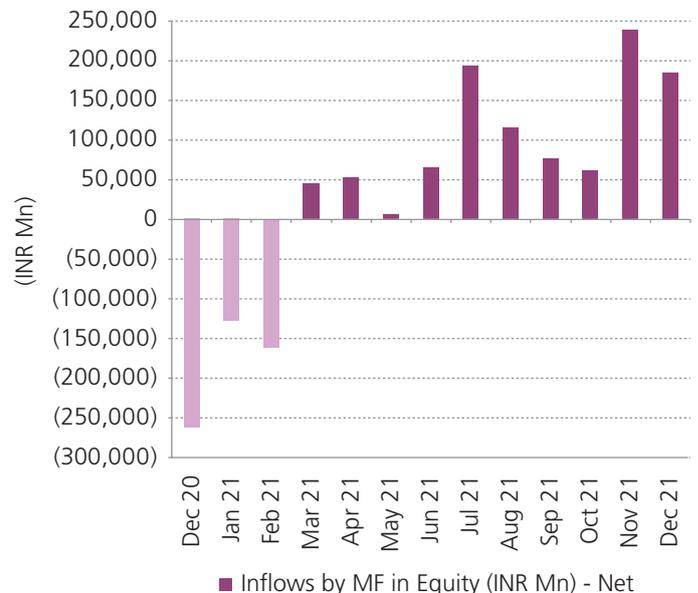
DII ended the year with \$4.1bn inflows in December, recording 10 successive months of equity buying. Total flows for the year came in at \$12.6bn.

Mutual funds were net equity buyers to the tune of \$2.5bn while Insurance funds were also net buyers in December with \$1.64bn inflows.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

RBI maintained India's FY22 GDP growth forecast at 9.5% after the latest monetary policy meeting. However, RBI kept all policy rates on hold, maintaining its accommodative stance, as the Governor and MPC's statements repeatedly focused on the need for a more durable recovery.

November headline CPI came in below expectations at 4.9% (YoY) led by downward surprises in both food and fuel. However, the core-core prices (core ex petrol and diesel) continued to strengthen. On a year-on-year basis,



core-core inflation rose from 5.0% in October to 5.5% in November reflecting the impact of sustained increase in input prices that are pressuring margins.

October IIP (Index of Industrial Production) disappointed again, growing below expectation at 3.2% YoY. In level terms, IP is still at 98% of pre-pandemic levels in October retreating from the peak of 101% of pre-pandemic levels in April.

India's manufacturing PMI hit a 10-month high in Nov at 57.6, a jump from 55.9 in October. However, PMI for services dropped moderately to 58.1 in November from a ten-and-a-half-year high of 58.4 in October.

India's FX reserves remained close to an all-time peak, standing at \$635bn. FX reserves have declined by US\$4.7bn in the last 4 weeks. INR appreciated over the month (up 1.1% MoM) and ended the month at 74.34/\$ in December.

Benchmark 10-year treasury yields averaged at 6.41% in December (6bp higher vs. the November avg.). On month-end values, the 10Y yield was up and ended the month at 6.45%. Oil prices recovered from the weakness of the previous month, gaining 11.1% in December.

Fiscal deficit for Apr-Nov came at Rs6.96tn or 46.2% of the budgeted FY22 deficit (at Rs.15.1tn or 6.8% of GDP). GST collections hit a 3-month low in December coming in at Rs1.3tn (marginally lower than levels seen in November), up 13% YoY while also being +26% from December 2019.

OUTLOOK

Covid-19 vaccine administration continues in India at a rapid pace. However, total Indian daily cases have started rising. As of 31 December, c.1400 cases of Omicron variant have been reported in India, which has vaccinated ~61% of its population with at least one dose. The Prime Minister announced the start of vaccination for children in the 15 to 18 age group from January 3, 2022. Also, precautionary doses for healthcare and frontline workers will be provided and people above the age of 60 who have co-morbidities will also be given the option of a booster dose.

In a setback to the reform momentum, the government announced a repeal of the farm laws accepting the demand of the farmer unions after more than a yearlong protest. The upcoming Budget 2022 will now be the focus on how government targets to help maintain the economic growth momentum.

The recent Omicron Covid-19 surge has raised near-term uncertainty for the global economy and India. While we do not expect it to be disruptive as the hospitalization rate has been much lower than the delta variant and a majority of the population has immunized, nevertheless it may negatively impact the service sector to an extent. Overall, increased vaccination efforts, normal monsoon, benign monetary policy and constructive government measures should help the economic recovery continue in the coming quarters, in our view.

Source: Bloomberg, MSCI

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