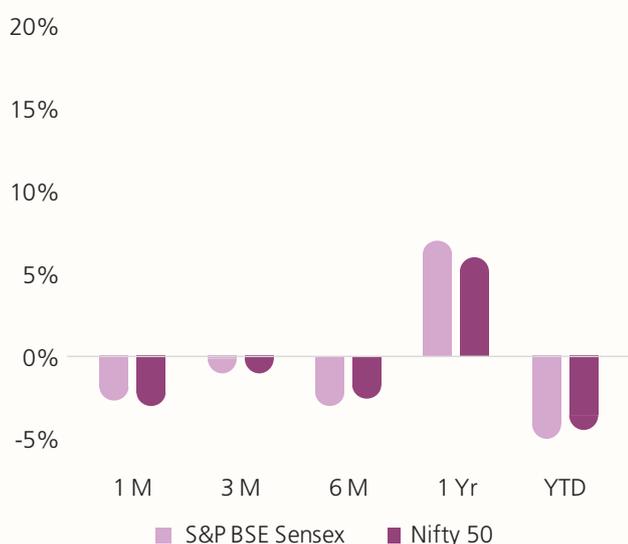




Nifty declined 3% in May'22 driven by weakened sentiment on the back of surging crude price, inflation worries and continued FII selling. BSE Midcap index and BSE Smallcap indices declined sharply by 5.2% & 7.8%, respectively, reversing the outperformance of last month versus the Nifty.

Global equities were flat in May'22 having digested some of the geopolitical pressures and hawkish stance of the Fed after a sharp 8% decline in April. Indian equities however declined sharply by 6% (US\$ terms), under-performing the broader regional markets in May'22 (MSCI APxJ / EM: -1.0%/+1.0%).

### Returns



### PE Ratio



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

## GLOBAL MARKETS

Worldwide, most major indices saw flat to positive performance with US S&P500 down 0.2% while Nikkei (1.6%), Hang Seng (1.5%) and FTSE UK (1.0%) all registering gains. However, geopolitical conflict continued to weigh on Euro Stoxx (-1.6%).

## SECTOR PERFORMANCE



In sectoral trends, Metal was the major loser (-16%) driven by the imposition of government duties on steel exports. Power (-11%), Healthcare (-8%), Real Estate (-7%), Information Technology (-6%) and Oil & Gas (-5%) were other significant losers. Banking declined by 1.5% while FMCG was flat.

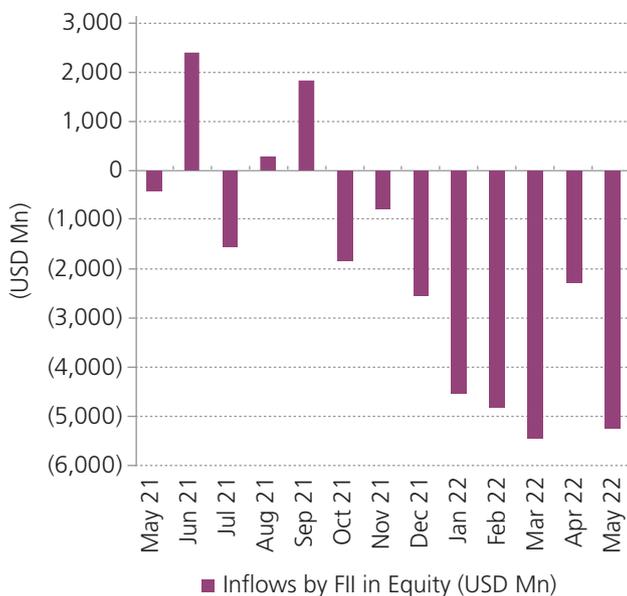
Auto (5%) was the only meaningful gainer as a decline in the steel and other commodity prices is expected to help auto earnings.

## INSTITUTIONAL ACTIVITY

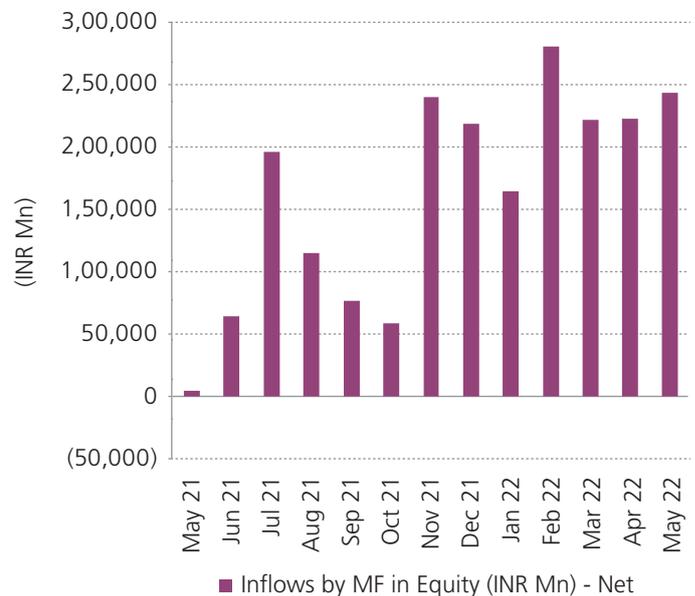
FII remained net sellers of Indian equities in May'22 (-\$4.7 bn, following -\$3.8 bn in March). This marked the 8th consecutive month of net equity outflows for FIIs, with YTD outflows of \$22.1 bn. DIIs recorded inflows of \$6.6 bn in May, maintaining the buying trend observed since March 2021.

Mutual funds and Insurance funds were both net buyers in May with \$3.2 bn inflows and \$3.4 bn inflows respectively.

**Inflows by FII in Equity (USD Mn) - Net**



**Inflows by MF in Equity (INR Mn) - Net**



## MACRO-ECONOMIC DEVELOPMENTS

India's GDP growth slowed in Q4FY22 to 4.1%, reflecting the impact of the Omicron wave on manufacturing sector and contact-intensive services. For FY22, NSO pruned its GDP growth forecast to 8.7%, from 8.9%.

RBI in a surprise move hiked policy rates by 40 bps after having kept rates unchanged in the April MPC meet where it had raised inflation forecasts and lowered the growth outlook.

April's CPI inflation rose to an 8-year high of 7.8% (YoY) up from 7.0% in March, reflecting a broad-based rise across food, fuel and core inflation (to 7.0% from 6.4%).



The Government of India also announced a range of measures to curb rising prices – cutting excise duty on petrol and diesel, imposing export duties on steel products and reducing import duties on coal and naphtha.

Industrial production (IP) growth rose to 1.9% (YoY) in March from a downwardly revised 1.5% in February.

Manufacturing PMI (54.7) and Services PMI (57.9) remained in the expansion zone in April, with Services PMI showing good improvement compared to its levels in the first quarter of the year, primarily due to the easing of Covid restrictions

India's FX reserves came in at \$598 bn. FX reserves have declined by US\$2.9 bn in the last 4 weeks. The INR depreciated sharply over the month (down 1.6% MoM) and ended the month at 77.64/\$ in May.

Benchmark 10-year treasury yields averaged at 7.34% in May (26 bps higher vs. April avg.) and ended the month at 7.42% (up 28 bps MoM). Oil prices rose sharply (+15.9%) over May, after having been flat in April.

On the positive side, GST collections stood at Rs. 1.42 tn in March (15% YoY).

## OUTLOOK

Higher global crude and commodity prices and the pass-through of higher input costs to consumers, along with supply chain bottlenecks in various sectors are likely to keep inflation at elevated levels. While Government and RBI are now focusing on containing inflation, a higher fiscal deficit due to duty cuts on petrol and diesel and higher subsidy for fertilizers is likely to lead to a further increase in government borrowing plan and has led to further strengthening of bond yields. This is likely to result in higher interest cost for other borrowers as well.

***On the positive side, higher agri commodity prices along with a forecast of a normal monsoon are expected to lead to an improvement in rural demand. Higher government spending on infrastructure, partial shift of global supply chains away from China to India in certain sectors and measures like PLI (Production Linked Incentive) scheme are likely to domestic manufacturing growth over the medium term. We, therefore, continue to remain constructive on Indian equities going forward, despite near-term challenges.***

Source: Bloomberg, MSCI

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