# GENERATIONAL CAPITAL

(A unit of Satwik and Ritwik Ventures Pvt. Ltd.)

## MONTHLY MARKET OUTLOOK

January 2022

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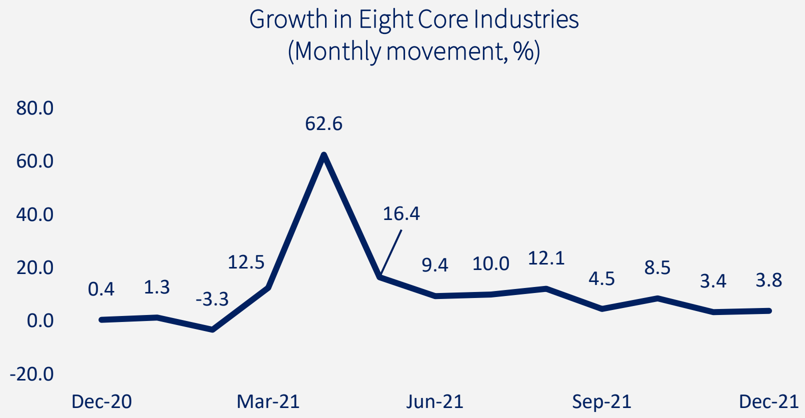
# 01
## MACROECONOMIC INDICATORS

# MACROECONOMIC INDICATORS

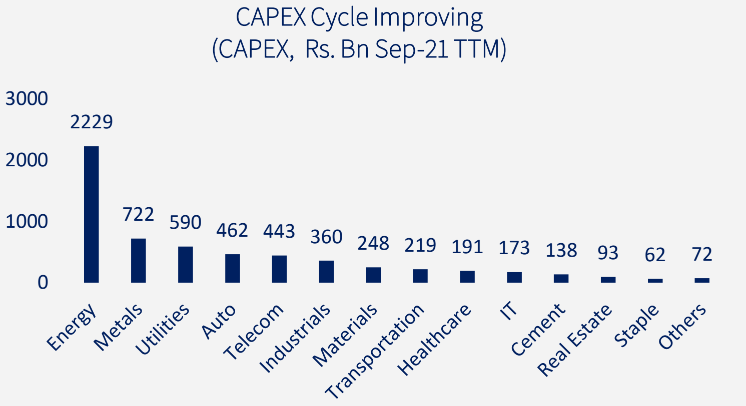
## INDUSTRIAL PRODUCTION

The performance of eight core industries witnessed a marginal MoM recovery from the levels of 3.4% to 3.8% in the month of Dec-21, aided by a low base of the preceding year. Crude Oil and Steel sector outputs slipped into negative territory. Growth figures are expected to be muted on account of waning of the base effect. In addition, the third wave and imposition of fresh curbs across the country may have negatively impacted the Jan-22 figures.

India Inc's capex cycle is witnessing a massive revival. Several building blocks, such as deleveraged balance sheets (1.3x in FY03 to 0.8x in FY21), reduced banking sector NPAs (4% in FY03 to 2.5% in FY21), favourable government reforms (PLI, RERA, NIP etc.) and lower corporate tax rates, are already in place to give a much needed push. As we can see below, huge investments are being made in sectors like energy, metals and utilities.




Source: Ministry of Commerce & Industry

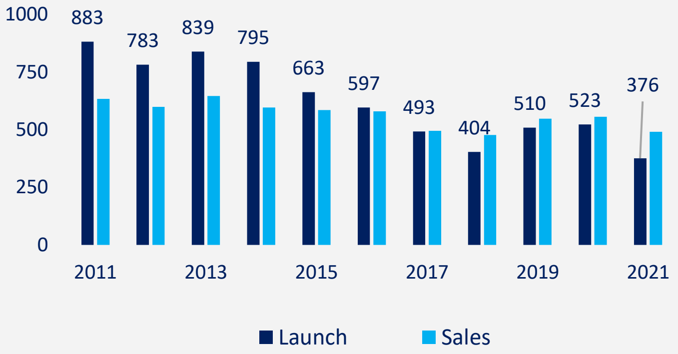



Source: Kotak

Nomura India Business Resumption Index (NIBRI)

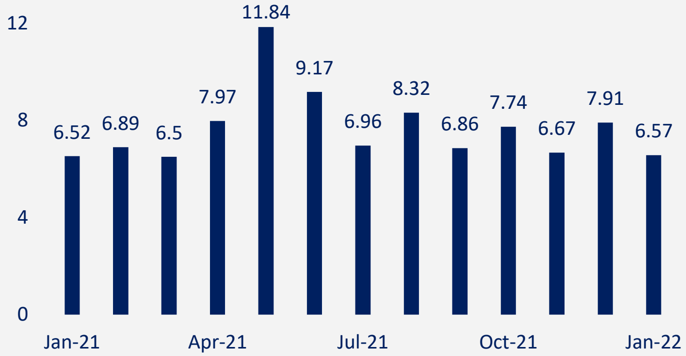

Source: Nomura Global Economics

Real Estate Overview – Sales steady but new launches drop



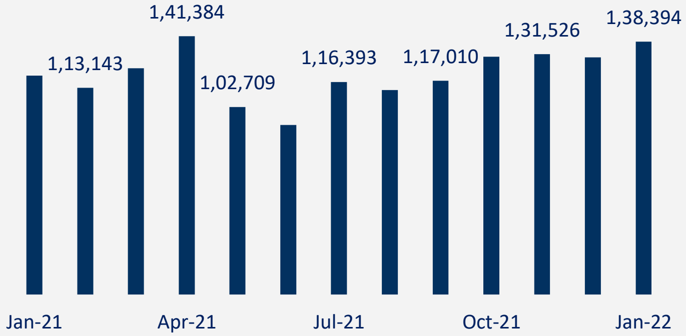

Source: Kotak

India – Unemployment Rate (%)




Source: Centre for Monitoring Indian Economy Pvt. Ltd.

G.S.T. Collection (Figures in INR Crores)




Source: pib.gov.in

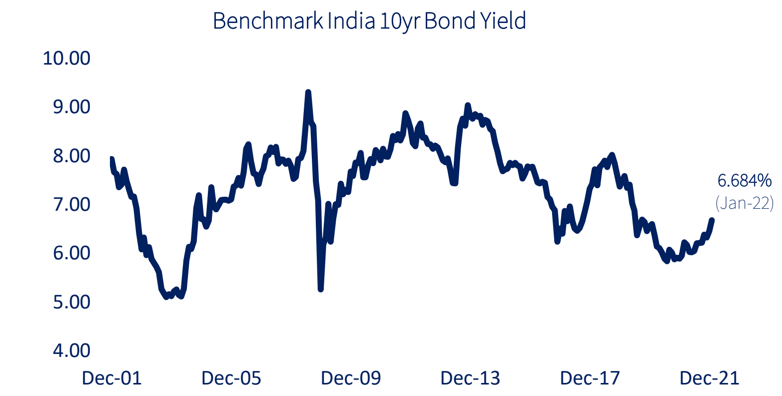
# 02

## FIXED INCOME

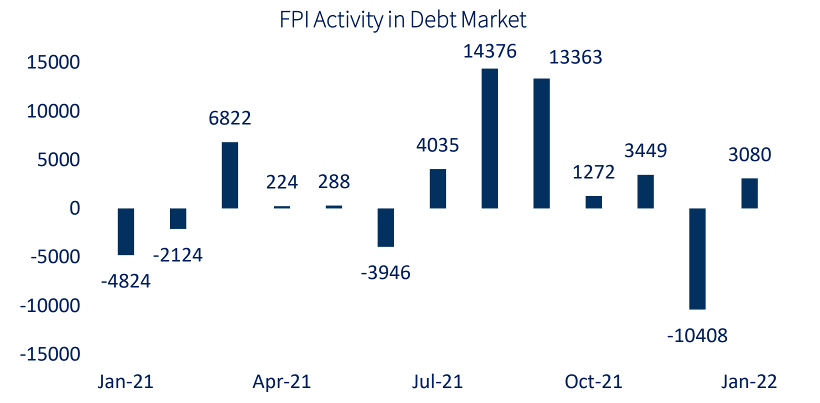
# FIXED INCOME

Indian G-Sec yields rose by 23 bps during January 2022, to close at 6.684%. The yields inched up on account of concerns that Fed might be more aggressive, than anticipated, in raising rates. Moreover, increase in global crude oil prices, rise in U.S. Treasury yields and upward pressure on domestic inflation, also contributed to rising G-Sec yields.

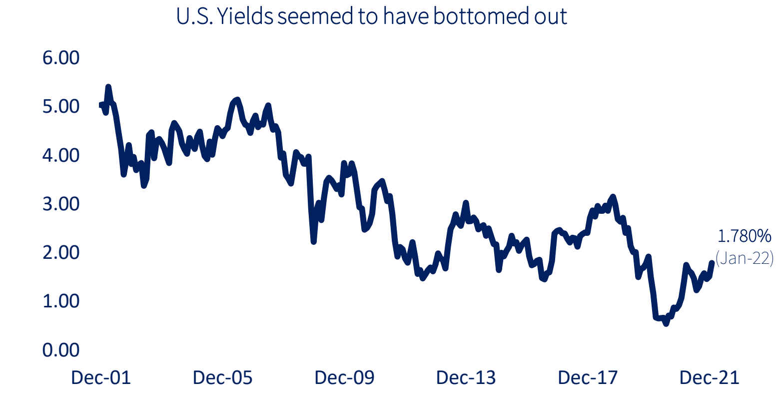
Fed Chair Jerome Powell's comments during the month indicated that the US central bank would consider all options for the future path of policy. Markets took this as paving the way to potentially a more aggressive tightening trajectory. US CPI registered 7% YoY increase in December, the highest since 1982. The US 10-year Treasury yield rose from 1.51% to 1.78% in Jan-22. However, the 2-year yield bore the brunt of the sell-off, rising from 0.73% to 1.18% given its greater sensitivity to interest rates.




Source: Investing.com




Source: NSDL (Figures in Crores)




Source: Investing.com

# INFLATION (WPI, CPI, FOOD INFLATION)

Retail price inflation rose sharply to 5.59% as against 4.91% in the previous month, however it came in below market expectations of 5.8%. Even though it was the highest rate since July 21, it remained within the RBI's target range for the sixth consecutive month.

"The CPI inflation trajectory has moved in close alignment with our projections. In particular, the softening of food prices is providing welcome relief. The improving prospects for food grains production and the expected easing of vegetable prices on fresh winter crop arrivals are adding further optimism. Moreover, the softening of pulses and edible oil prices is likely to continue in response to strong supply side interventions by the Government and increase in domestic production." – RBI Governor's statement: 10/02/2022

According to CARE Ratings, "The inconsistency between CPI and WPI inflation along with the persistent gap between the two could hamper the price stability in near term. The risk of producers' price pass-through could feed into the already elevated retail inflation."

"The annual rate of inflation is 13.56% (Provisional) for the month of December, 2021 (over December, 2020) as compared to 1.95% in December, 2020. The high rate of inflation in December 2021 is primarily due to rise in prices of mineral oils, basic metals, crude petroleum & natural gas, chemicals and chemical products, food products, textile and paper and paper products etc as compared to the corresponding month of the previous year." – Ministry of Commerce & Industry

CPI and CORE CPI


Source: Kotak

Wholesale Price Index (YoY, %)

| | Weight | Nov-21 | | Dev-21 | |
|---|---|---|---|---|---|
| | (%) | Index | Inflation | Index | Inflation |
| **All Commodities** | 100 | 142.9 | 14.23 | 142.4 | 13.56 |
| **I Primary Articles** | 22.62 | 168.6 | 10.34 | 167.8 | 13.38 |
| **II Fuel & Power** | 13.15 | 131.7 | 39.81 | 128.2 | 32.30 |
| **III Manufactured Pr.** | 64.23 | 136.1 | 11.92 | 136.4 | 10.62 |
| **Food Index** | 24.38 | 170.4 | 6.70 | 169.0 | 9.24 |

Source: Ministry of Commerce & Industry

# 03

## EQUITY

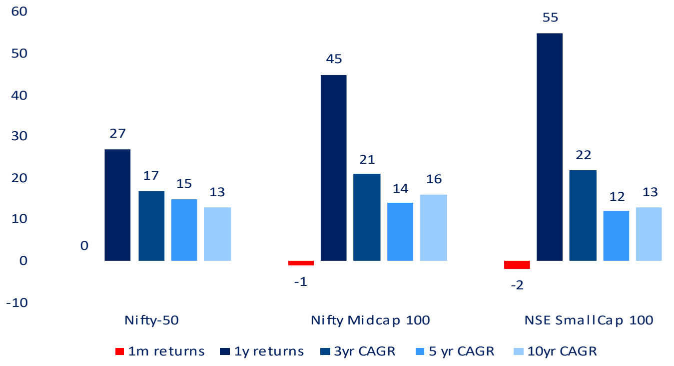
# EQUITY

## DOMESTIC & SECTORAL INDICES

The month of January started off on a jittery note with market participants realizing that the there would be several headwinds for the markets to face this year. The nervousness around the budget added to the volatility as the VIX breached the 24 mark for the first time since May-21. However there was a recovery in the indices post the budget as there were no negative surprises. Mid and small cap indices fell more sharply with several stocks taking a much awaited beatdown.

While 2021 was the best year for IPOs where several new age names made their successful debuts on the bourses, it is predicted that 2022 will not be the same. IPOs this year have not witnessed the same exuberance as last year and it remains to be seen how the LIC IPO performs as it is poised to be the biggest IPO in Indian history. However, quality names with reasonable valuations should not find it very difficult to raise funds from the primary markets.

Index Performance as on 31st January 2022 (% Returns)



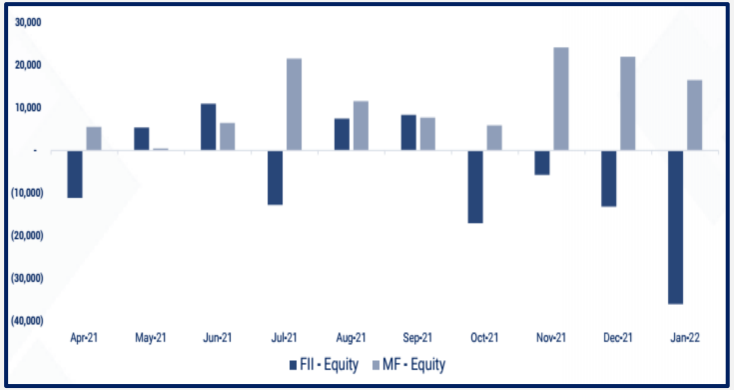

Source: National Stock exchange

Performance of "New-age" companies (as on 31st January 2022)

| Company | IPO | Issue Price | List Price | As at 31/01/2022 | % Drop from List Price |
|---|---|---|---|---|---|
| **PayTM** | Nov-21 | 2150 | 1560.8 | 916.85 | 41.26% |
| **CarTrade** | Aug-21 | 1618 | 1501.1 | 725.15 | 51.69% |
| **Policy Bazaar** | Nov-21 | 980 | 1202.3 | 795.05 | 33.87% |
| **Zomato** | Jul-21 | 76 | 126 | 90.40 | 28.25% |
| **Nykaa** | Oct-21 | 893 | 2205.8 | 1651.55 | 25.13% |

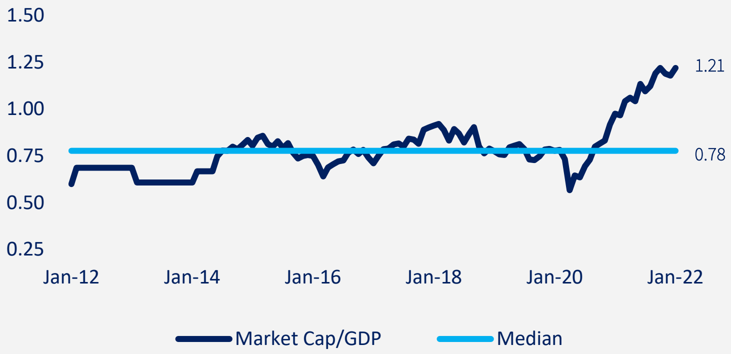
Source:: National Stock Exchange, Generational Capital

Net DII Flows Rs 121,585 cr = 2x of Net FII outflows of Rs 63,638



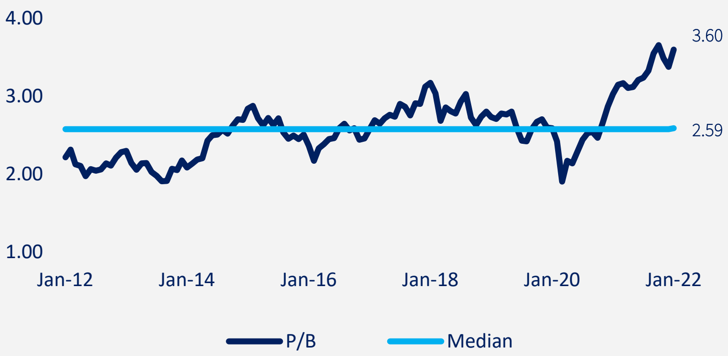

Source: KOTAK

BSE 500 MCAP / GDP Ratio



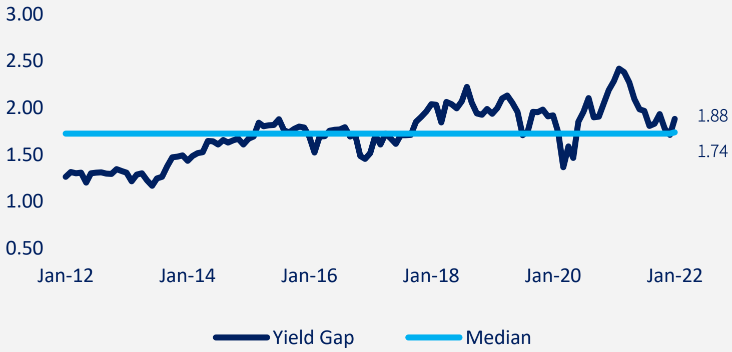

Source: Bombay Stock Exchange

BSE 500 P/B Ratio




Source: Bombay Stock Exchange

BSE 500 Yield Gap




Source: Bombay Stock Exchange

# 04

## GLOBAL ECONOMY

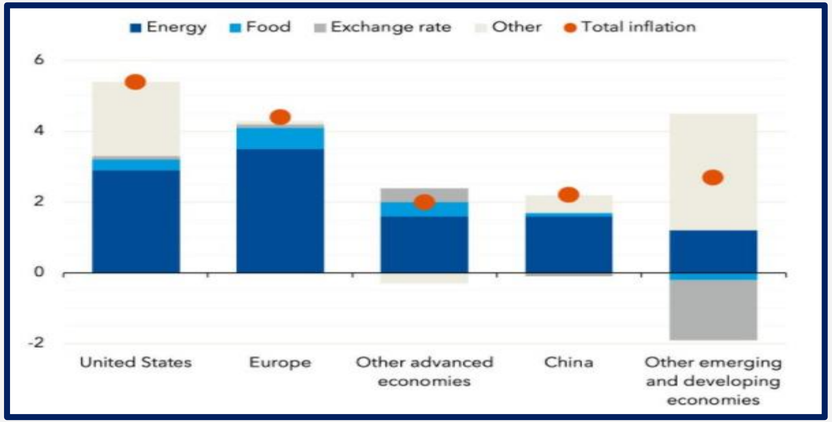
# ECONOMY

## GLOBAL

As we can see below inflation has increased significantly in Europe due to high energy costs. Continuing supply cycle disruptions, clogged plug-ins, logistics strains, and strong demand for merchandise have enhanced these price challenges, particularly in the United States. Increased prices of imported goods led to inflation in a few parts, including Latin America and the Caribbean. Oil options contracts show that crude prices will climb about 12% this year as natural gas prices increase about 49%. These increments for both goods would be substantially lower than their gains this past year and would likely be succeeded by falling prices in 2023 as supply-demand imbalances alleviates further.

Based on a research by Swiss Re Institute, the global economy could witness a loss of 10% in its cumulative economic value by 2050 due to climate change. As a result of climate change, Asian economies would take a relatively harder hit. It is forecasted that there would be a 5.5% hit to GDP in the best-case scenario, and a 26.5% hit in a critical scenario.

Broadening Global Inflation Pressure

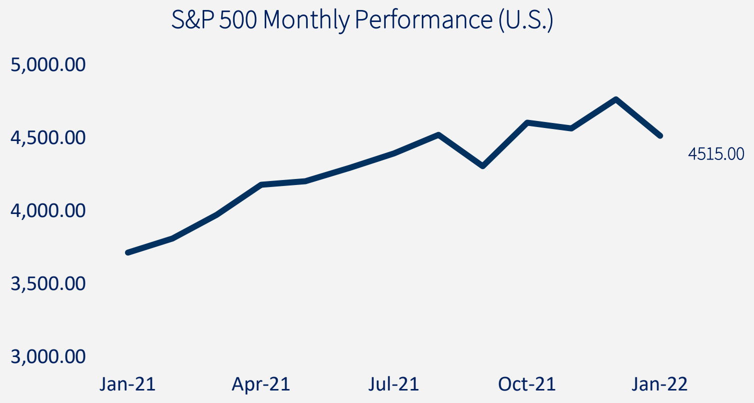



Source: IMF, HAVER Analytics

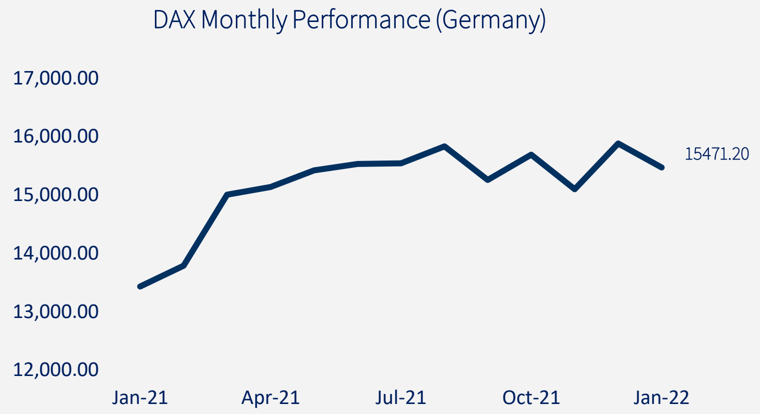
COIN vs CLIMATE

| | Temperature rise scenario, by mid-century | | | |
|---|---|---|---|---|
| | Well-below 2°C increase | 2.0°C increase | 2.6°C increase | 3.2°C increase |
| | Paris target | The likely range of global temperature gains | | Severe case |
| Simulating for economic loss impacts from rising temperatures in % GDP, relative to a world without climate change (0°C) | | | | |
| World | -4.2% | -11.0% | -13.9% | -18.1% |
| OECD | -3.1% | -7.6% | -8.1% | -10.6% |
| North America | -3.1% | -6.9% | -7.4% | -9.5% |
| South America | -4.1% | -10.8% | -13.0% | -17.0% |
| Europe | -2.8% | -7.7% | -8.0% | -10.5% |
| Middle East & Africa | -4.7% | -14.0% | -21.5% | -27.6% |
| Asia | -5.5% | -14.9% | -20.4% | -26.5% |
| Advanced Asia | -3.3% | -9.5% | -11.7% | -15.4% |
| ASEAN | -4.2% | -17.0% | -29.0% | -37.4% |
| Oceania | -4.3% | -11.2% | -12.3% | -16.3% |

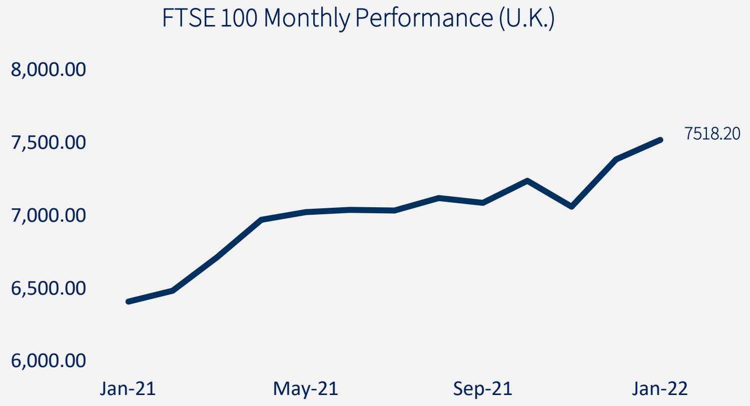
Source: SwissRe Institute



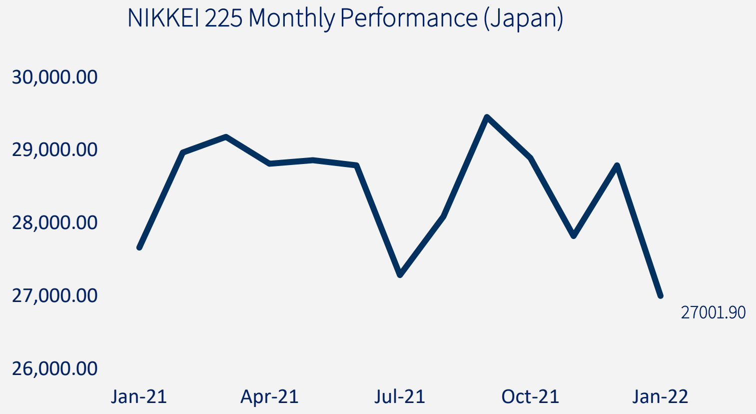

Source: Investing.com




Source: Investing.com




Source: Investing.com




Source: Investing.com

# 05

## STORY OF THE MONTH
## INDIAN BUDGEY

# BUDGET - 2022

GROWTH AND FISCAL PRUDENCE OVER POPULARISM

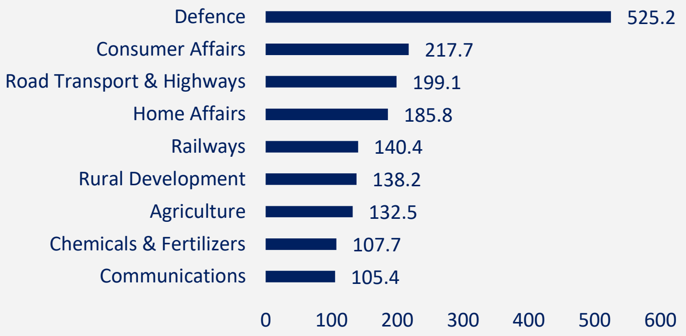
## KEY HIGHLIGHTS

| | |
|---|---|
| **Fiscal Deficit** | The fiscal deficit for FY23 is projected at 6.4% of GDP |
| **PM Gati Shakti** | Transformative approach for economic growth and sustainable development; driven by 7 engines - roads, railways, airports, ports, mass transport, waterways and logistics |
| **Digital Rupee** | Launch of Digital Rupee based on blockchain technology in 2022-23 Any income from the transfer of any virtual digit asset will be taxed at 30% |
| **LTCG** | The surcharge on LTCG arising from transfer of any type of asset will be capped at 15% |
| **Housing** | 80 lakh houses will be completed under PM Awas Yojana with an outlay of 48,000 Crores |
| **GST Collection** | Gross GST collection in January hit a high of INR 138,394 Crores |

## KEY POSITIVES

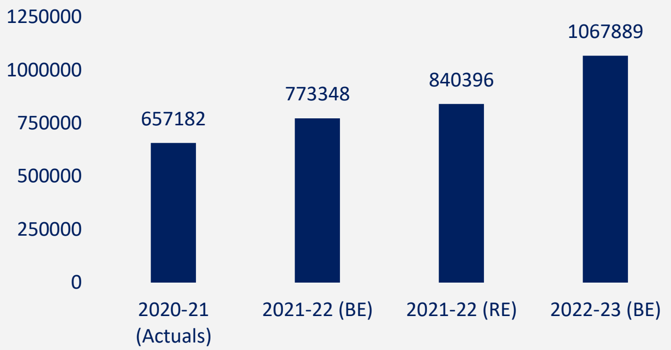
- Housing cycle is the biggest catalyst of investments and overall economy. Real estate, Cement, Building materials could be big beneficiaries.
- Credit growth coupled with expansionary fiscal policy, boost to manufacturing augurs, positive for well-capitalized banks
- Pent up demand for consumer discretionary and Travel could unleash in 2022
- Exports of goods and services is a decadal opportunity
- PLI, Make in India and Atma Nirbhar to throw up several opportunities

## Ministry-wise Allocation (Figures in INR '000 Crores)



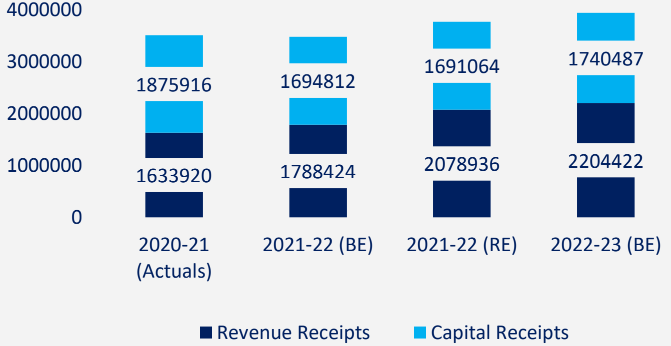

Source: Budget Document

## Effective Capital Expenditure (Figures in INR Crores)



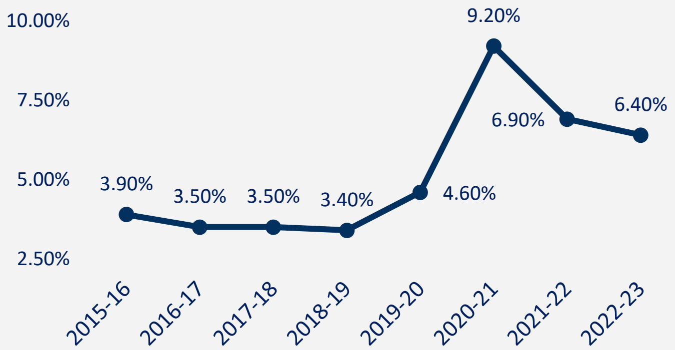

Source: Budget Document; BE = Budgeted Estimate; RE = Revised Estimate

## Total Receipts (Figures in INR Crores)




Source: Budget Document; BE = Budgeted Estimate; RE = Revised Estimate

## Fiscal Deficit




Source: Budget Document

# 06
# ASSET ALLOCATION DESK'S VIEWS

# DESK VIEW

## EQUITY

At the start of the year we had cautioned investors of an impending correction in the equity markets owing to several factors. We had warned investors that the markets were not going to be as easy as they were post COVID. Inflation and supply chain concerns have now come to the forefront, putting market participants and FPIs on shaky ground.

However, the Indian economy is on path to be the fastest growing economy and we have seen companies report results beating estimates. While FPIs may be pulling out, the markets have been supported by DIIs and retail investors with SIPs being some of the highest ever seen.

Every month we stress on how investors need to stay invested in a disciplined manner without trying to time the market, with the month of January clearly proving it to be a futile exercise. A strict asset allocation adhering to long term financial goals and staying invested in quality through the best fund managers will now prove to be the only way to create alpha and preserve capital as the gravy train comes to an end.

## DEBT

In it's recently concluded MPC meeting the RBI surprised market participants by maintaining status quo on all policy rates. They also kept their accommodative stance pointing out that the adverse base effect was rolling over and the headline inflation was likely to trend lower next year averaging 4.5% in FY23 as compared to 5.3% in FY22. Overall the RBI governor's speech seemed to have calmed the nerves of the bond market. Hiking of the Voluntary Retention Scheme limit from Rs 1.5 lakh crore to Rs 2.5 lakh crore is expected to bring higher inflows into the debt markets.

The dovish stance by the RBI provided much needed relief after the initial shock from the FY23 Union Budget. While we have been pointing out for a few months that higher yields are inevitable in the coming year, we can expect the central bank to guide the markets through bumps and smoothen the process.

With benchmark yields staying range bound in the near future, investors should look at creating a portfolio of debt products such as debt mutual funds, MLDs, Venture debt and even Debt PMSs adhering to their asset allocation policies and expected returns.

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