



Indian Macro and Markets Overview

Jan-2022

Updates Summary

Economic indicators and Government Balance Sheet

- ... Mixed trends persists when it comes to economic activities indicators. Mis-match when it comes to international trade by value that has jumped to record levels and port activity growth that continues to remain soften (Possibly suggesting inflationary trends? Major component prices seems to have increased 30-40%).
- ... Diesel consumption has improved. It has grown 2% vs. Dec-20 and lower by just -1% vs. FY-19 consumption. This is generally associated with improved industrial activities and general goods movement.
- ... After suggesting improvement, employment indicators are showing signs of weakness.
- ... Fiscal consolidation evident as expenditure and fiscal deficit as % of budget deficit remains low, despite robust tax collections. This stand may be owing to lower never-before-seen fiscal deficit on COVID shock.

Inflation

- ... Consumer price index remains near long term average levels. Wholesale price index remains high. Businesses, as per RBI survey, expect price increases even further.
- ... As indicated above, Import-Export value has risen despite slowing port activities. This suggests persistent inflationary pressures from imported goods as well.

Credit, Capital Formation and Industrial Activities

- ... New capex announcements remain low. RBI survey of manufacturing units though expects capacity utilisation improving.
- ... Industrial Entrepreneur Memorandum (IEM) data suggests continued sluggishness when it comes to “interest towards capex”. Expanding sectors include Sugar, Drugs, Pharma and Fermentation industries. Capex interest remains poor for Textiles, Fertilizers and Electrical Equipment.
- ... Bank Credit growth, though remains low, appears to have been improving gradually. While personal loans and agri loans remain high, pick up in industrial loans is also evident for the first time since Jun-20.
- ... Amongst industries, Mining, Chemicals and Beverage & Tobacco industries saw highest credit growth.
- ... Overall yield curve seems to have moved upwards over last one year. Short term interest rates have risen at faster pace on RBI actions.

International Trade, Finance and Currency

- ... Trade deficit remains a concern. Non-oil Import to Export ratio (12m rolling) has been inching up towards upper limit. Current Account Deficit is likely to remain under pressure for Dec-21 quarter. Gold and electronics imports remain high.
- ... While FDI has slowed down, NRI deposits jumped significantly during Oct-21. Capital Inflows to Net Trade Outflows ratio has declined and turned adverse.
- ... India’s foreign exchange reserves has been declining after peaking in Oct-21. India’s short term foreign exchange debt obligation is ~40% of reserves.
- ... Gold imports remain high for India. Price trend in INR continues to have upward bias.

Market Valuation and Sentiment

- ... Over last one month, market favored stocks that were expensive and those that had strong technical charts. Basically, expensive stocks with earnings and technical momentum delivered better returns than other buckets.
- ... Nifty continues to quote near high end of valuation range. High proportion of earnings growth remains priced in in Nifty valuations. Sensex valuation continues to suggest optimistic scenarios with respect to earnings recovery and growth being priced in.
- ... 80% of Nifty and High-Quality companies (as per our framework) by weight remain in expensive territory.
- ... Mid and smallcap valuation also remains high.
- ... Most Sentiment Indicators that we follow continue to suggest prevailing optimism when it comes to equities in general.
- ... Money continues to be flow in from domestic investors whereas FII remains net sellers in the market.
- ... Monthly SIP amount continues to rise and contributes \$1.45 bn a month.
- ... Banks & Financial services, Retailing, Pharma and Auto saw significant outflows from the FII portfolio while the insurance and Capital goods sector saw significant inflows.

High Frequency Indicators and Long-Term Trends

GDP High Frequency Indicators – Heat map

GDP components	Indicator	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Private Final Consumption	Bank Retail loans in INR													
	Production of Petro products													
	Domestic Scooter sales units													
	Domestic Motorcycle sales													
	Rural men wages INR													
	Domestic car sales													
	Hindustan Unilever volume growth													
Government Spending	Revenue and non-debt capital receipts													
	Capital and non-interest revenue spend													
Fixed Capital Formation	Domestic CV sales volume													
	Cement Production													
	Tractor sales													
	Electricity requirements MW													
	Projects completed/Total projects													
	Commercial papers issuances													
	Industrial loans													
	Revenue earning rail freight (tonnes)													
	Production of finished steel													
Net Exports	FDI inflows growth in USD													
	Non-oil exports USD													
	Non-oil non-gold and silver imports USD													

... Energy consumption continue to remain subdued in the month of November 21. Cement and Steel production growth was weak in November, while coal production continued to rise on the back of increased stockpiling by power plants.

... Rural demand seems to remain subdued as tractor and two-wheeler volumes (entry level) continue to decline on a YoY basis.

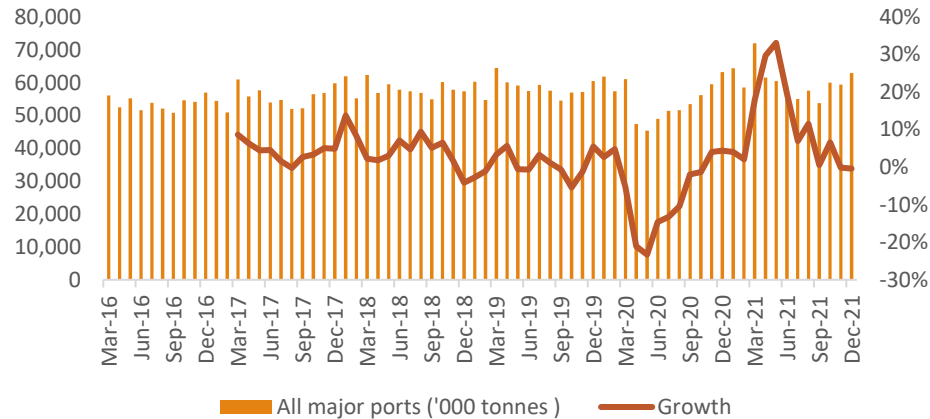
... International trade also saw a record month in December, with both Imports and Exports reaching the highest levels.

... Industrial loan growth has shown a steady pickup in the last 3-4 months.

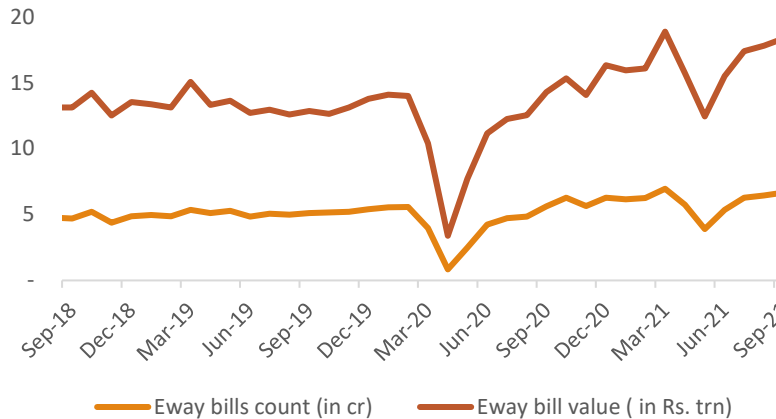
**Some figures Mar 21 onwards have been adjusted to keep base of FY 19 due to low base effect of FY20.*

Goods movement and mobility

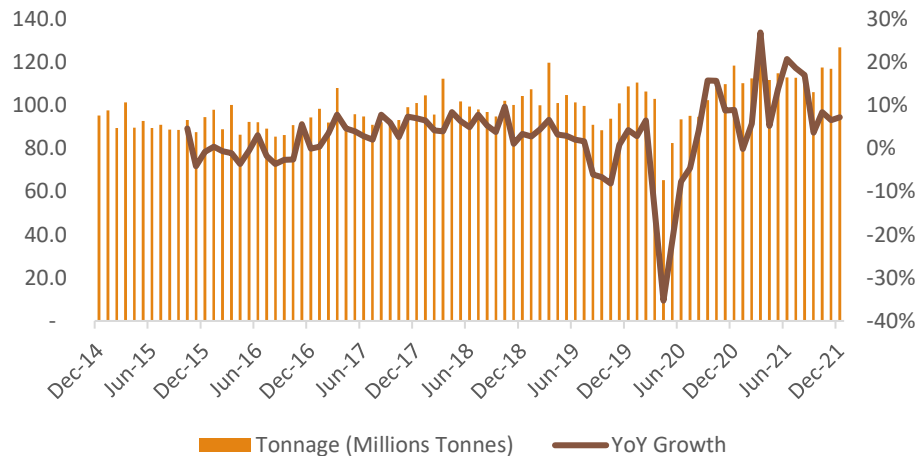
Port Cargo Traffic*- Dec 21



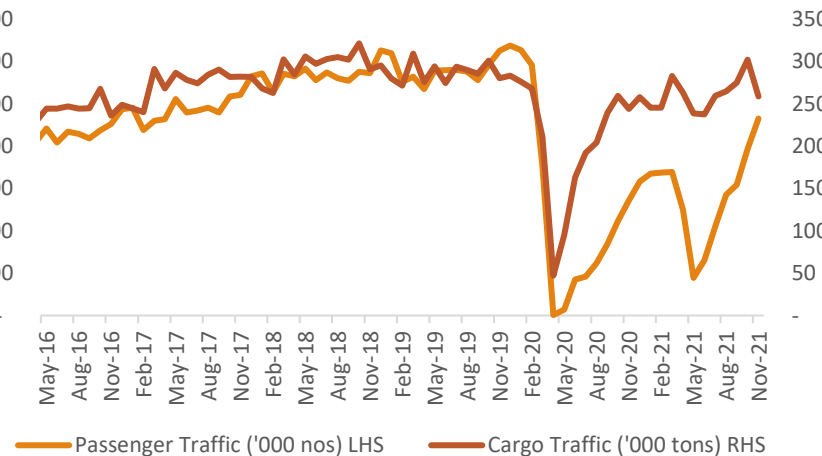
E-way bills- Sept 21



Railway Freight tonnage*-Dec 21



Air traffic*- Nov 21



... Port cargo freight was flat on a YoY basis in December indicating a further moderation in volumes.

... Railway freight tonnage also continues to remain steady with growth moderating over last 3 months.

... As per [reports](#), Freight movement via road saw increased activities during the month of Oct, due to festivities, which slowed down sequentially in November.

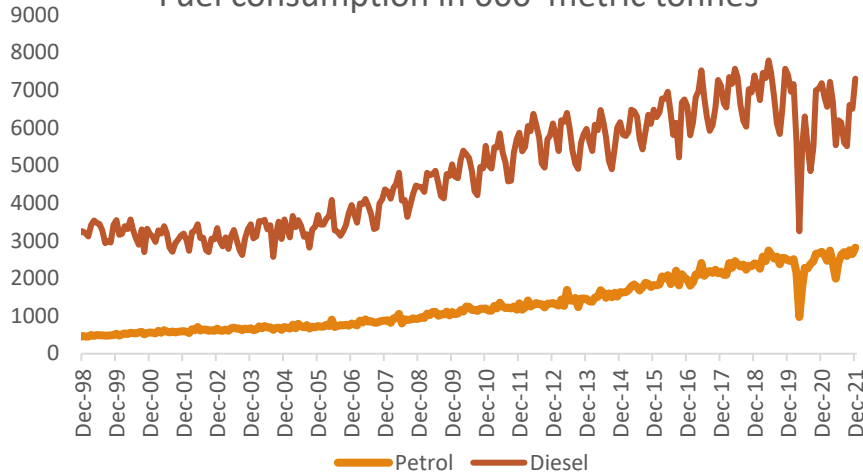
... Air cargo traffic seems to follow similar pattern of rail and port cargo with steady volumes and moderated growth.

... Passenger traffic saw a significant improvement in November and is moving towards pre- Covid levels.

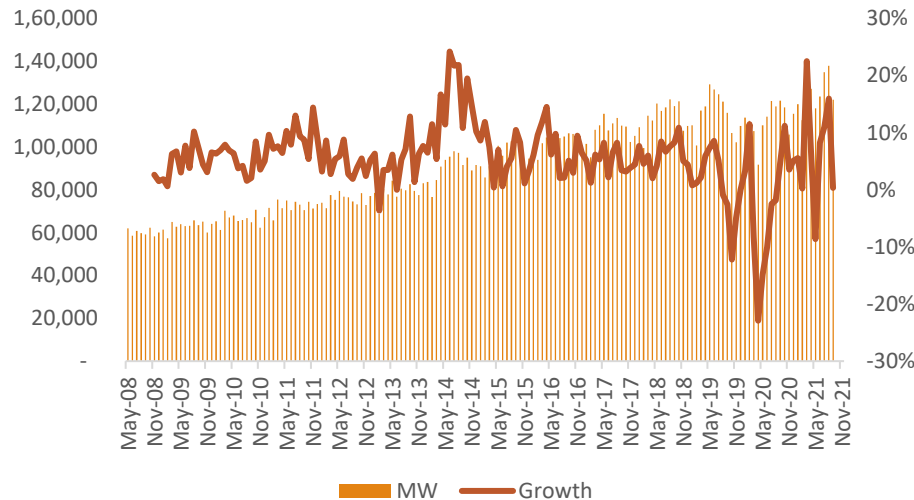
*Base adjusted in Apr 21 to Apr 19 due to low base effect of Apr 20.

Energy consumption and money flow

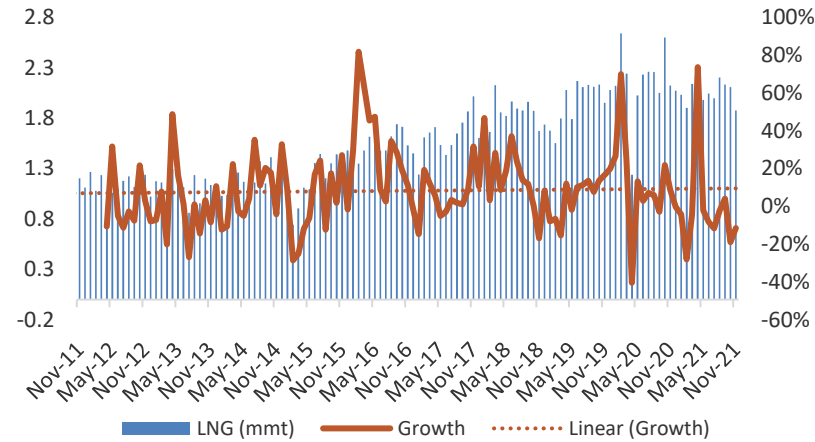
Fuel consumption in 000' metric tonnes



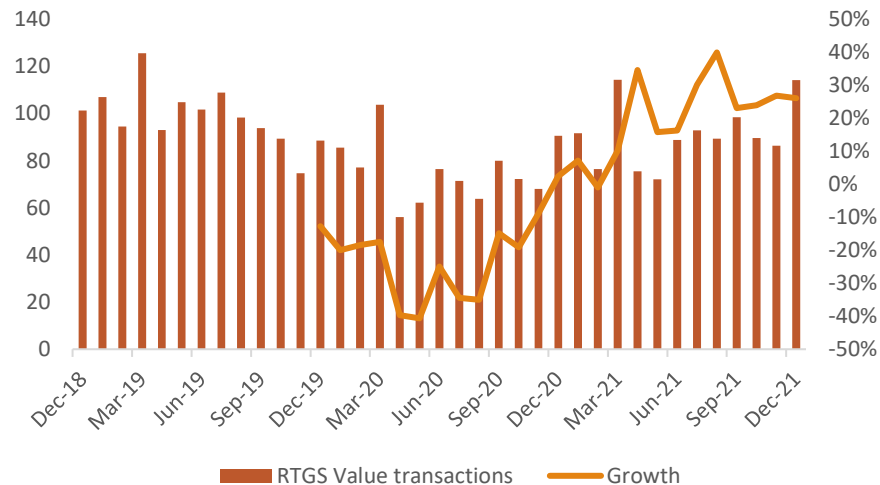
Electricity generation*



LNG Imports- November 21



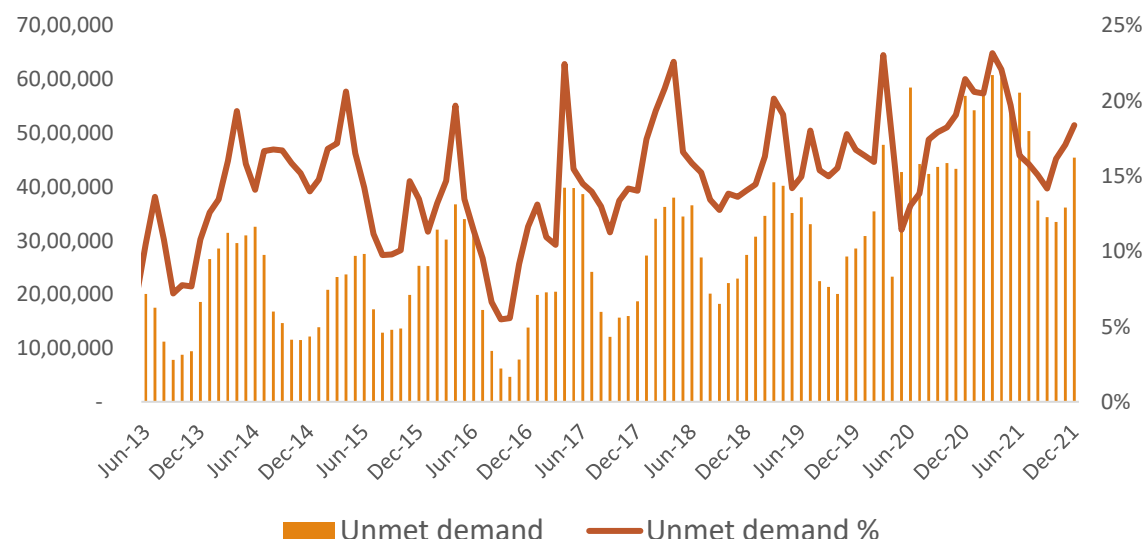
RTGS Transactions in Rs. Trillion



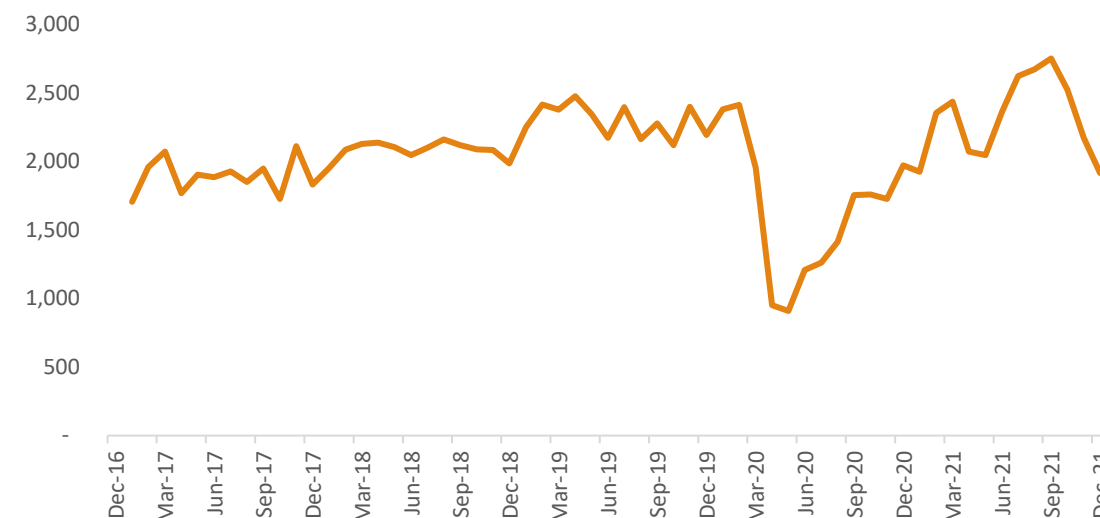
- ... Diesel consumption saw significant improvement in December, on a MoM basis, and is just 3% lower to pre Covid levels.
- ... The rebound in diesel consumption was attributable to higher movement of agri- products and steady growth in factory output and exports.
- ... Electricity generation continued to remain flattish in November.
- ... LNG imports have continued to remain subdued since May 21.

*Base adjusted in Apr 21 to Apr 19 due to low base effect of Apr 20.

MNREGA unmet demand of employment

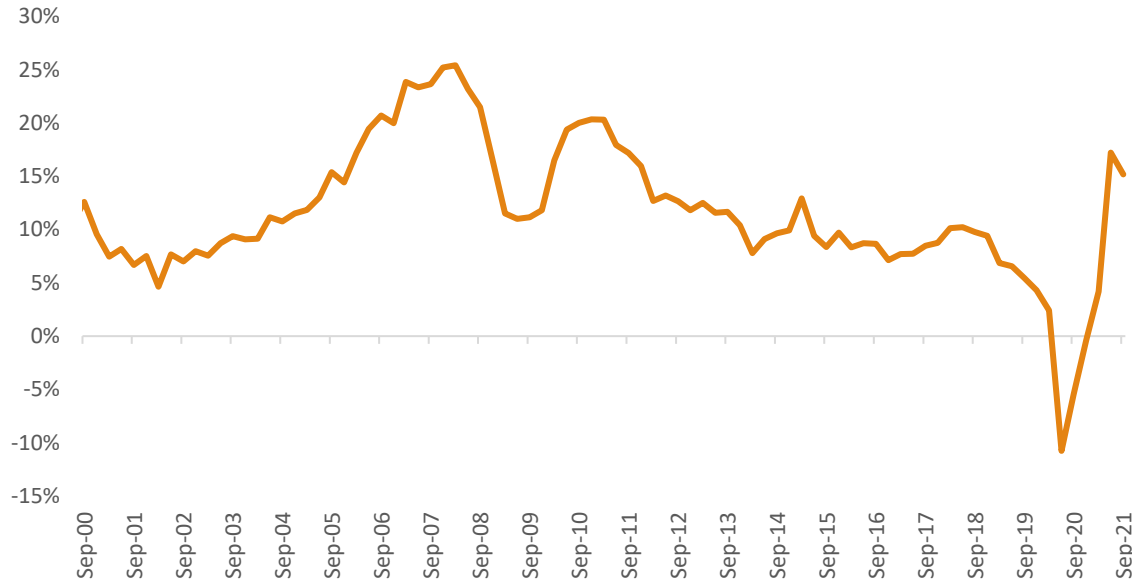


Naukri Job Speak Index

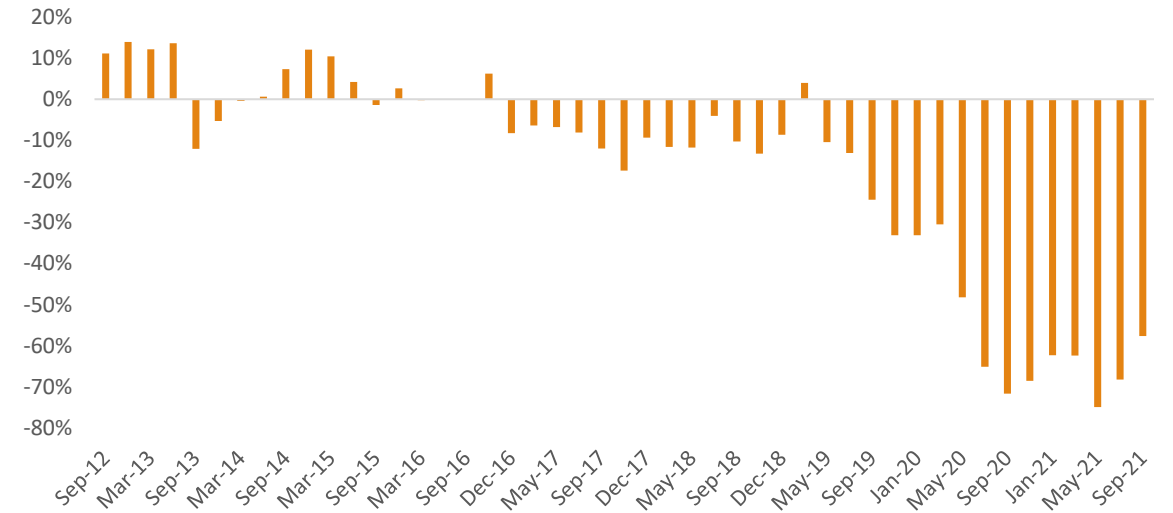


- ... Hiring activity eased significantly in December on a MoM basis and was down as compared to previous year.
- ... A deeper dive into sector wise hiring activity shows that the revival has been majorly skewed by the IT sector. As compared to Feb-20 (pre pandemic month), 34 out of the 40 sectors tracked by Naukri still show a decline. Hiring activity slowed significantly for all sectors in the month of December. 36 of the 40 sectors showed a decline in hiring activity.
- ... In rural India the trend suggests lack of opportunities for jobs as both no. of households seeking employment and unmet job demand grew significantly in December on a MoM basis. Previously, [reports](#) also suggest that people have been turned down from applying for MNREGA and thus this demand is not being recorded in the data. Thus, the actual figure for work demanded and unmet demand maybe somewhat higher.
- ... The initial as well as additional [allocation](#) towards the scheme totaling to ~Rs. 95k crore has been exhausted and the government still owes dues worth Rs 11k crore. This is despite 3 more months remaining for this fiscal year to end.

Median Employee cost growth of Indian companies YoY%

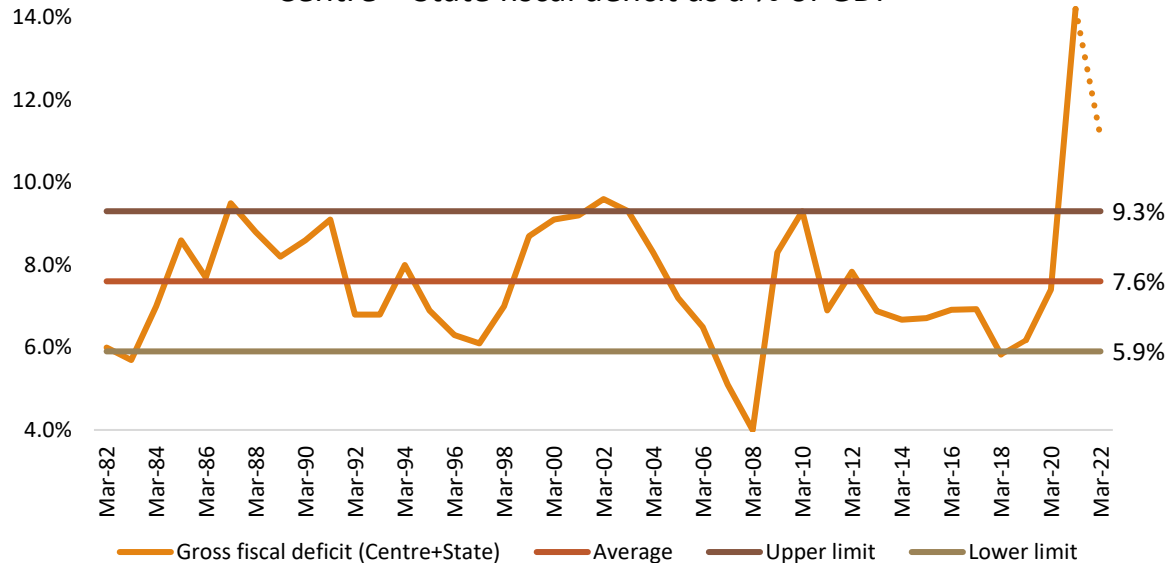


RBI Survey- Perception on Employment (Represents % of net respondents favoring improvement or worsening) –Nov 21



- ... Median Employee cost growth of listed companies have been on a rise in the last 2 quarters, albeit on a lower base. Rise in employee cost may be a good indicator of increased overall hiring activity and income for individuals.
- ... RBI survey, however, continues to show pessimism on part of consumers for employment opportunities, but the sentiment seems to be recovering.

Centre + State fiscal deficit as a % of GDP



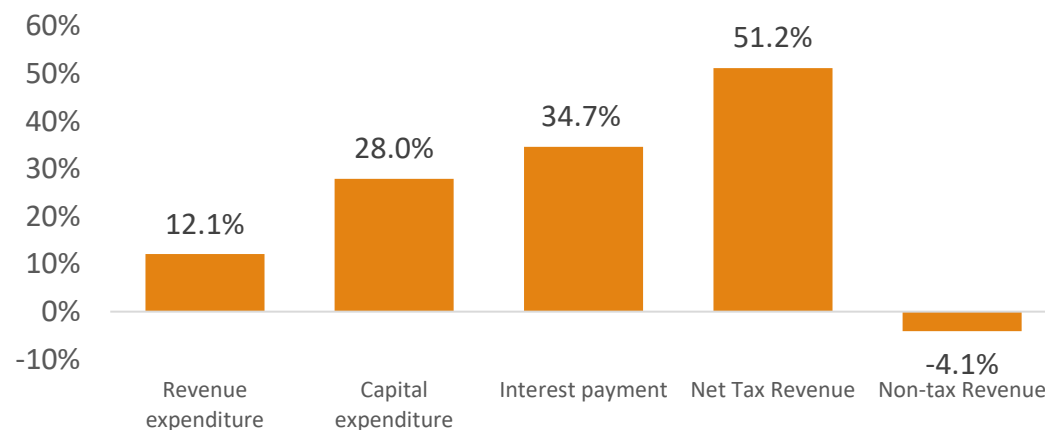
INR crores	Nov-21	Nov-20	Nov-19	Nov 21/Nov 20 Gr	Nov 21/Nov 19 Gr
Gross	1,541,920	1,026,055	1,174,143	50%	31%
Corporate tax	353,584	185,699	288,602	90%	23%
Income tax	346,086	235,038	267,929	47%	29%
CGST + IGST + Cess	454,299	332,987	398,640	36%	14%
Excise	241,930	196,342	132,899	23%	82%
Service tax	502	1,059	532	-53%	-6%
Customs*	125,782	63,050	75,933	99%	66%
Others	19,737	11,880	9,608	66%	105%
Assignment to state:	-402,769	-334,407	-421,850	20%	-5%
*Some customs duty paid entitles tax credit under GST					

+36% vs
Nov 19

- ... The robust tax collection for the government continued in the month of Nov as both Corporate and Personal Income tax collection grew by more than 40% on FY 19 base.
- ... This has helped the government to keep fiscal deficit in the first 8 months to just 46% of budget estimates as compared to average ~112% of Budget estimated in the last 5 years.
- ... This indicates fiscal consolidation focus on the part of the Government on record high fiscal deficit.
- ... Also, govt. expect the revenues to exceed the budget estimates of Rs 22.2 lakh crore, as per a recent [interview](#). This is despite the tax relief provided on Fuel and edible oil which is expected to lower the revenue by Rs 75k-80k crores.
- ... Policies like telecom AGR deferment, increased allocation to MNREGA etc. can increase can offset, to some extent, the robust tax collections.

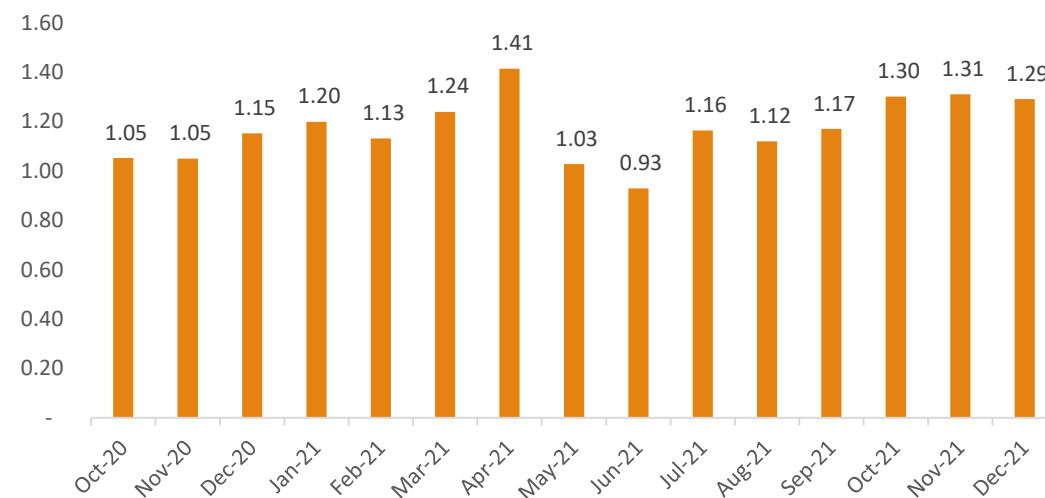
Government Income and Spending

Central government - spending growth YoY
April-November - 21

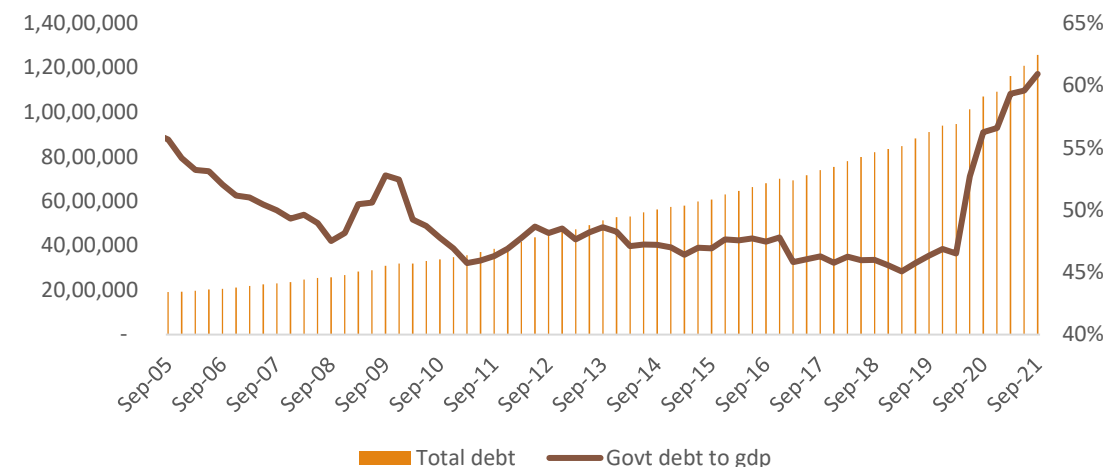


*Base Apr – Nov 19

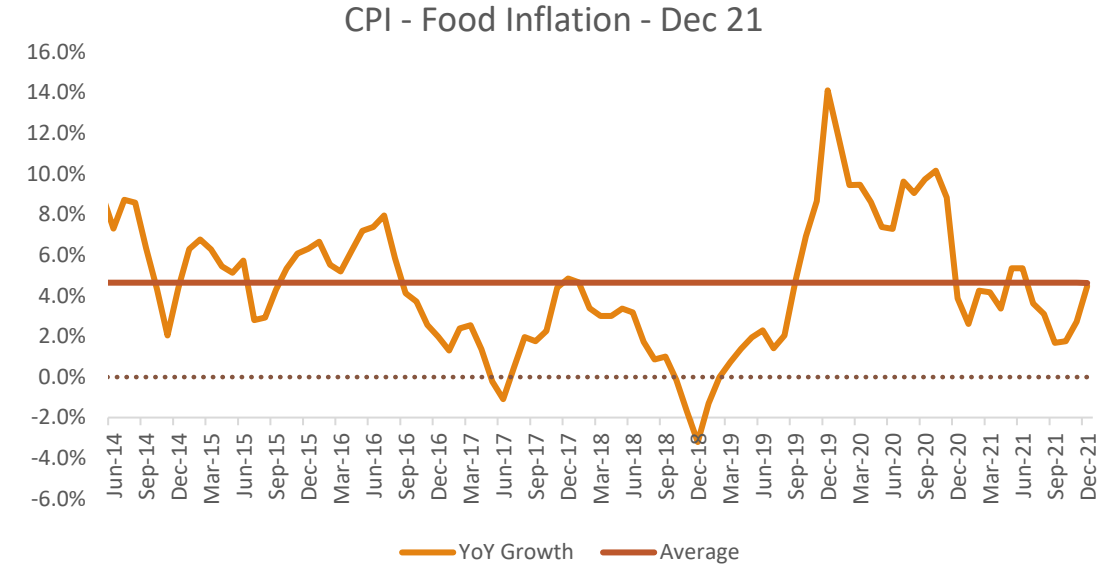
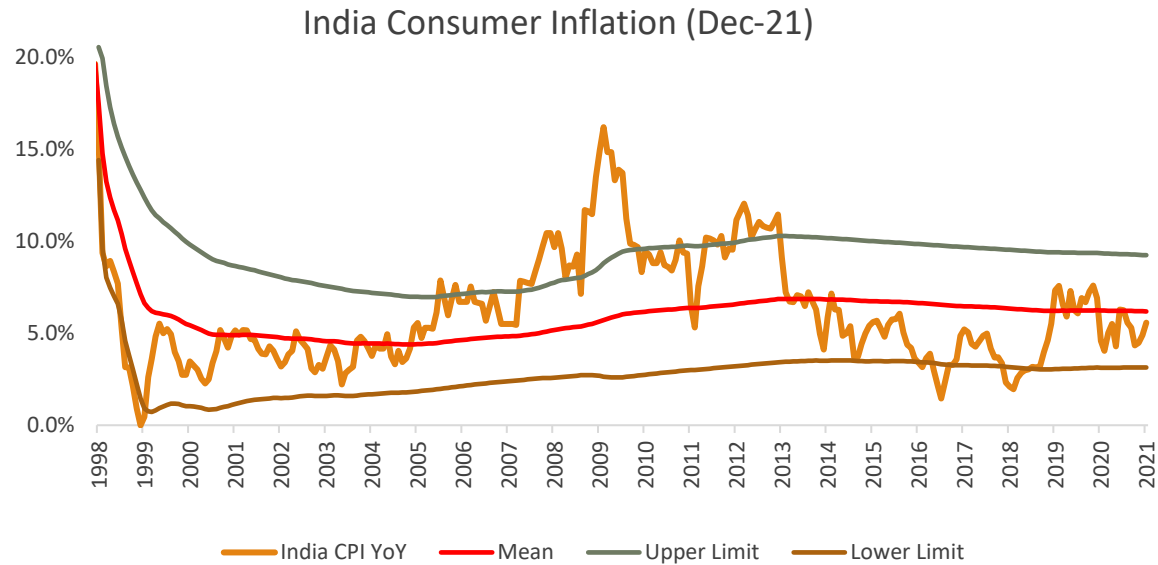
GST Collection in Rs. Trillion



Central govt. debt and Central govt. Debt to GDP



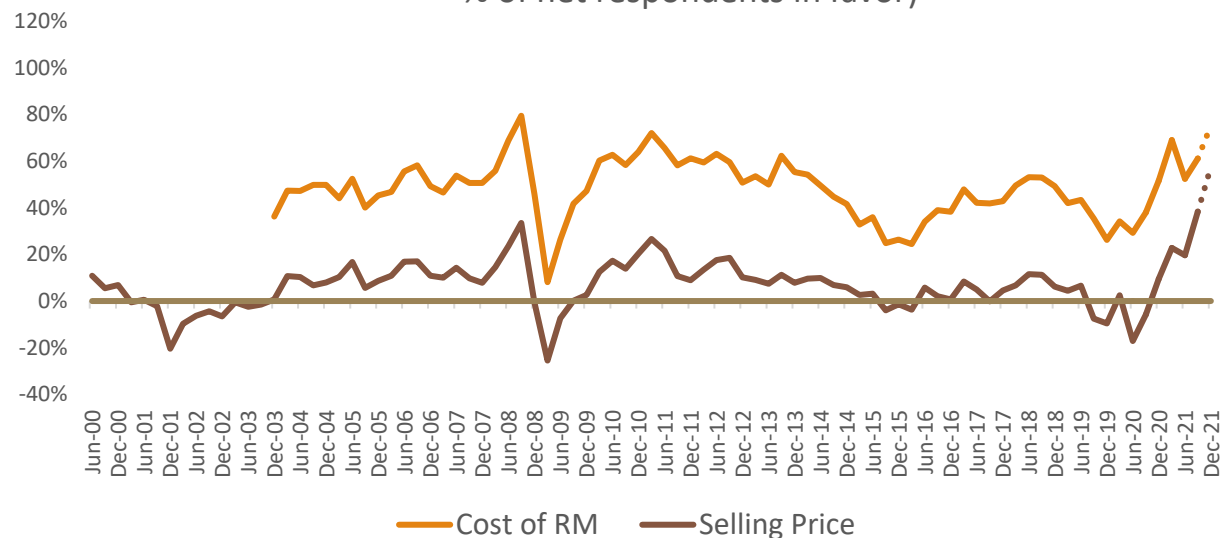
- ... GST collections remained strong in the month of December, although were flattish on a MoM basis.
- ... Government has incurred 49% of total budgeted capital expenditure till Nov 21. Capital spending remains lower vs 5-year avg of 60%, for the same time period.
- ... Revenue expenditure remains subdued. Ex-interest payment, the revenue expenditures of the government have grown by 6%.
- ... New government borrowings for first 8 months have declined by -35% vs. Nov-20 period and -14% against Nov 19.



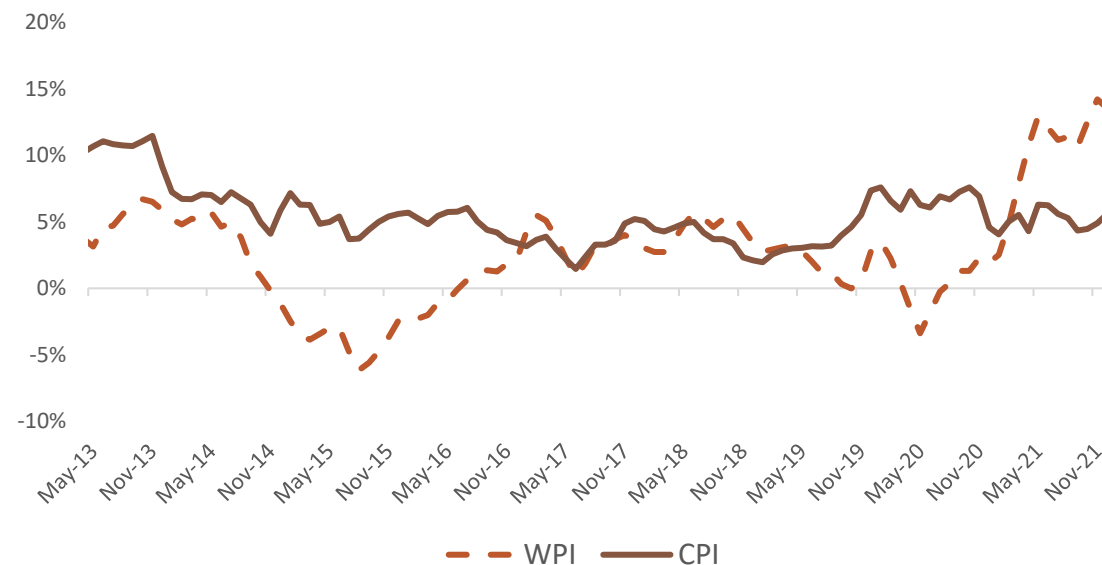
Sources: Factset, MOSPI, RBI

- ... Consumer inflation moved towards mean in December mainly driven by an increase in Food inflation, which constitutes ~46% of the CPI.
- ... Price inflation in segments like Fuel and light, Clothing and footwear and Misc. was significantly higher than CPI of Dec-21.
- ... The RBI expects inflation to ease from its earlier estimates of 5.7% to 5.3%

RBI Survey - Increase in RM costs and Selling prices (Represents % of net respondents in favor)



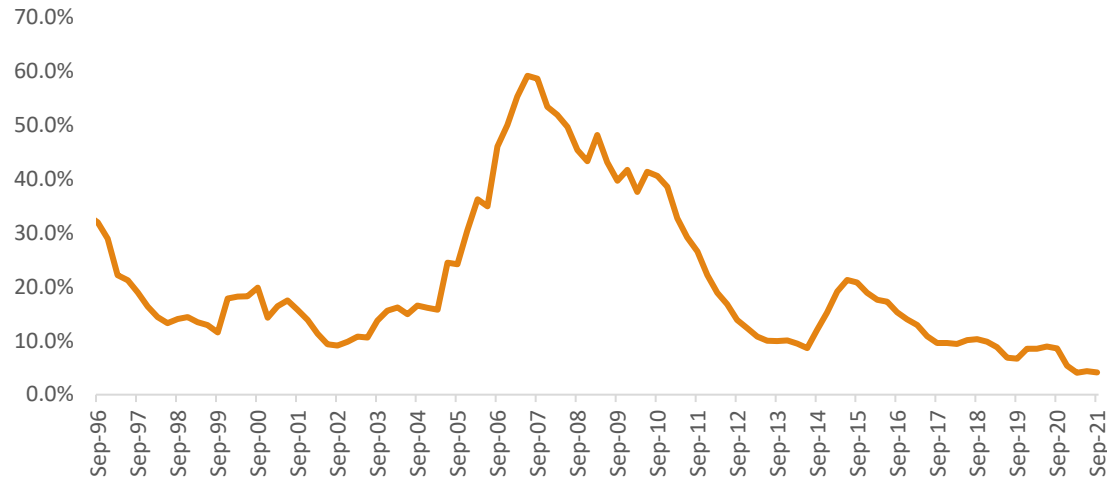
WPI Vs CPI



Sources: RBI

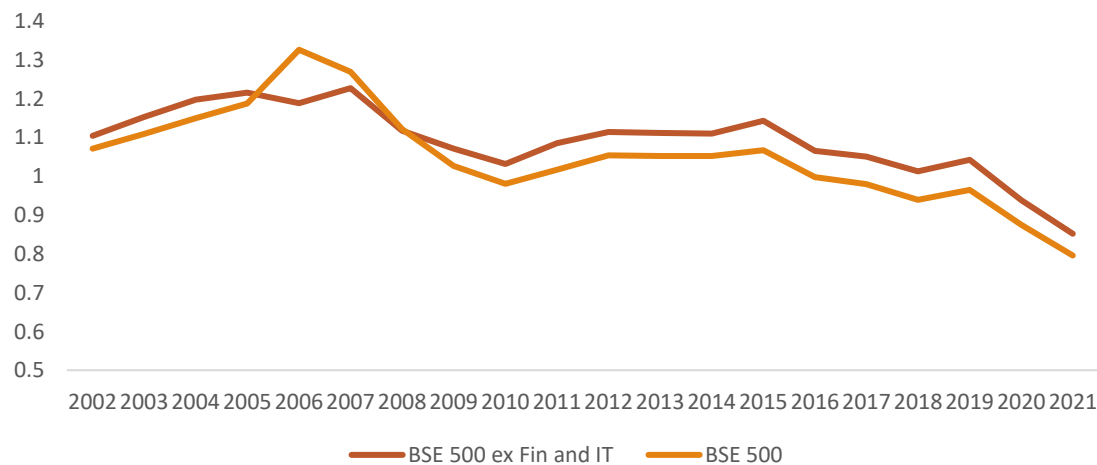
- ... The RBI survey suggest that a significant majority of the businesses have seen an increase in prices of RM and expect further increases in the Dec-21 quarter.
- ... The businesses also expect to pass on the cost to the ultimate consumer through increase in selling prices.
- ... WPI for Dec-21 was at 13.5%, slightly lower than Nov-21.

New Capex as a % of GDP - Dec 21



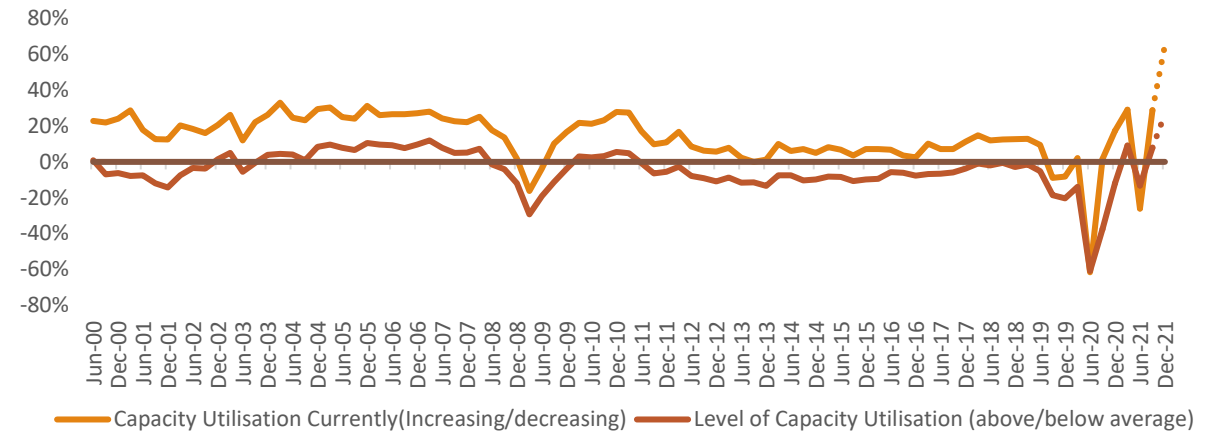
Sources: CMIE

Asset turnover



Sources: Ace Equity

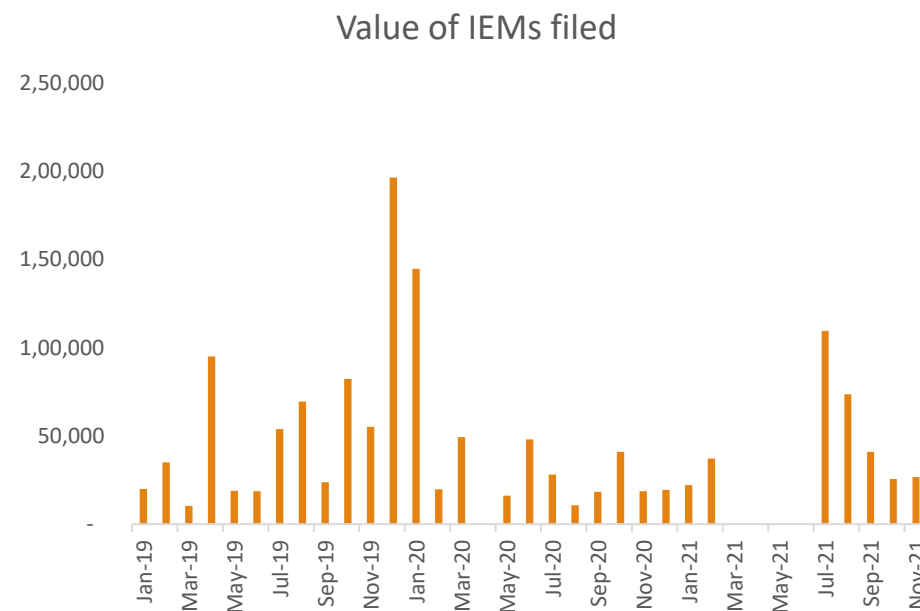
RBI Survey- Capacity Utilisation
(Represents net % Respondents in favor)



Sources: RBI, estimated for Dec-21 as per survey

- ... New projects announcements continued to stay low during Dec-21 quarter.
- ... As per RBI survey, capacity utilisations improved significantly in September quarter and expected to improve further in December.
- ... Capacity utilisations are expected to improve in December. However, majority of the participants indicated that they have enough capacity to meet demand for the next 6 months.
- ... With asset turnover of BSE 500 companies lower, broader pick up in capex can be less likely.

	Industries (IEM Part A filed)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
28%	Electrical Equpts															
17%	Mettallurgical Industries															
15%	Others															
8%	Chemicals(Except Fertilizers)															
5%	Cement and Gypsum															
4%	Textiles															
3%	Fertilizers															
3%	Fuels															
2%	Transportation															
2%	Food Processing Industry															
2%	Comm/Office/Hhold equpts															
2%	Misc.Mechanical & Engg.Ind															
1%	Drugs and Pharmaceuticals															
1%	Fermentation Industries															
1%	Paper and Pulp															
1%	Sugar															
5%	Others															
	Total															

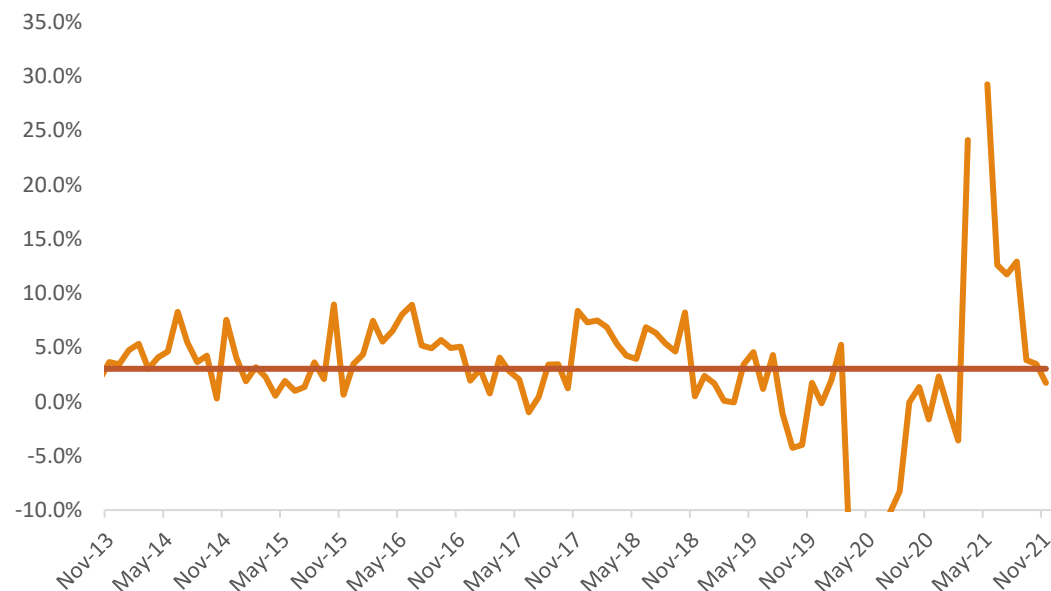


- ... The IEM data from DIPP suggests that overall interest towards capex remains subdued as at November 21, as compared to the long term trend. However, sectorial breakup suggests increased capex investments expected in Sugar, Drugs and Pharma and Fermentation industries.
- ... Industries such as Textiles, Fertilizers, Electrical Equipment still seem to show poor capex investment.
- ... Monthly data pertaining to the value of IEMs filed indicate that there had been an increasing interest in capex activity during the end of the year as compared to previous year, on an overall basis.

Please refer this link for a brief about IEMs- [About IEMs](#)

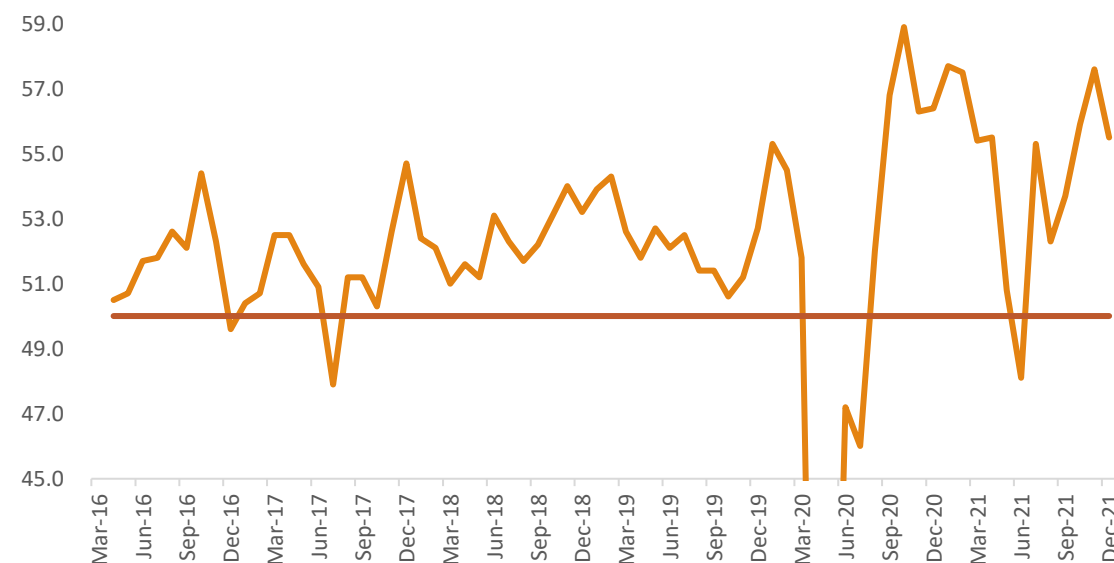
Index of Industrial Production

IIP - General Index



Sources: MOSPI (% in brackets are weights in the general index. Oct 21

PMI - Manufacturing



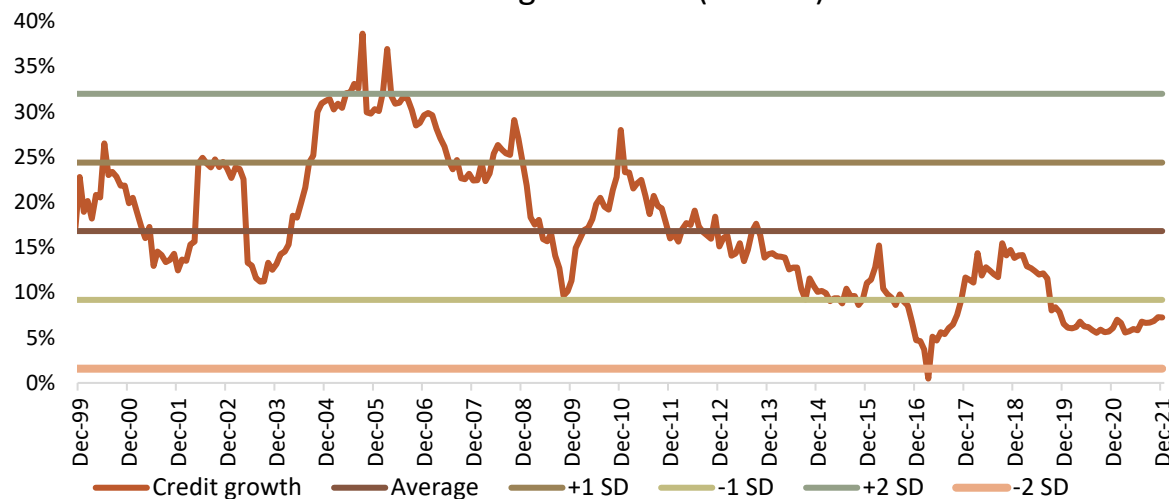
Sources: Investing.com, as at Dec -21

Reading above 50 indicates expansion and vice versa

... IIP continued to show moderate growth with manufacturing and mining segments remaining flat.

... PMI Services and Manufacturing activities both continued to expand in December at a faster pace.

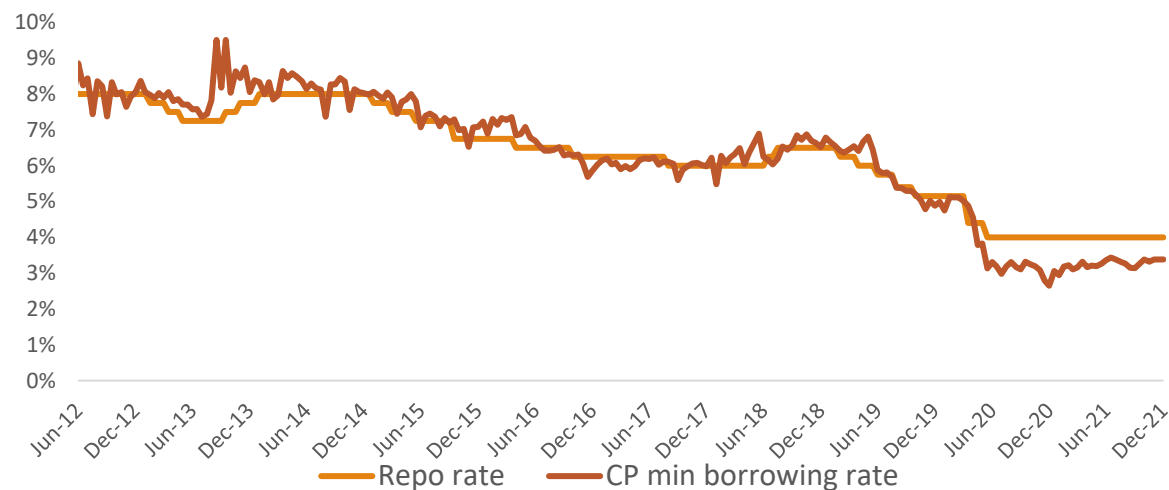
Bank credit growth YoY (Dec-21)



Commercial Paper Outstanding growth YoY (Dec 21)



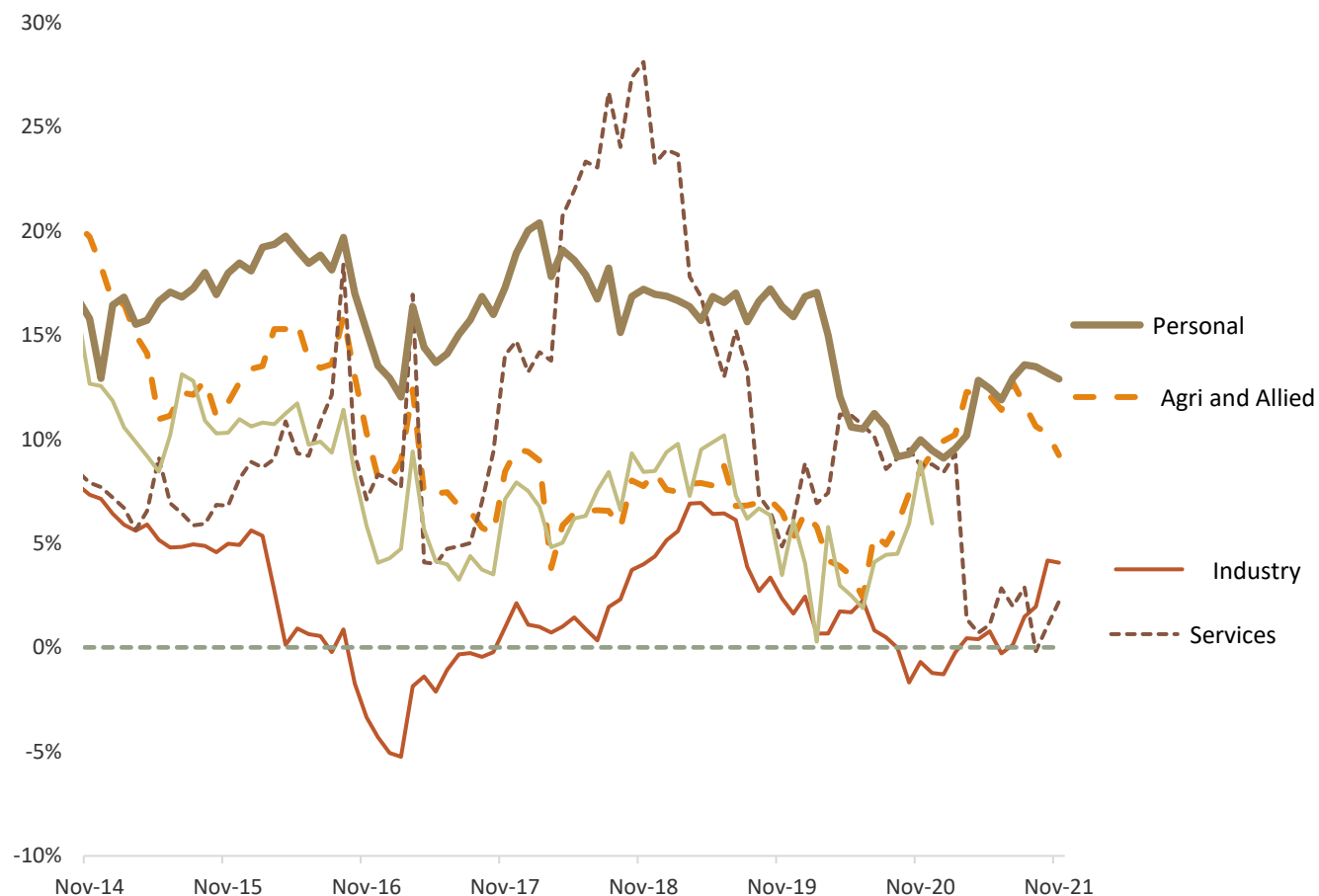
Commercial paper borrowing rates



- ... YoY Bank credit growth remains below -1SD range despite lower base. However, growth seems to be picking up and moving towards the -1SD levels..
- ... Outstanding value of commercial papers have started to grow. Also new issuances have started to grow in the last couple of months.
- ... Minimum borrowing rates on commercial papers remain lower than RBI's repo rate for some corporates but continue to inch upwards,

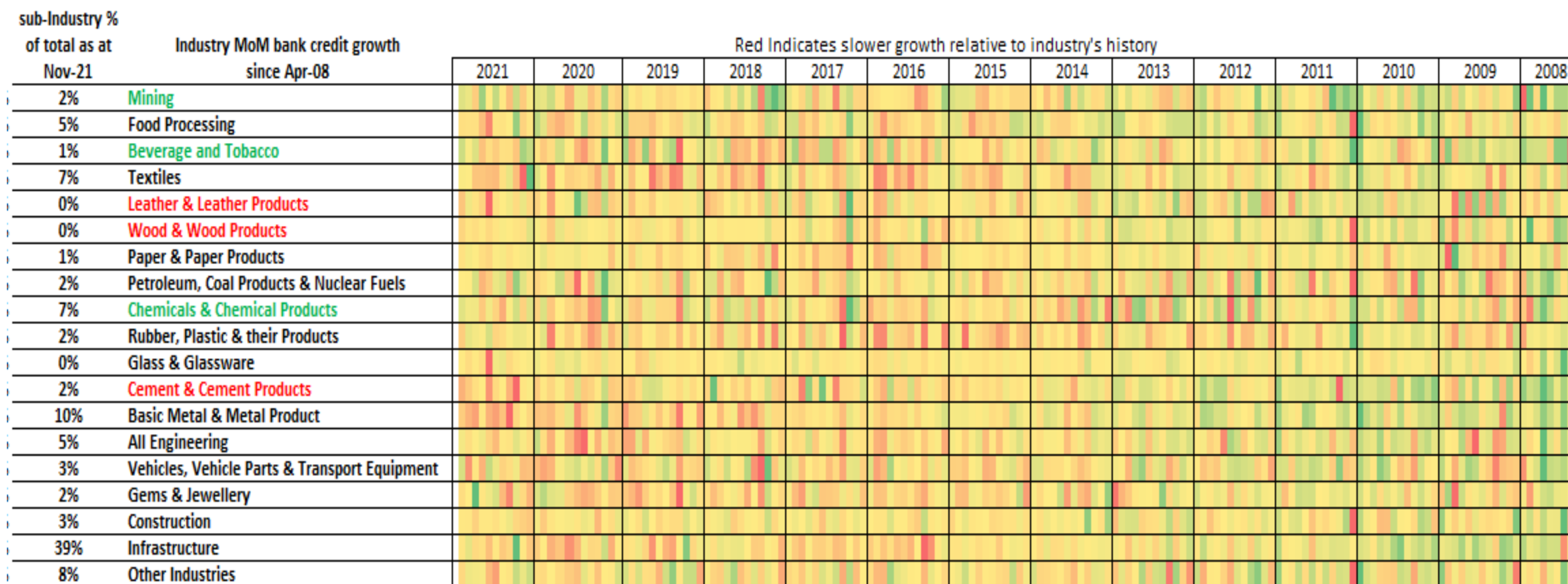
Bank Credit Growth – Key sectors

Sector wise credit growth(Nov 21)



- ... Bank credit growth in “Services” sector fell sharply during Mar-21 and the growth has remained sluggish since then.
- ... Loan growth in the industry segment continue to gather pace in November 21.
- ... Agriculture and personal credit segments continue to drive the overall bank credit growth.

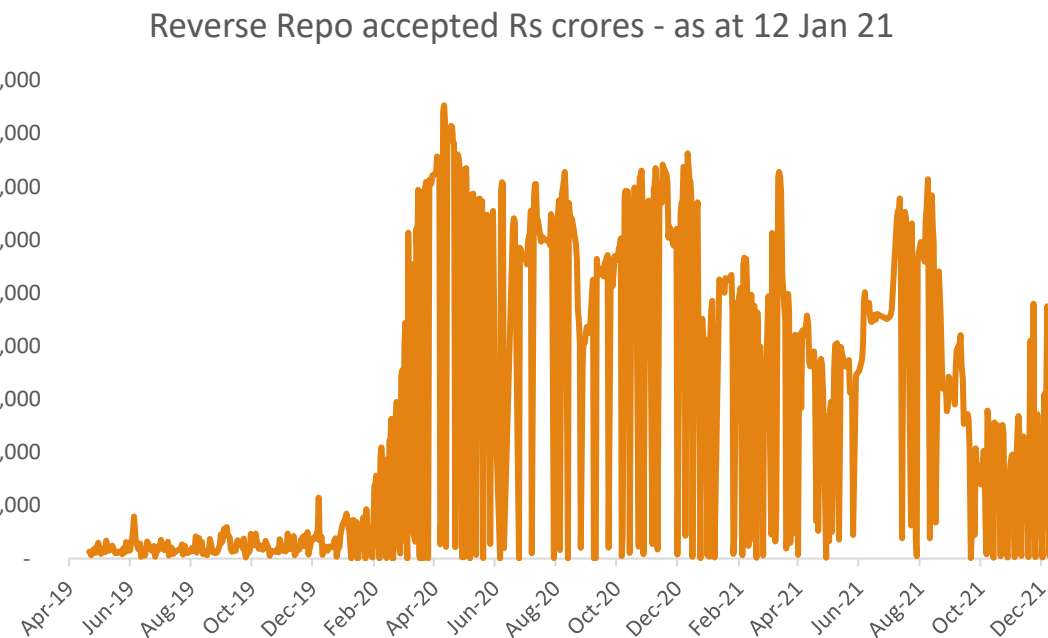
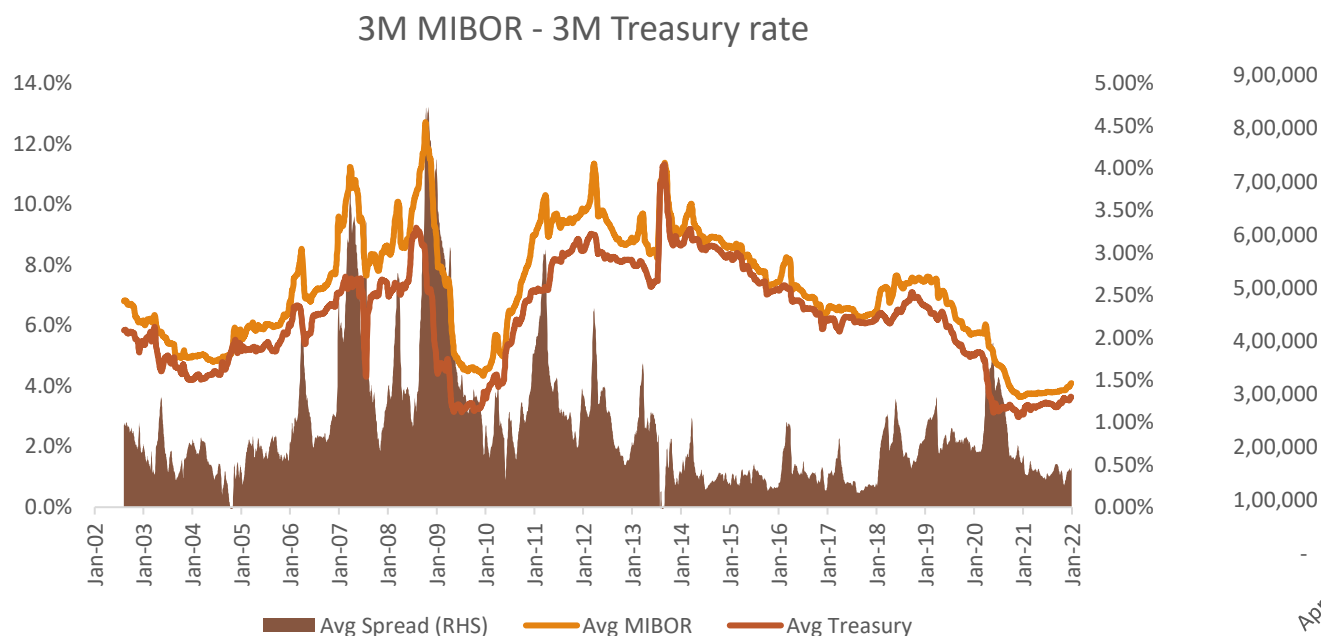
Bank Credit Growth – sub-Industry Heat map



... Industrial Loan growth continue to gather pace in November 21.

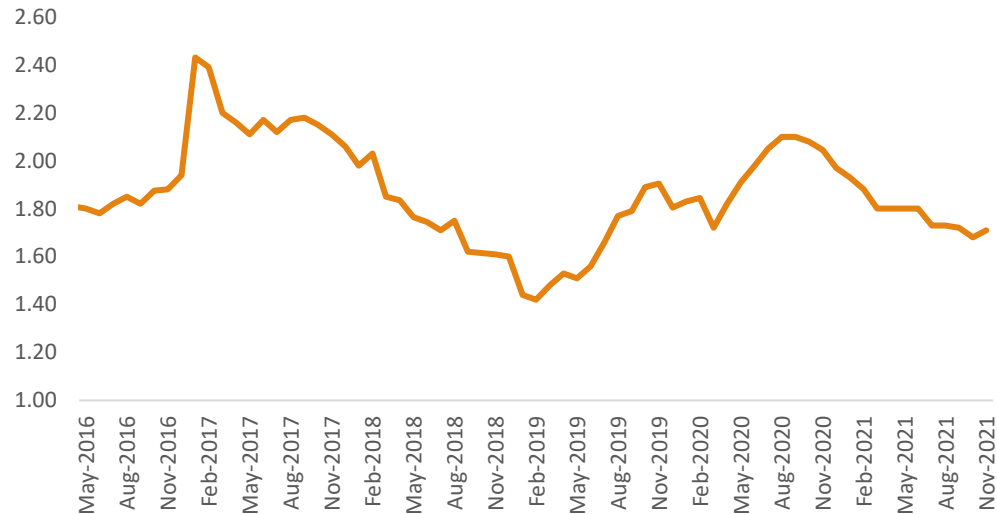
... Most of the sectors had flat YoY growth in October Beverage and Tobacco products saw the highest growth.

... Glass and Glassware, Leather & Leather Products, Wood & Wood Products & Cement & Cement Products were the sectors that saw negative growth, although the declines were moderate.

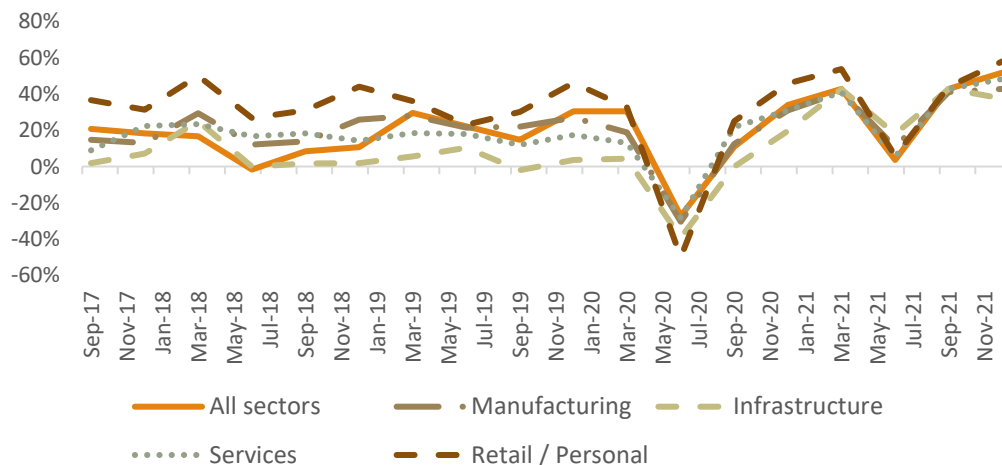


- ... MIBOR and treasury rates have been rising. MIBOR rates have breached the 4% mark, last seen in Sept 20.
- ... The reverse repo operations of RBI seem to be falling currently. However, RBI is trying to normalize the liquidity situation. It has suspended the G-SAP purchases conducted earlier in the year. It has also carried out various Reverse Repo operations to mop up excess liquidity in the system in the last 2-3 months.
- ... This mop up may have pushed short term rates higher.

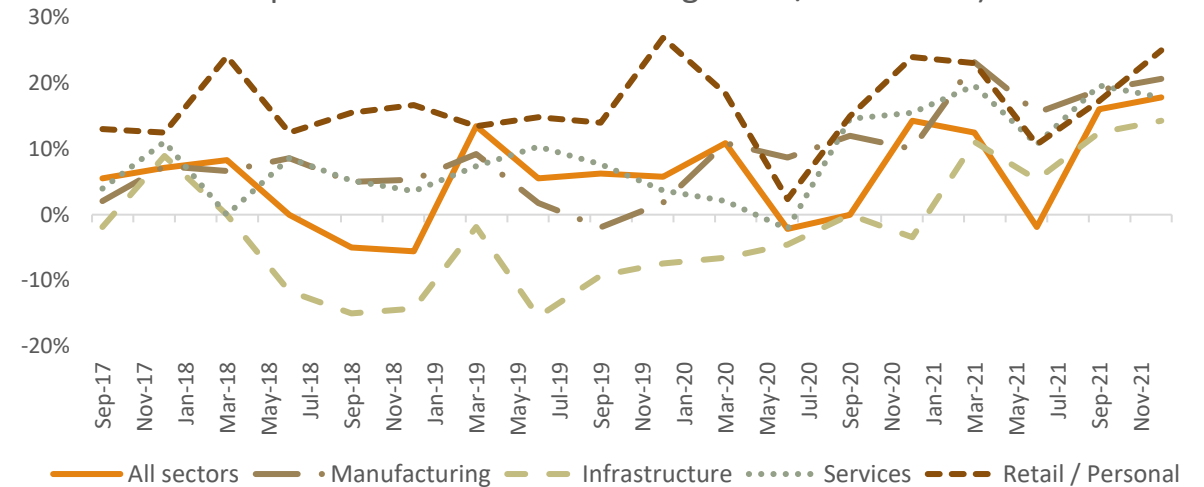
Spread Term loan-MCLR



Bank lending survey- Expected Loan demand (% Respondents expecting an increase)

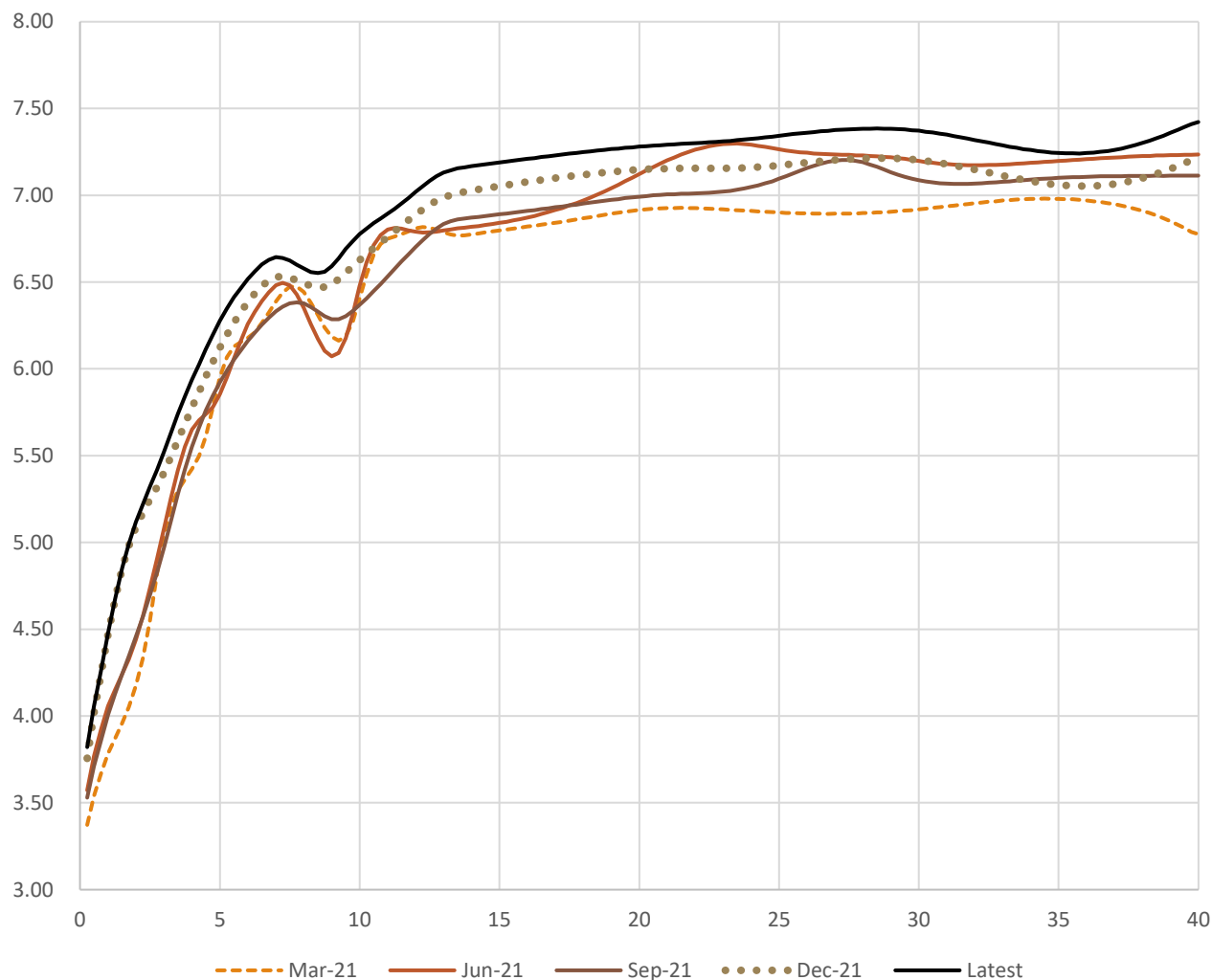


Bank Lending survey- Loan Terms and Conditions (% Respondents in favour of easing terms/ conditions)

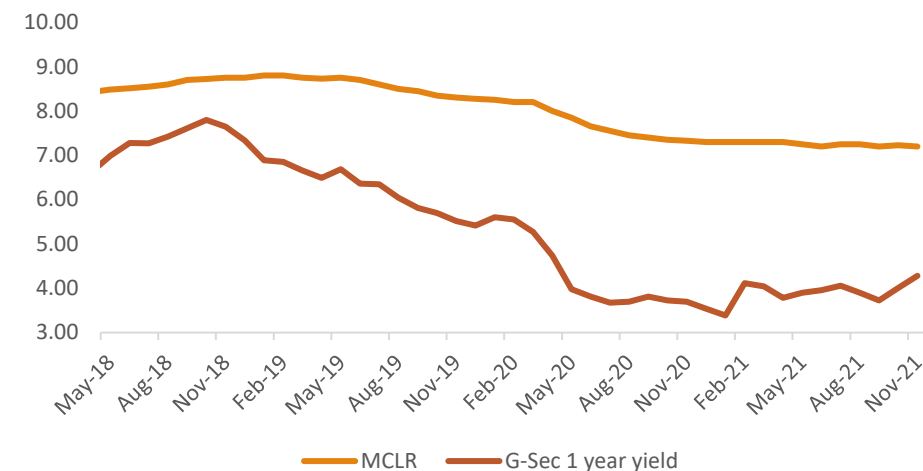


- ... As per RBI's bank lending survey, bankers expect demand for loans to improve for majority of the sectors in the December quarter.
- ... Apart from improvement in demand, the bankers expect that the terms and conditions attached to the loan will also ease further in December.
- ... The current optimism over the demand and ease in terms can also be seen in the spread between the MCLR and term loan rates(both averages) of the scheduled commercial banks. The rate has been coming down in the last few months.

G-sec yield curve Yield curve



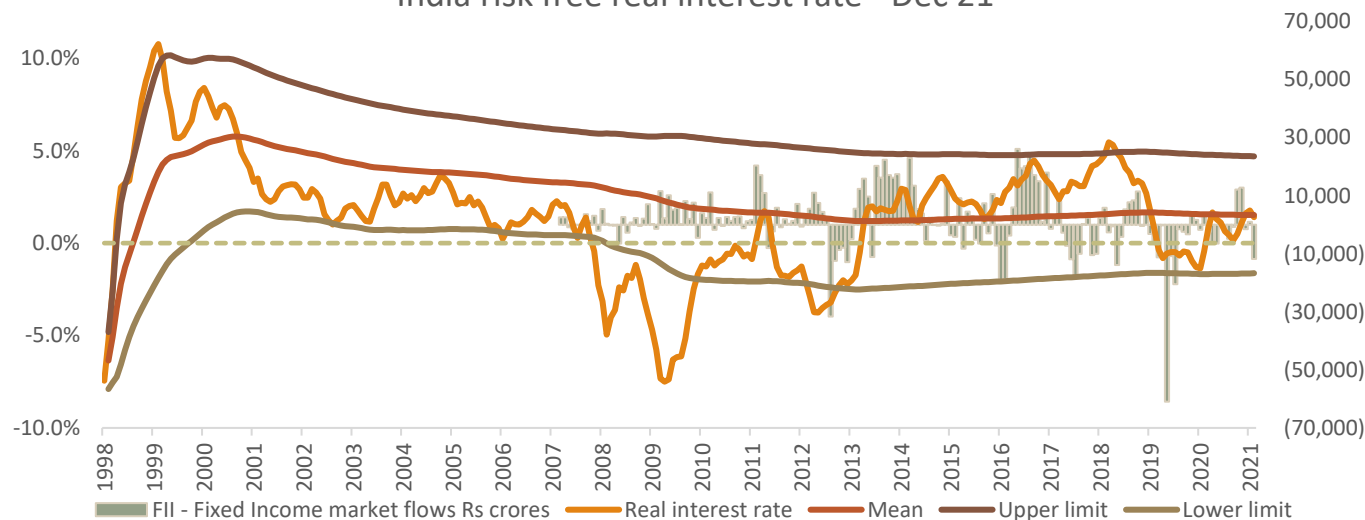
MCLR 1 year vs Gsec 1 year



- ... The G-sec yield curve has moved upward in the last 1 year. The rates at the shorter end seems to have inched up faster, however, the longer end of the curve seems to be catching.
- ... The spread between 1 year MCLR and 1 year G-Sec seems to be at the highest level and with rising bond yield may narrow further.

Real interest rates

India risk free real interest rate - Dec 21



... India's real interest rates continue to rise and are slightly above the LT average. The real rates have more than tripled in the last 4 months.

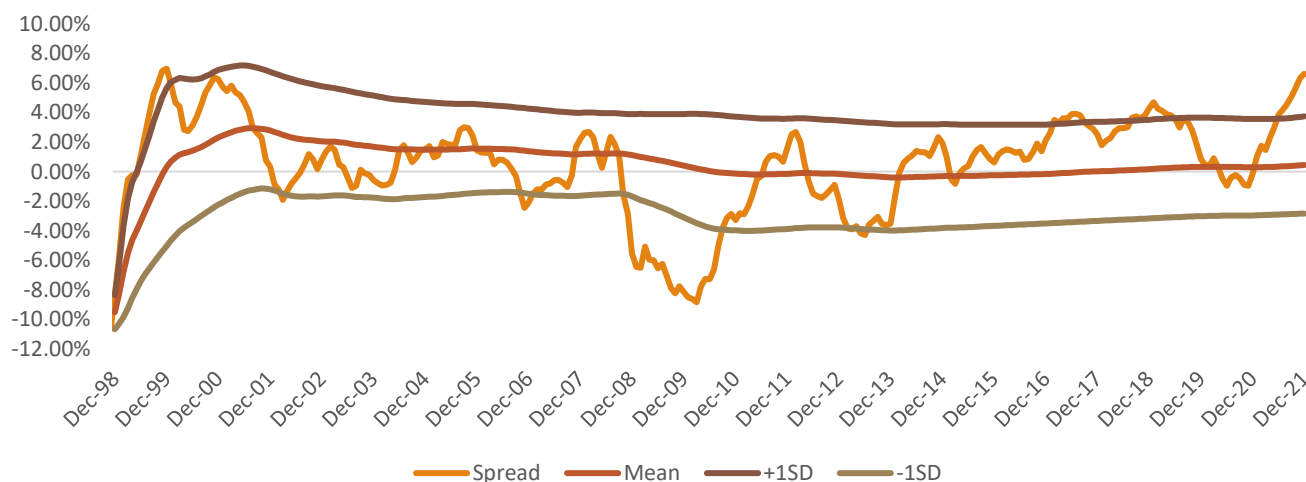
... Fixed income market show significant outflows in Dec-21.

... Government 10-year bond yields have started to move higher and is above 6.5%.

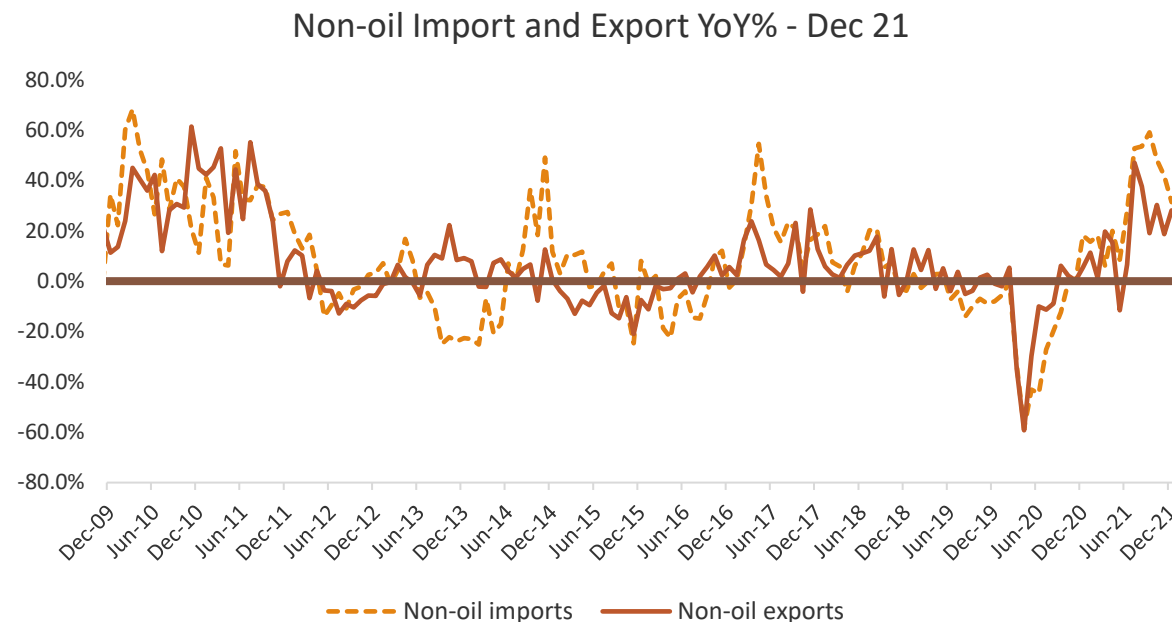
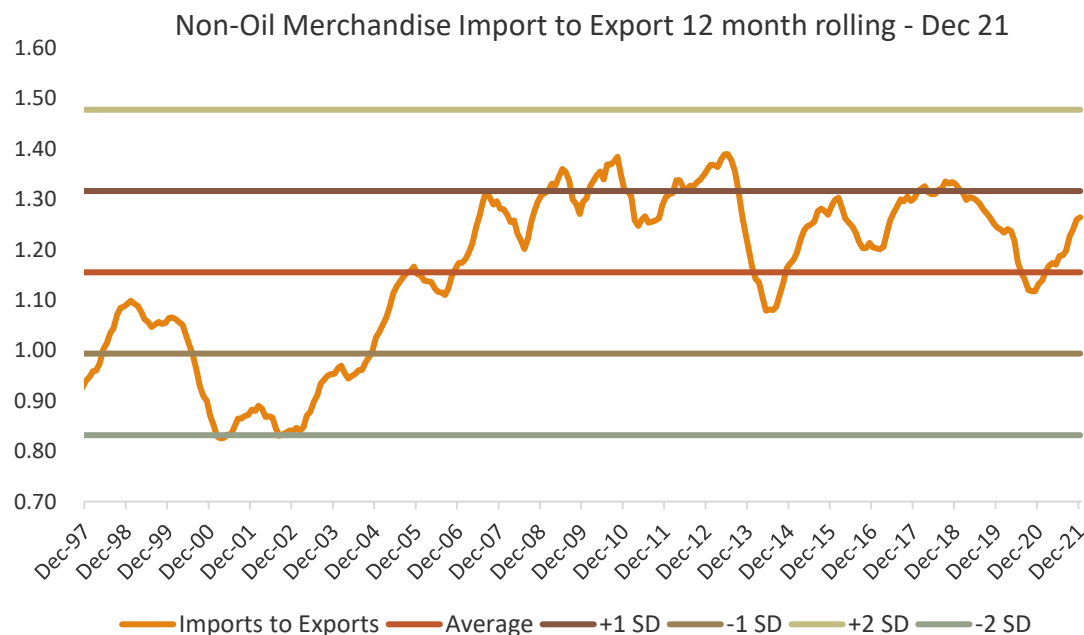
... Spread or difference between real interest rates in India and US has risen above upper limit and has created a new high.

... US\$ strengthening may be a risk towards capital flows and needs to be monitored.

Spread between real rates India vs US



Real risk-free rate is based on 3 month rolling CPI average.



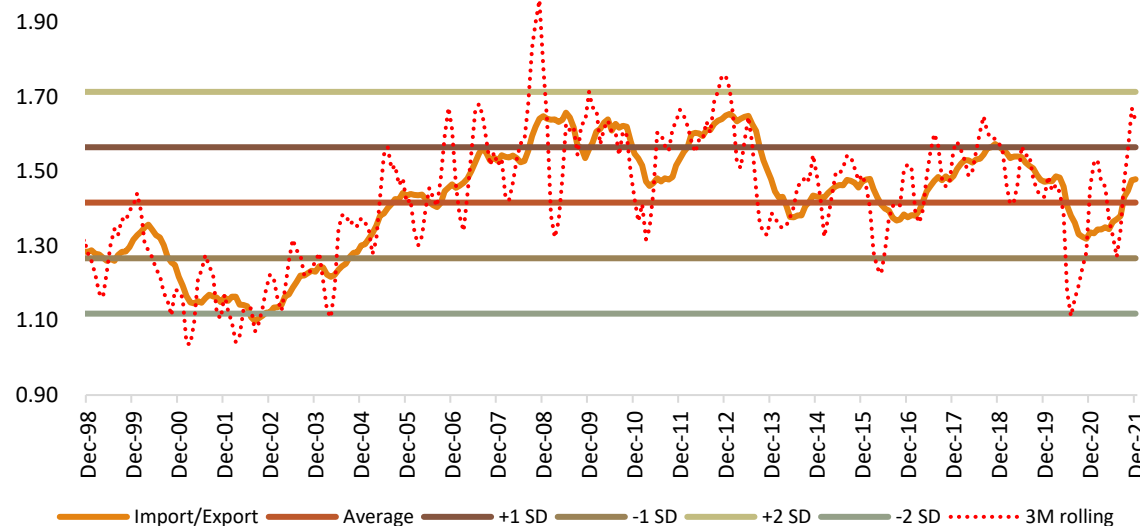
Sources: RBI, Commerce ministry

*Numbers from Mar 21 has been adjusted to the base of Mar 19 due to neutralise Covid 19 impact.

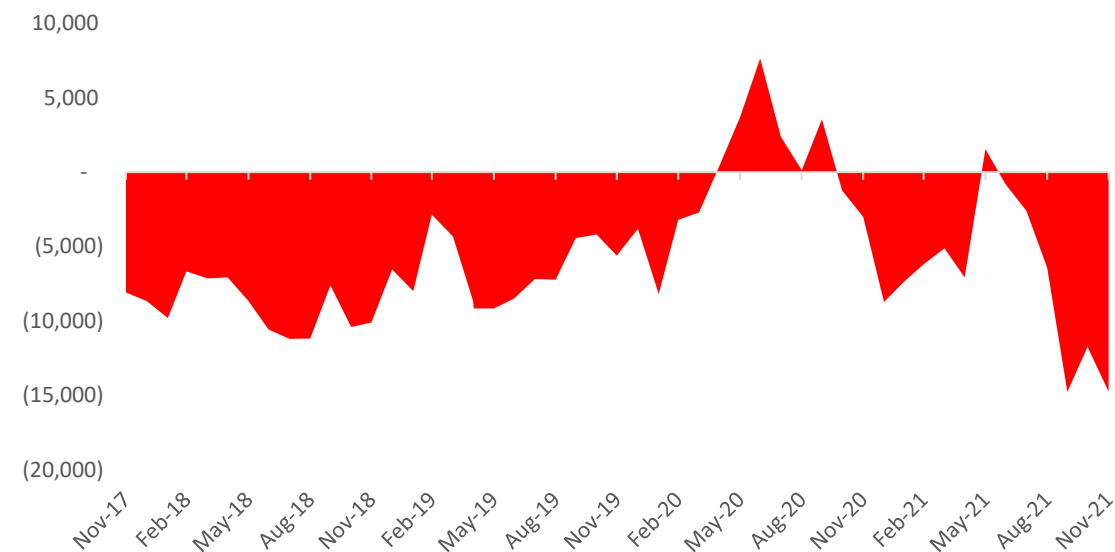
- ... Trailing 12 months Non-Oil Import-Export ratio has been inching up on revival of international trade and domestic demand. After a decline in international trade in November 21, on a MoM basis, international trade in December reached a record level in December.
- ... Non-oil trade deficit continues to remain elevated. Non-oil trade deficit were in the ~USD 10-12 billion range, in the last 4 months, on the back of steady demand for electronics and gold. (unfavorable condition). Apart from these 2 categories, Machinery, electrical & non-electrical, Organic & Inorganic Chemicals, Pearls, precious & Semi-precious stones(23% of imports) have seen significant growth in December.
- ... Non-oil exports also grew to the highest level on the back of increased demand for Engineering goods, Gems and Jewelry and Organic and Inorganic chemicals segment.

Trade Deficit and Services

Imports to Exports ratio - 12 month rolling (Dec-21)

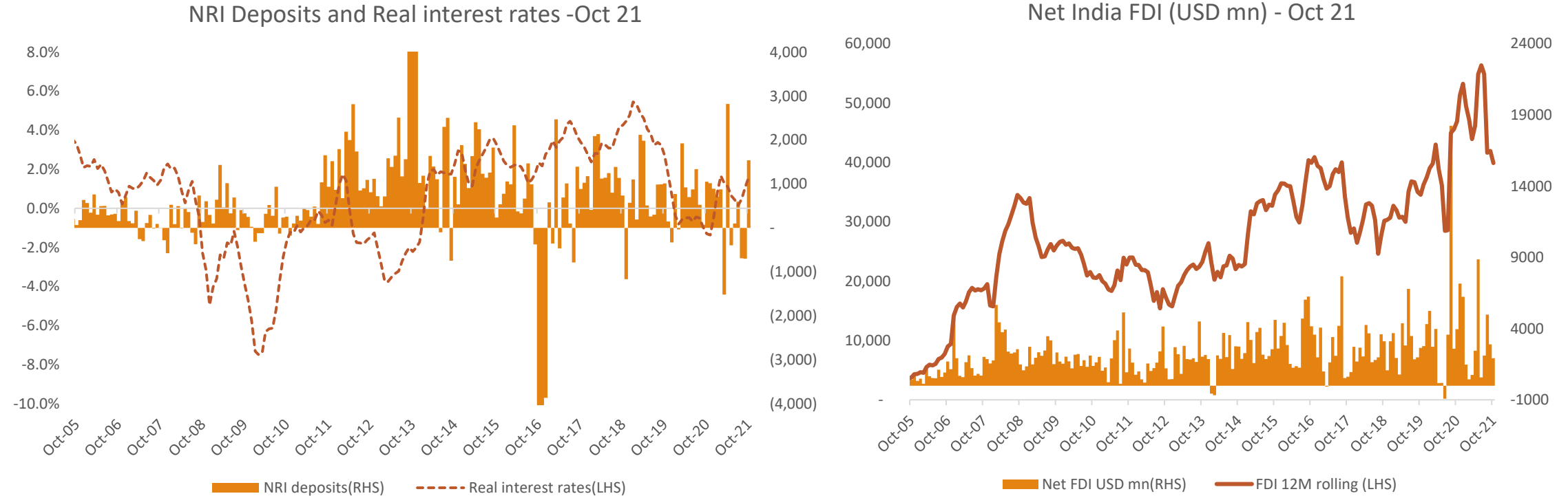


Net Merchandise Import minus Net Services Import



- ... Trailing 12 months Import-Export ratio has risen above mean on higher crude prices, gold and electronic imports.
- ... Trailing 3 month Import-Export ratio also has been inching upwards and has reached the highest level since Aug-18.
- ... Service sector imports and exports seem to be stagnating in the last 3 months.
- ... Despite that, overall trade and services deficit have widened to the most in last 4 years.

India – Foreign Capital flows

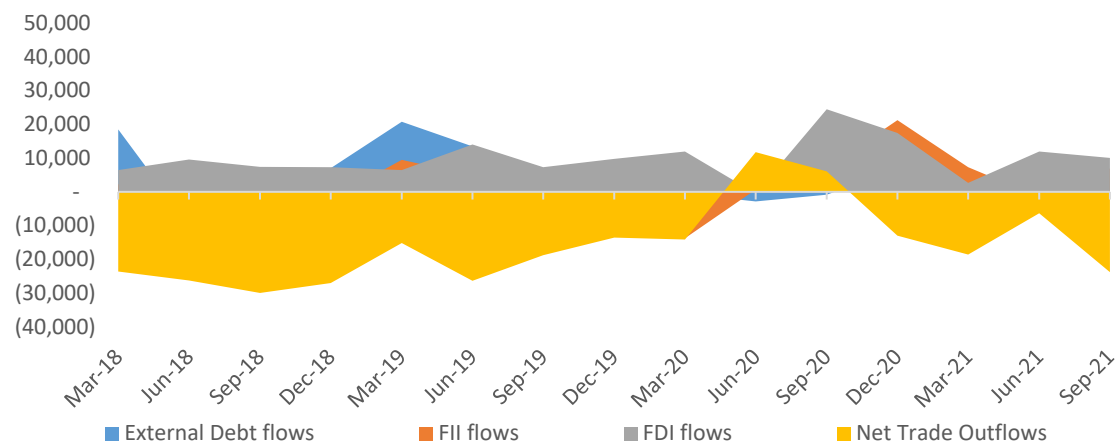


... India saw spike in FDI inflows during Aug-20, however, the rate of FDI inflows has been declining since then.

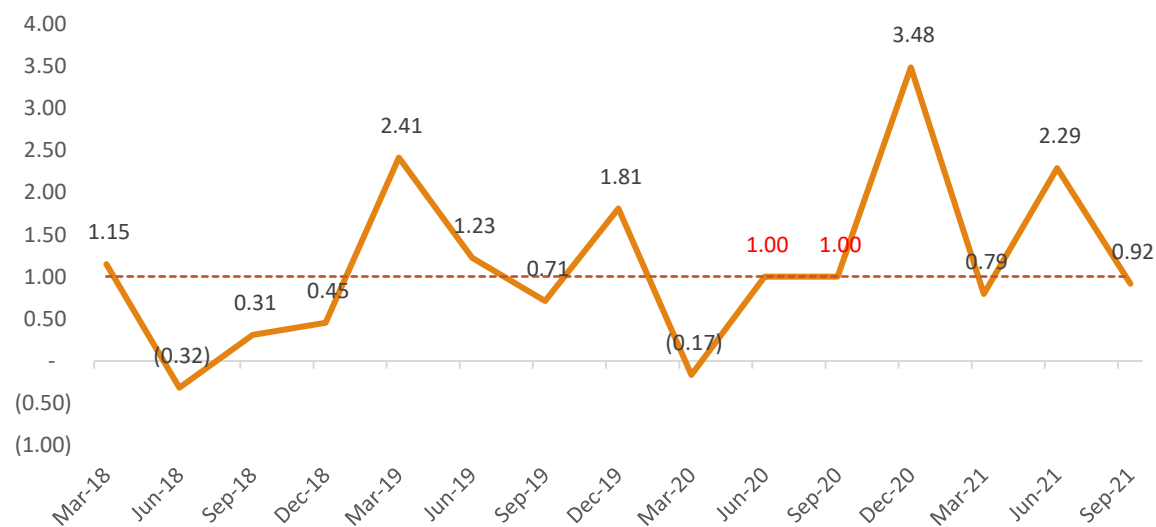
... NRI deposits rose in Oct post falling for the prior 2 months.

... Overall long-term foreign capital inflows remain steady.

Change in BOP



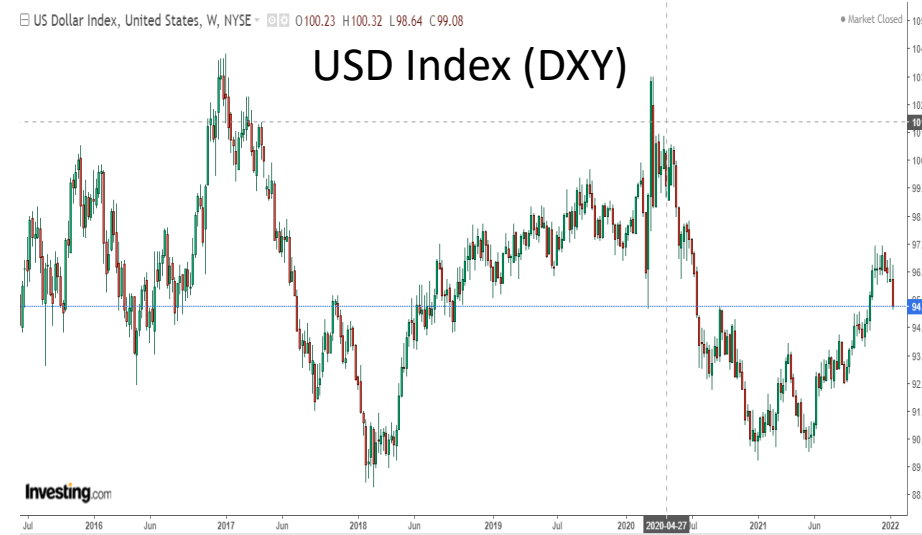
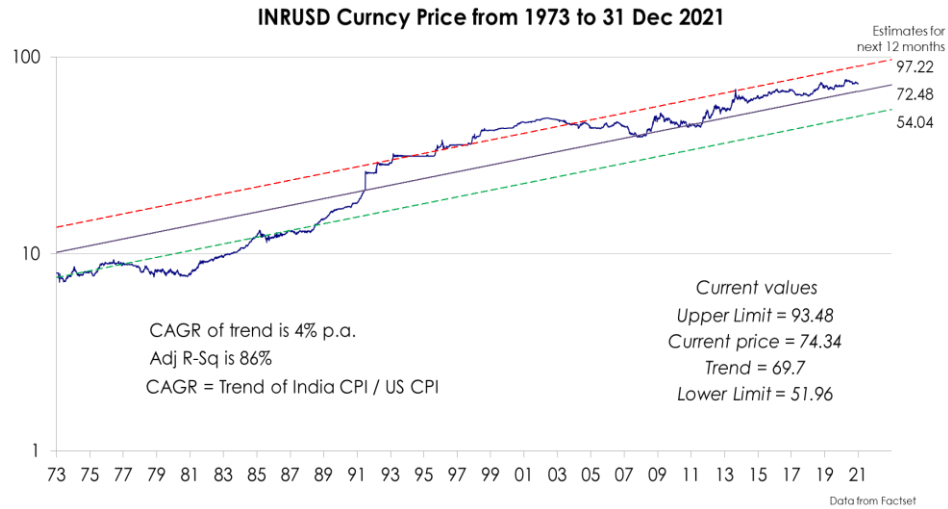
Capital Inflows / Net trade Outflows



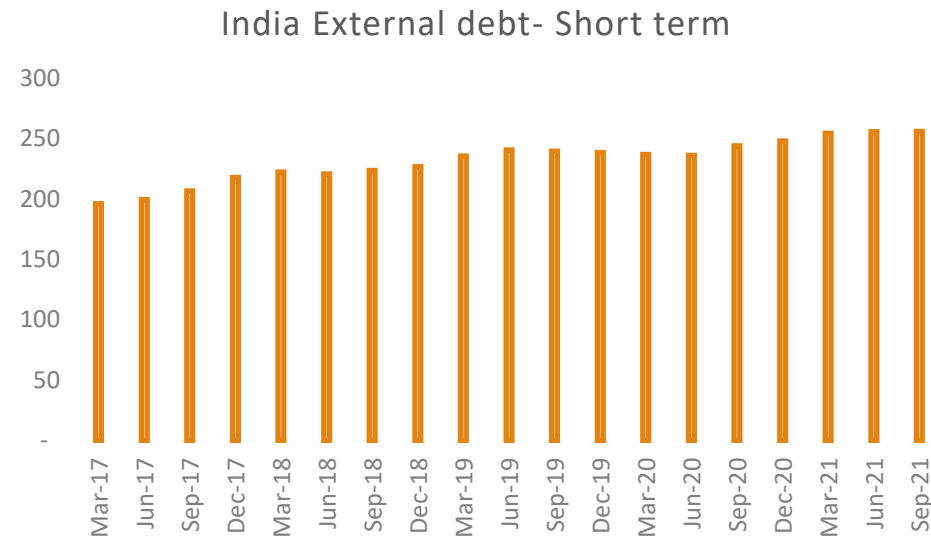
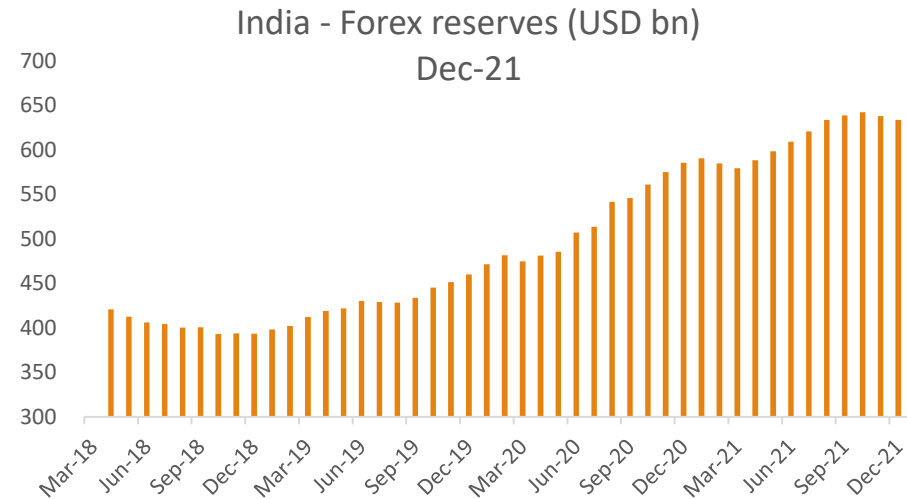
Jun 20 and Sep 20 India had trade surplus.

- ... India's balance of payments position deteriorated in the September quarter.
- ... Trade deficit started to widen with rising crude prices.
- ... With foreign capital flows steady and trade deficit widening, India's balance of payment situation is likely to have deteriorated during Dec-21 quarter.

Sources: RBI, Commerce ministry.



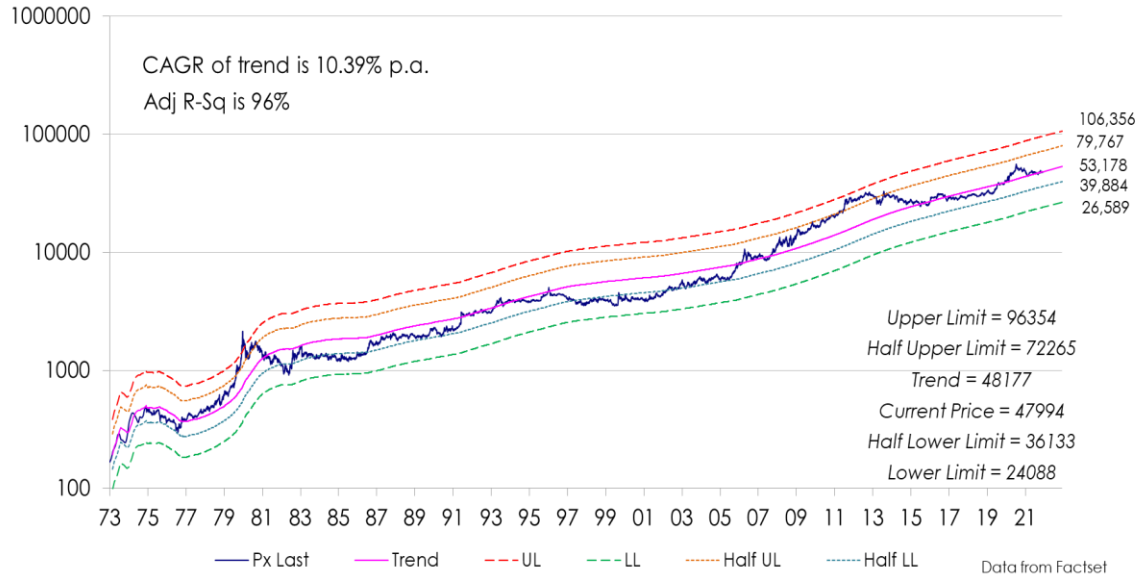
- ... USDINR continue to remain above trend line.
- ... USD Index (DXY) seems to cool off from recent highs in the last few weeks.
- ... Inline, INR has also appreciated against USD during past few weeks.



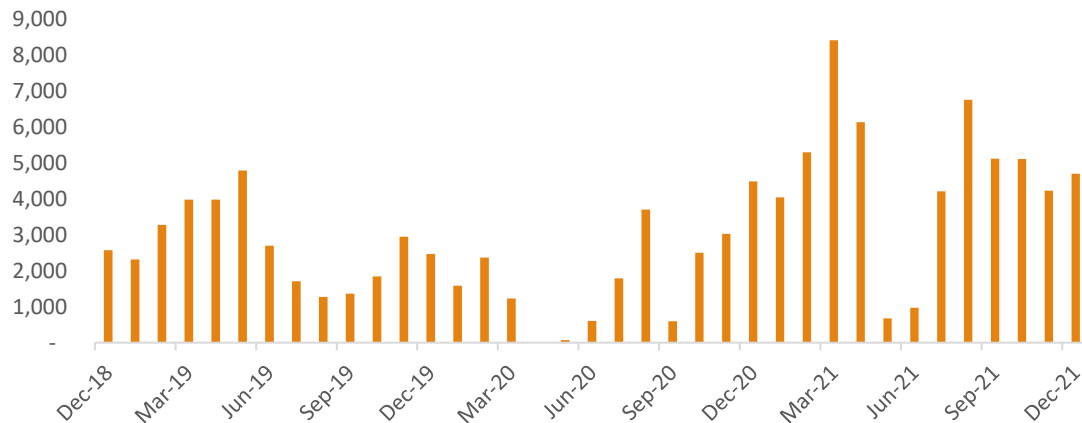
- ... India's forex reserves have steadied/ declined a little in Dec-21.
- ... INR may see pressure from higher short term external debt repayments

MCXGOLD Comdty Price from 1973 to 31 Dec 2021

Estimates for next 12 months



Gold Imports - USD mn



Published on Investing.com, 14/Jan/2022 - 12:06:58 GMT, Powered by TradingView.

Gold Mini Futures, India, MCX:MM1c1, D

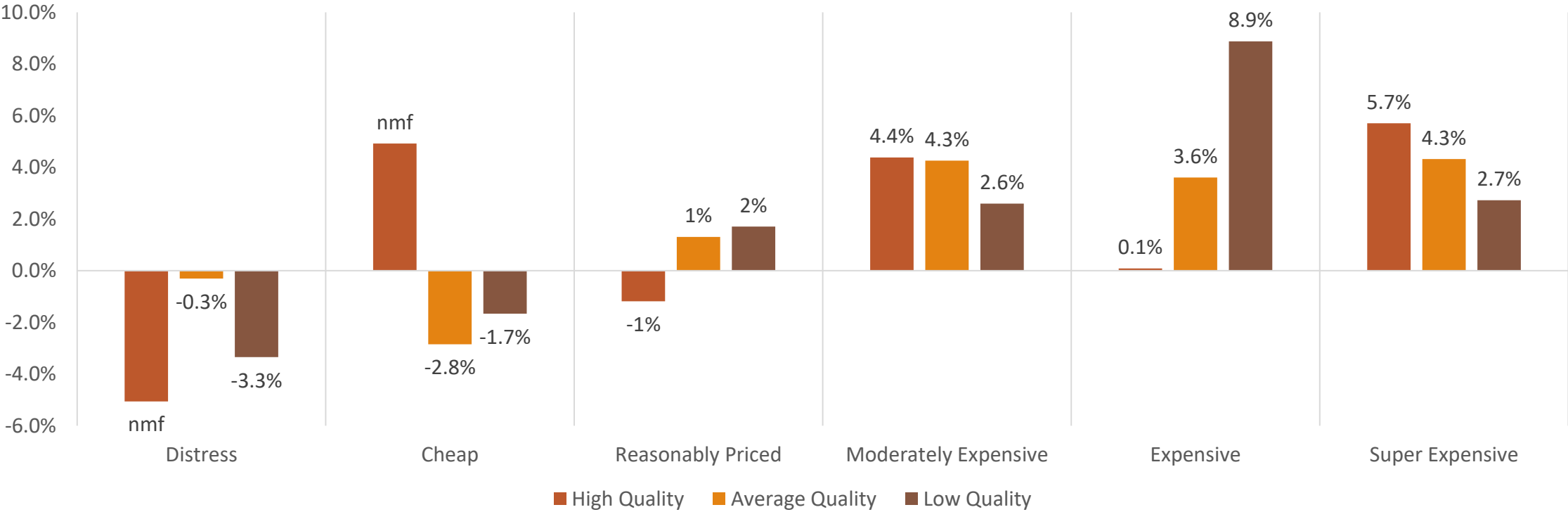


- ... Gold in INR terms is quoting near trend line.
- ... Technical chart on gold looks range bound between Rs 43,000-50,000 in near term, with potential upside on breaking the range.
- ... Gold imports into India remain strong.

How are Indian equities currently placed?

Return buckets for the period between 12-Jan-21 and 10-Dec-21 or ~1 month.
 448 companies taken, of which 253 companies as covered by Multi-Act’s active coverage and 195 from automated coverage, are considered for this. *(There are 90 low quality and 73 high quality companies in the set.)*

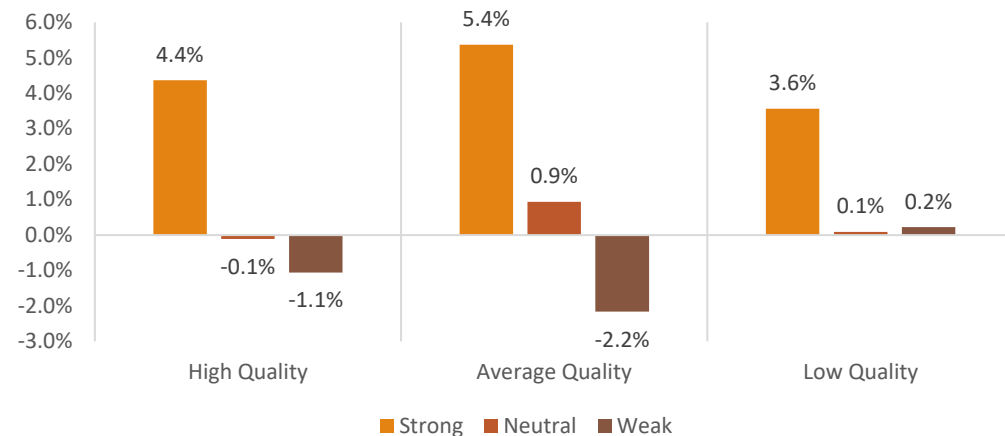
Return Attribution: Quality and Valuation Bucket



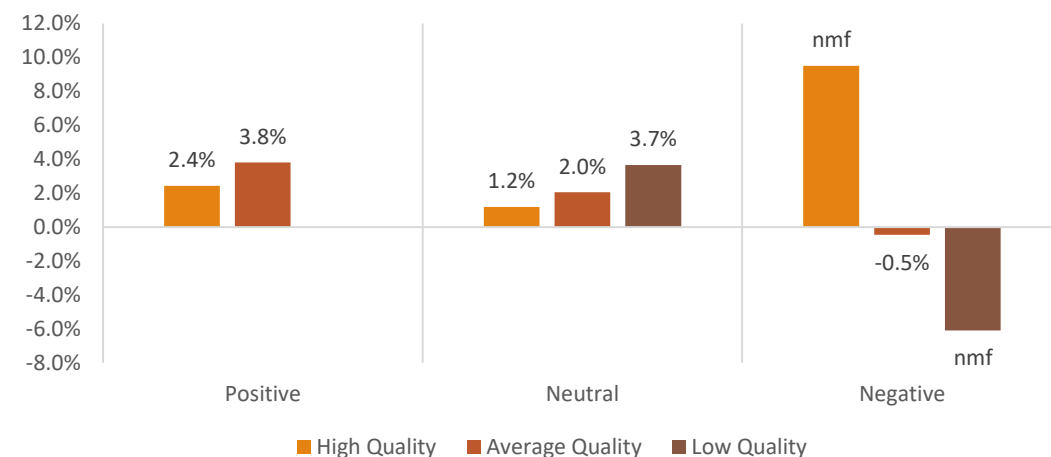
NMF = Not meaningful. Buckets with less than 5 stocks in the basket are marked as NMF.

Returns Attribution - Momentum

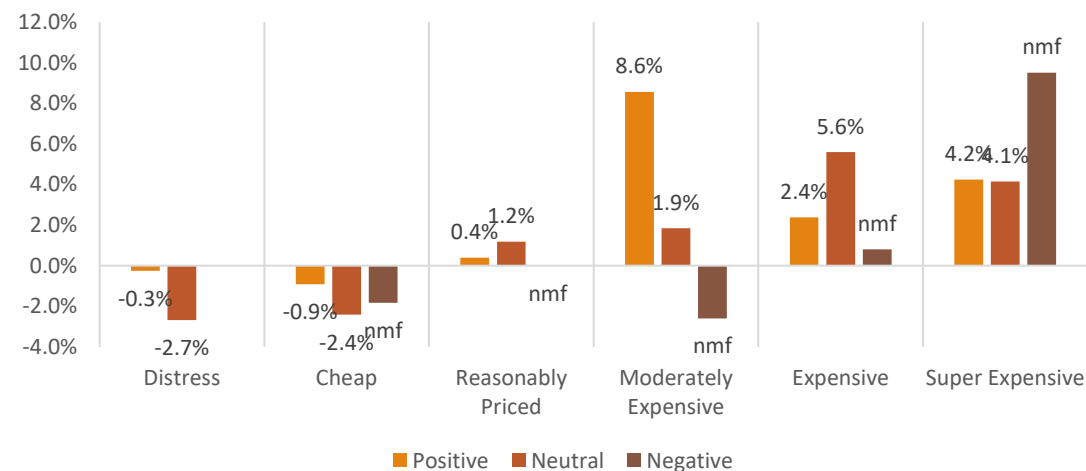
Returns Attribution : Quality & Technical Momentum



Returns Attribution : Quality & Earnings Momentum



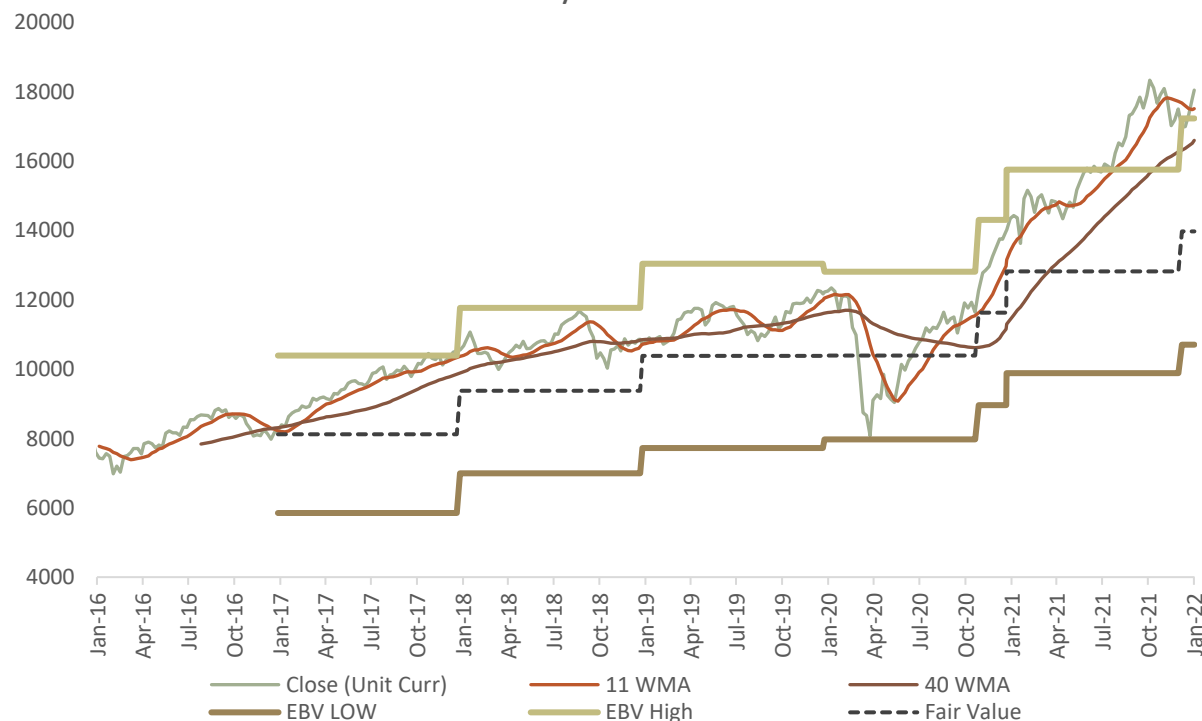
Returns Attribution : Valuation Buckets & Earnings Momentum



... Strong technical momentum stocks delivered better results during last 1 month.

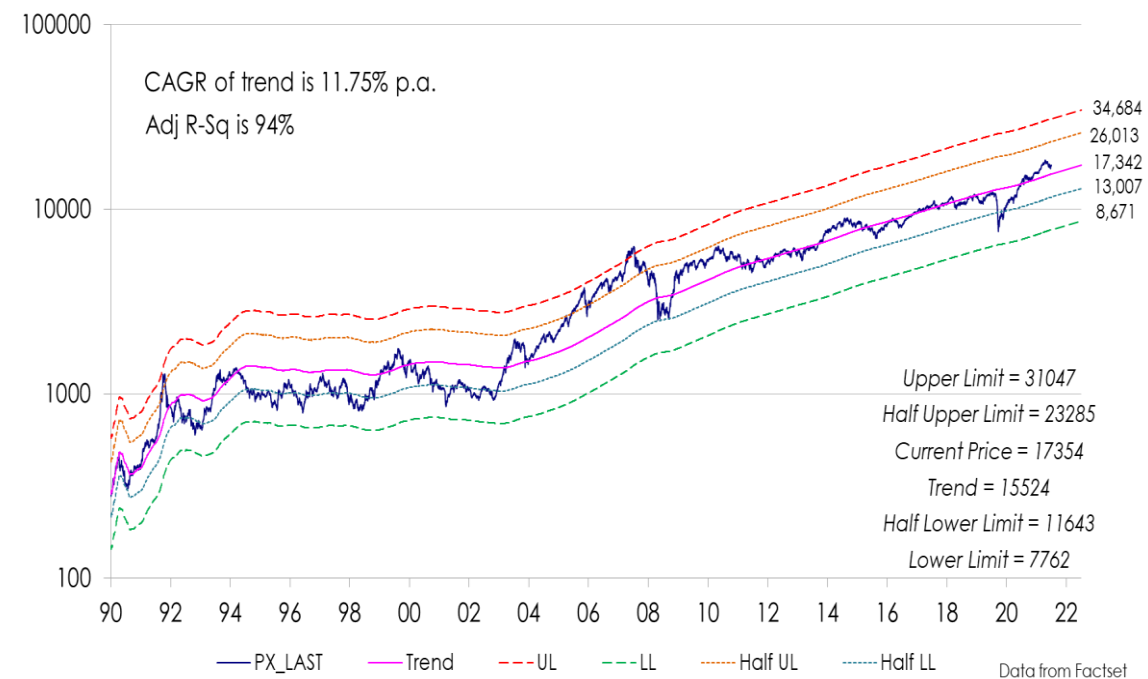
... ~47% of the stocks remain in expensive or super expensive zone.

Nifty - Valuation



NIFTY Index Price from 1990 to 31 Dec 2021

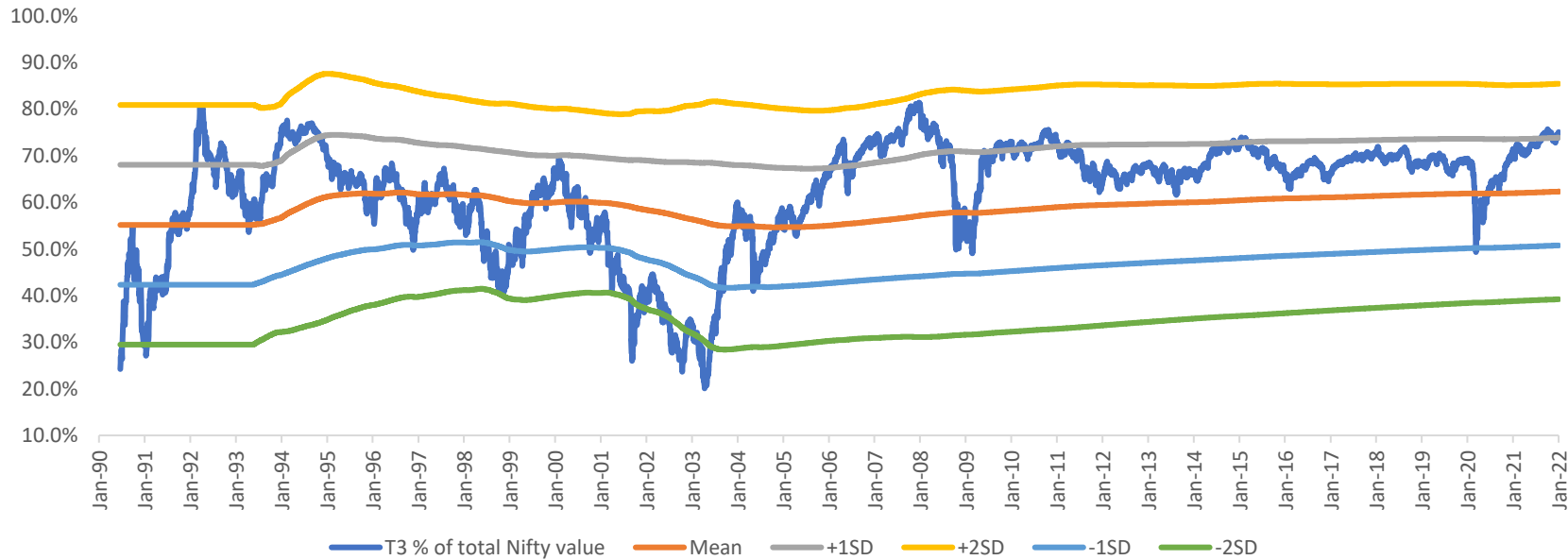
Estimates for next 12 months



- ... Nifty continues to stay above the high end of the valuation range (rolled over EBV for FY 23, based on individual companies Estimated Business Value range under Multi-Act's coverage).
- ... It continues to deviate significantly, to the upside, from the trend line.

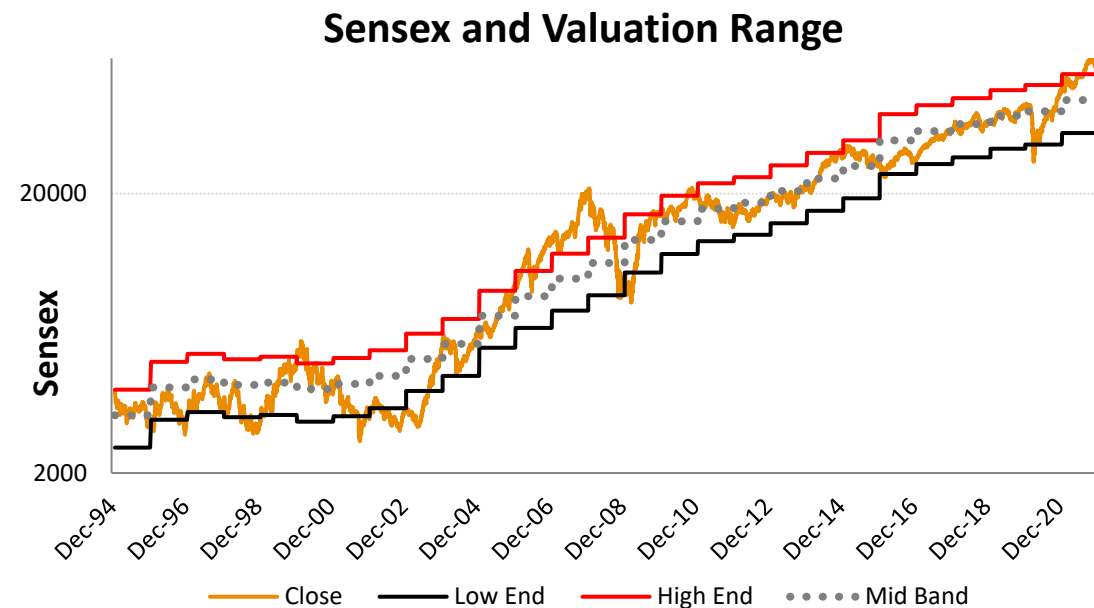
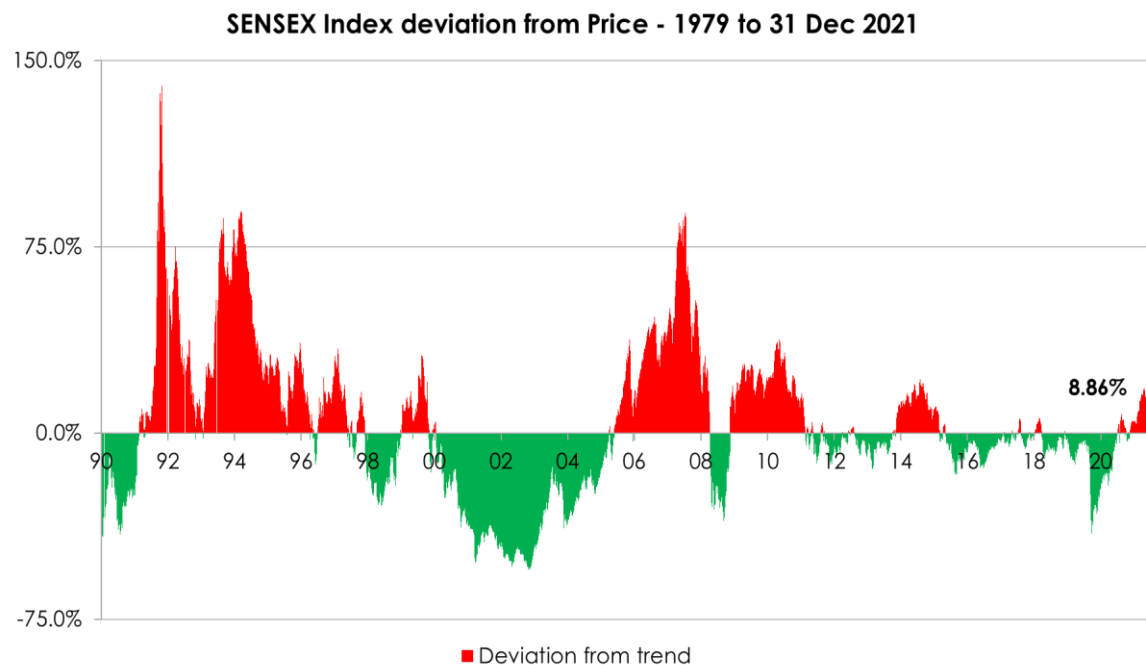
Tranche3 or Implied value assigned for growth by market as a % of total Nifty value (as at 14-Jan-22)

Trend earnings prior to 1999 regressed backwards based on data between 1999 and 2021 to arrive at Tranche 3



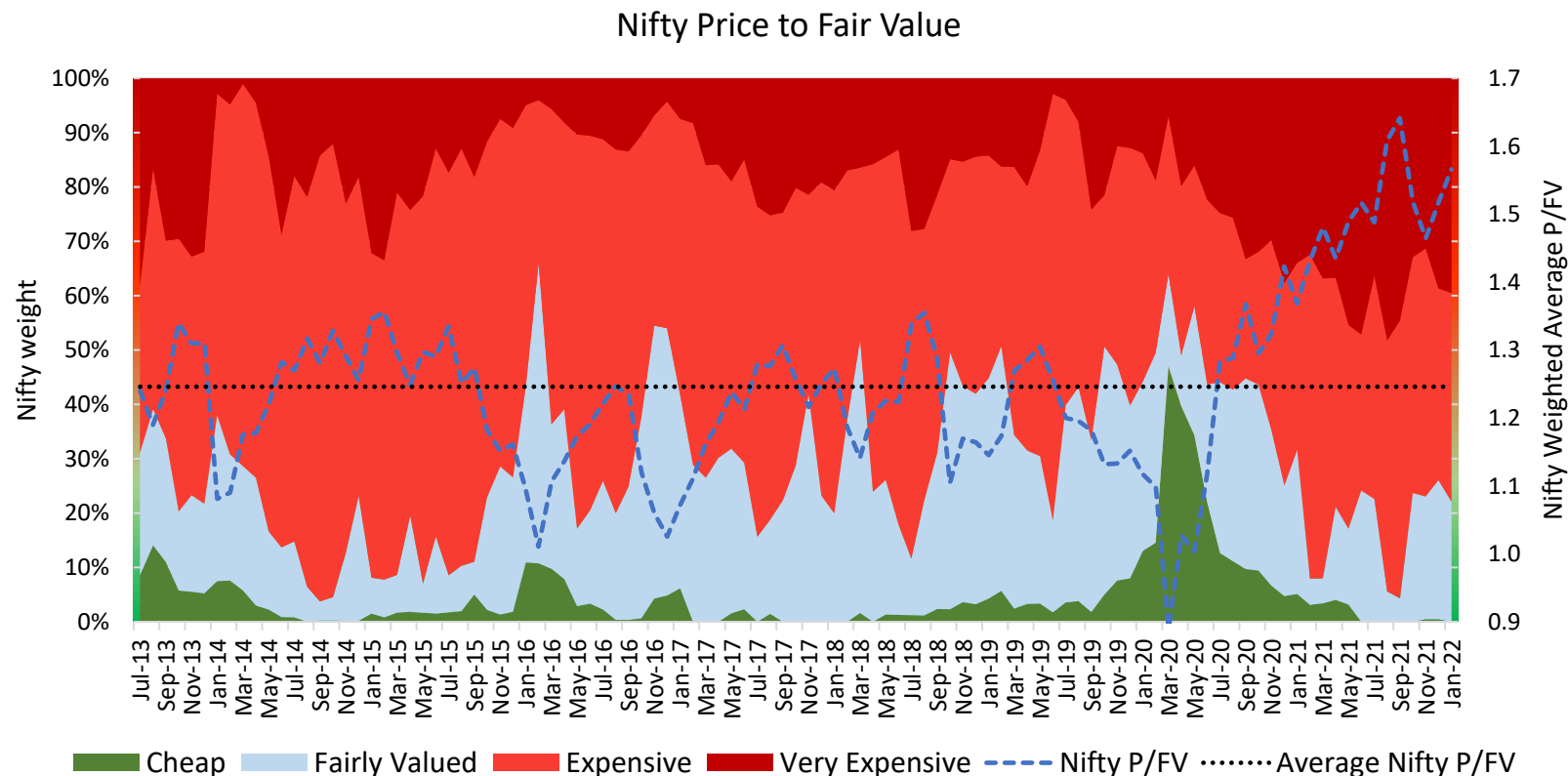
Nifty levels as at 15-Dec-21	
+2SD	19,359
+1SD	17,357
Mean	15,355
-1SD	13,352
-2SD	11,350

... Growth multiples assigned to Nifty are already near their previous highs and have made a move above +1SD levels.



- ... Sensex is now well above its trend line.
- ... Based on normalized growth and returns scenario-based valuation, Sensex is now quoting above high end of its valuation range.
- ... With Sensex RoE near the lowest point for available history, a large part of earnings and growth recovery thus appears to have been priced in.

Nifty valuation – Price/Fair Value



P/FV band	12- Jan-21	
Below 0.5	0.0%	Cheap
0.5 TO 0.75	0.0%	
0.75 TO 1	19.5%	Fairly valued
1 TO 1.25	12.5%	Expensive
1.25 TO 1.5	21.7%	
1.5 TO 1.75	8.5%	Very Expensive
Above 1.75	26.3%	

Wt. avg P/FV	1.57	
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Note: We have neutralized the impact of our internal valuation updates in the above analysis on 3 month rolling basis.

Companies that have old valuations have been ignored. They comprise of small % of Nifty.

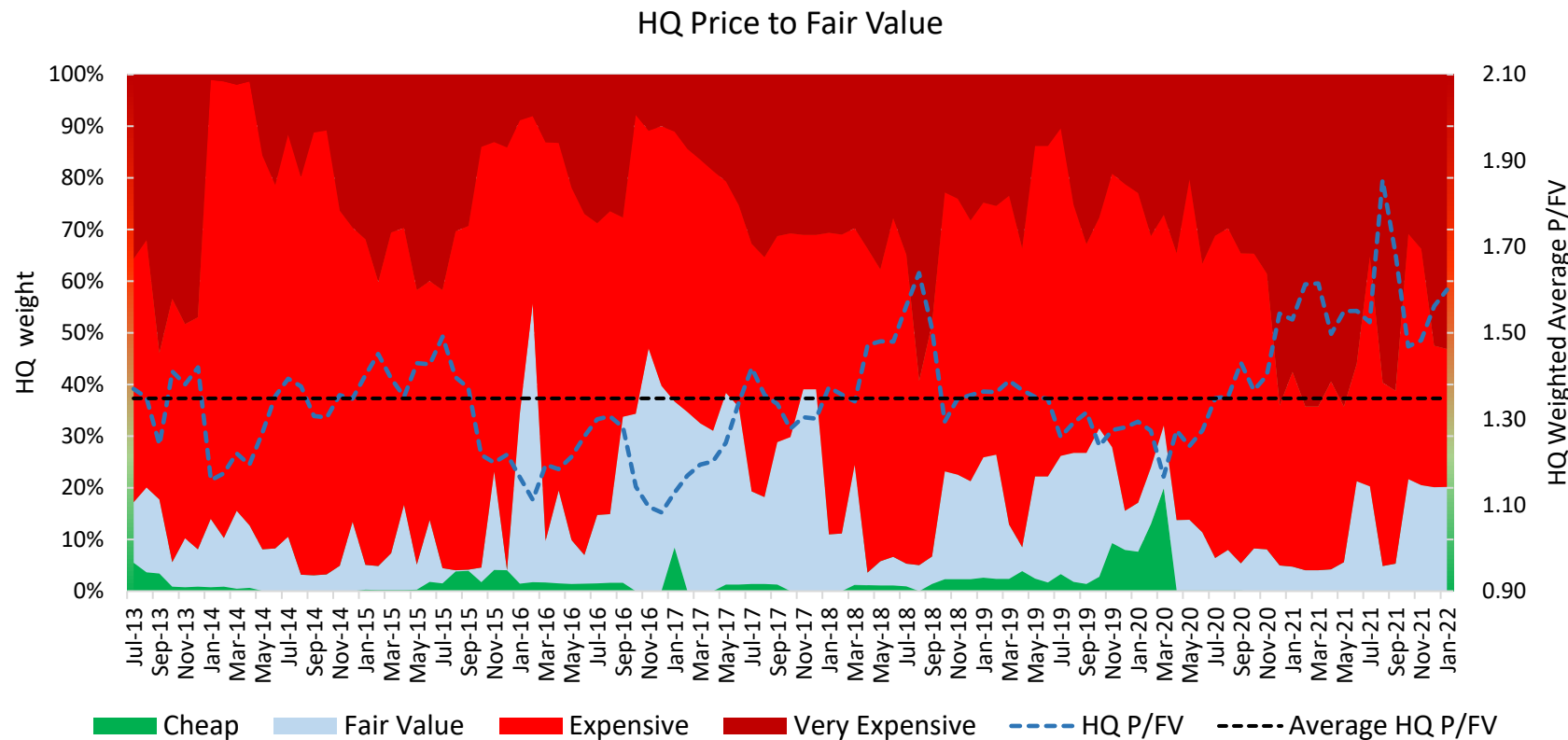
FV = Fair Value or mid-band of our EBV

... Weighted average P/FV of Nifty companies has corrected somewhat but is on the rise again.

... Most stocks within Nifty are Expensive or Very Expensive.

... Top performers of Nifty in past 30 days (till 12 January 21) have been commodity companies (Grasim, ONGC), Bajaj Finance, SBI, Maruti, UPL Ltd.

High Quality valuation – Price/Fair Value



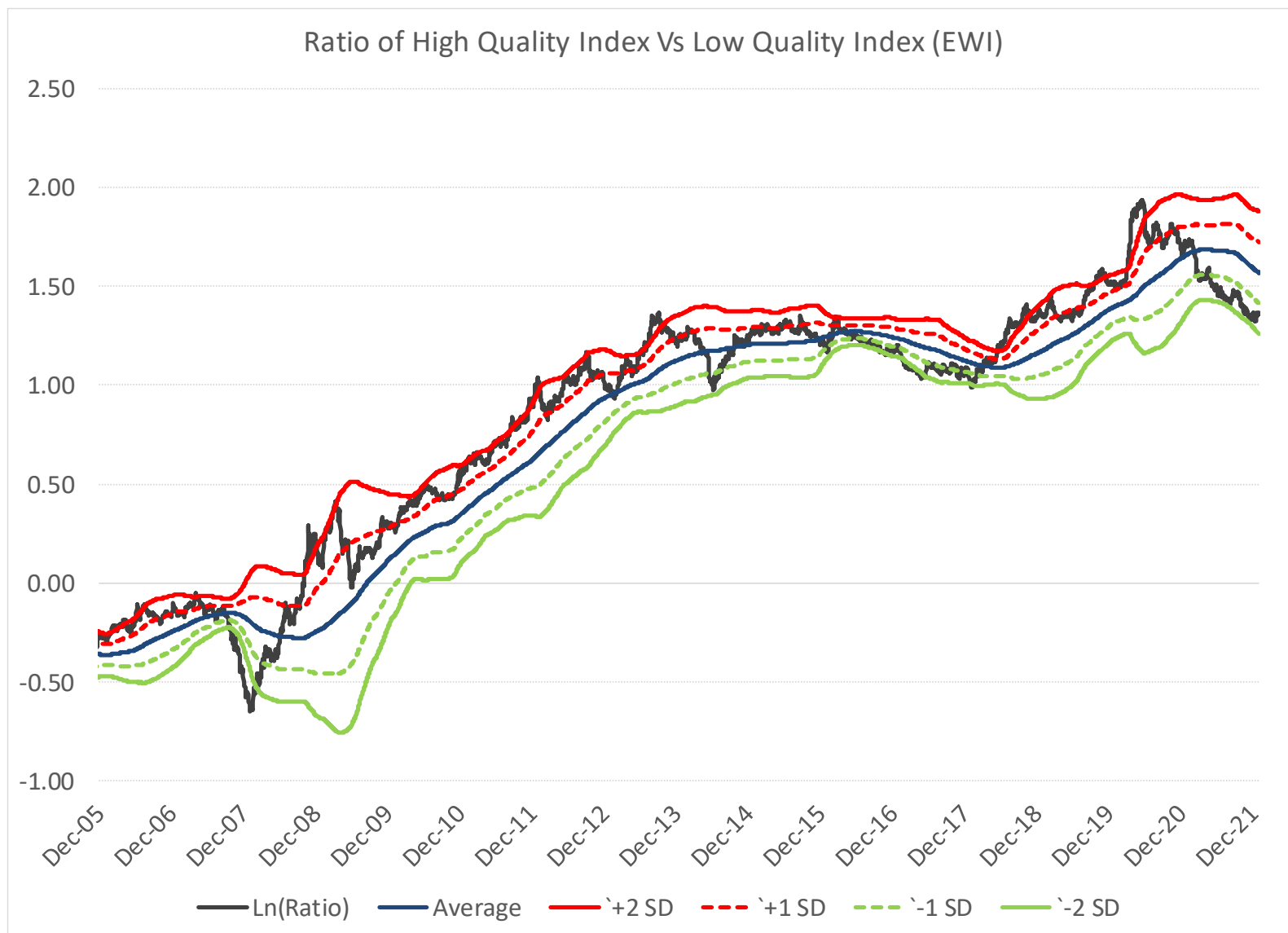
P/FV band	12-Jan-21	
Below 0.5	0.0%	Cheap
0.5 TO 0.75		
0.75 TO 1	20.1%	Fairly valued
1 TO 1.25	5.9%	Expensive
1.25 TO 1.5	20.7%	
1.5 TO 1.75	25.2%	Very Expensive
Above 1.75	27.7%	

HQ P/FV	1.60	
---------	------	--

Note: We have neutralized the impact of our internal valuation updates in the above analysis on 3 month rolling basis. High Quality = Grade A and B+ companies as per MA framework.

... Weighted average Price to Fair Value of HQ companies have come off their highs but seem to be climbing up.

... IT companies have been one of the major contributors towards higher valuation of HQ companies.



Performance during the month	Dec-21
High Quality	2.2%
Low Quality	2.6%
Sensex	2.1%
BSE Mid	1.1%
BSE Small	5.4%

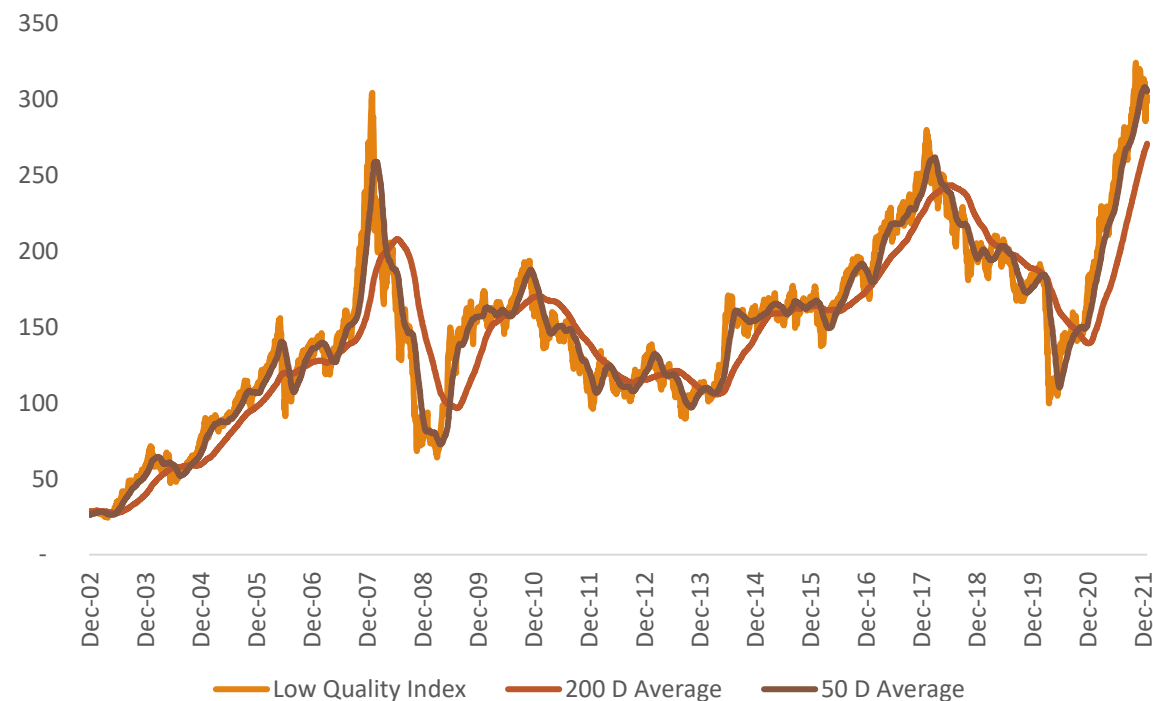
- ... With LQ companies performing better than HQ companies over last 1 year, HQ:LQ Index has made a sharp move towards -2 SD levels.
- ... The indicator thus suggests prevailing optimism in the market.
- ... Over last one month, LQ index has outperformed the HQ index. Also small caps seem to perform better than other benchmarks.

Sentiment – HQ and LQ Index

High Quality Index - Equal Weighted Index



Low Quality Index

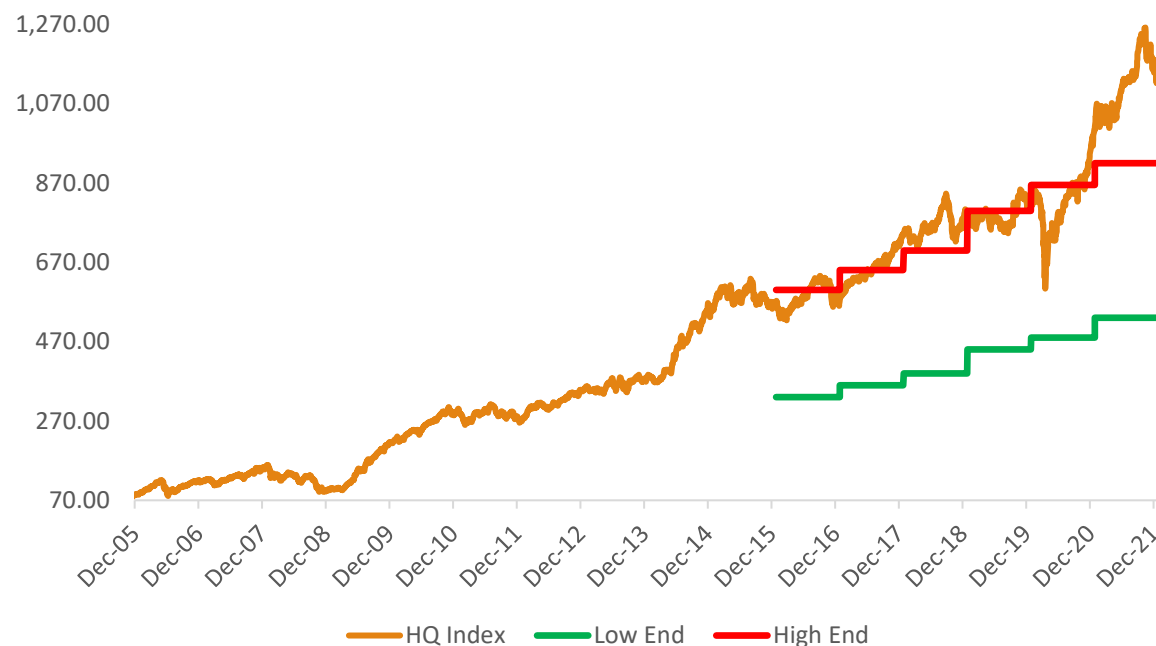


Note: Both indices are equal weighted and balanced annually. As at December -21

... HQ Index seems to have corrected from its highs.

... LQ Index also seems to have corrected from its highs.

HQ Index and Bottom-up Valuation band



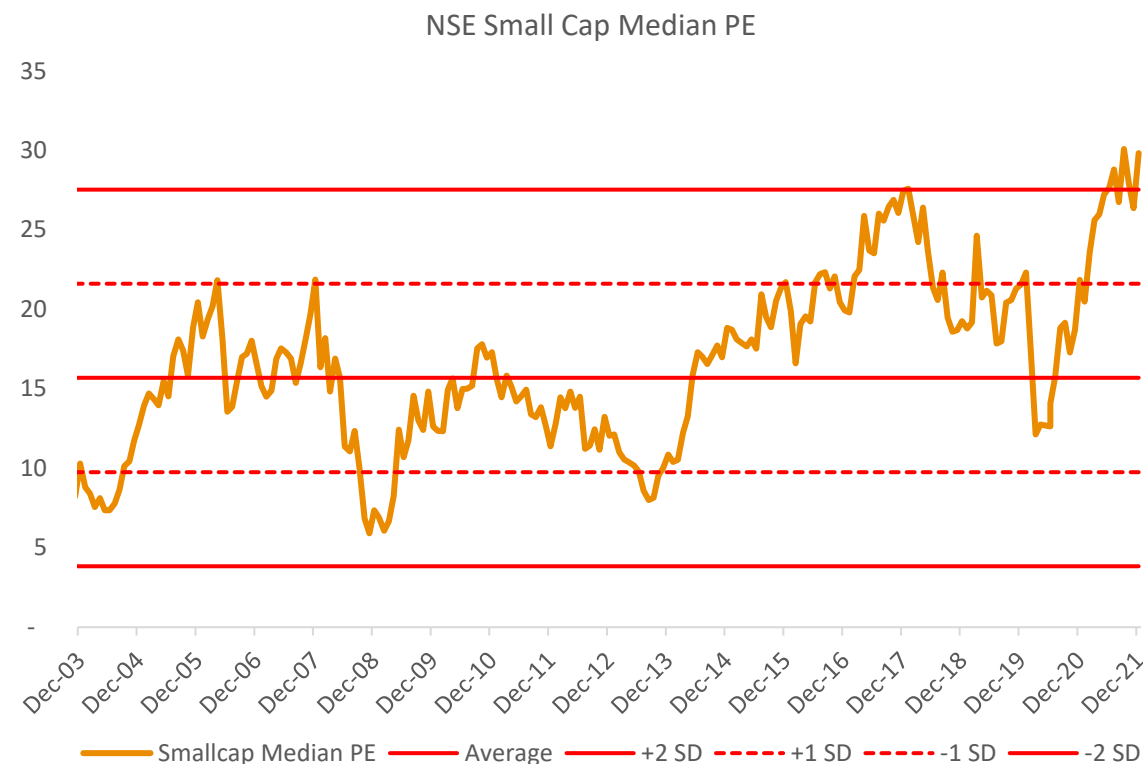
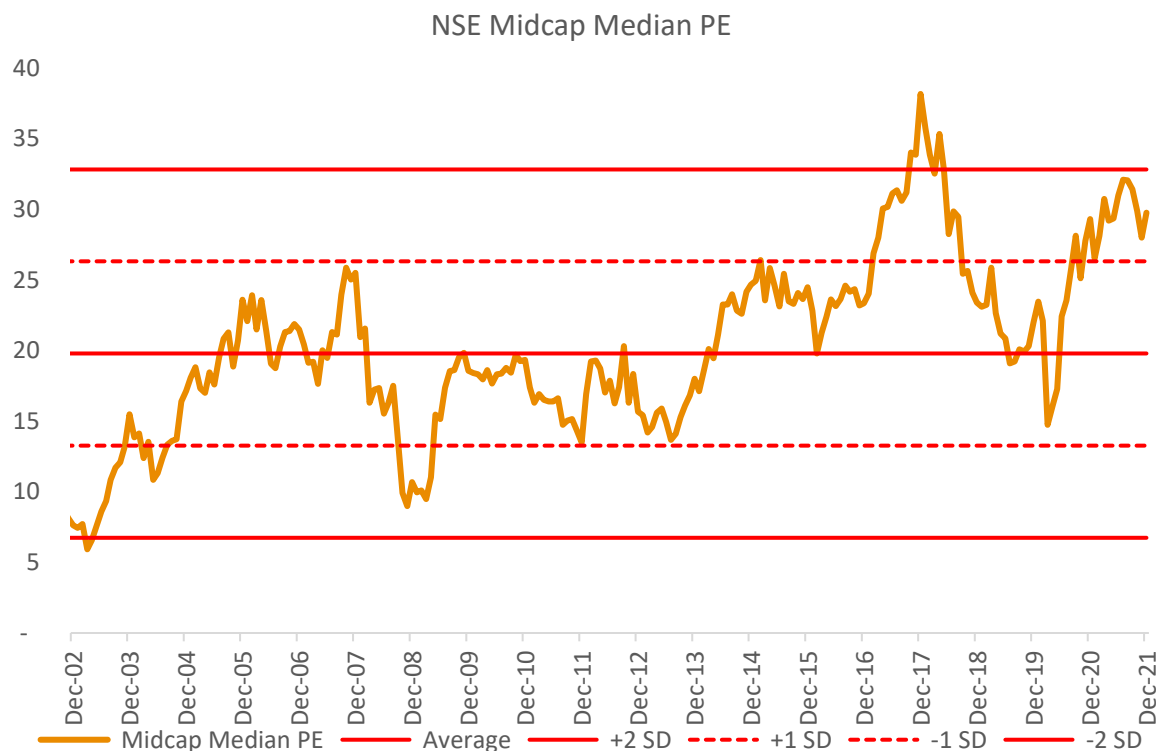
Multi-Act High Quality Index Price to Earnings (PE) Ratio



... HQ Index companies remain above valuation range high, however, the index seems to have corrected somewhat in the last 1 month.

... P/E for High Quality companies continue to remain elevated and close to the all-time highs.

Mid and Small Caps



- ... Median Smallcap P/E ratio is now quoting at +2 SD levels. Median Midcap PE has come down and is quoting close to +1SD levels.
- ... Note that to arrive at meaningful P/E, we have used latest quarterly EPS as of March-20 or June/September-20, whichever is higher, to arrive at trailing 12 months EPS.

Risk Premium (EWI): Reg Utilities Yield - 10 Yr Bond Yield



← Pessimism

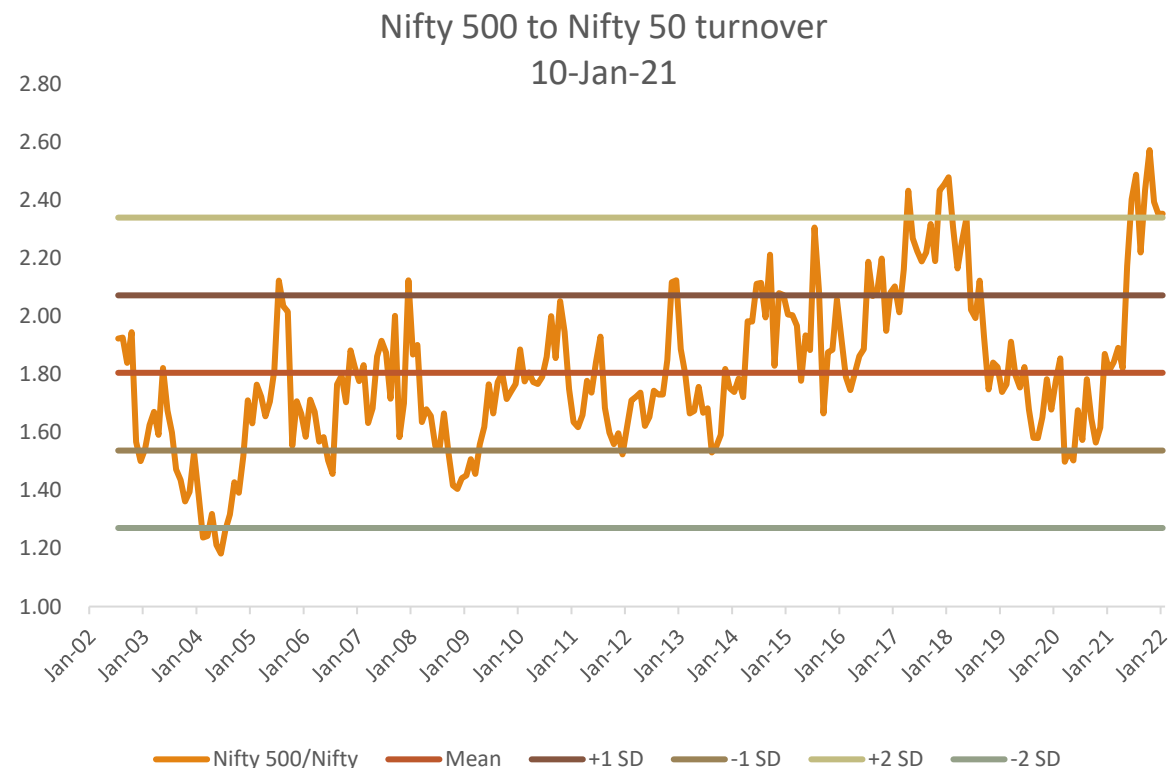
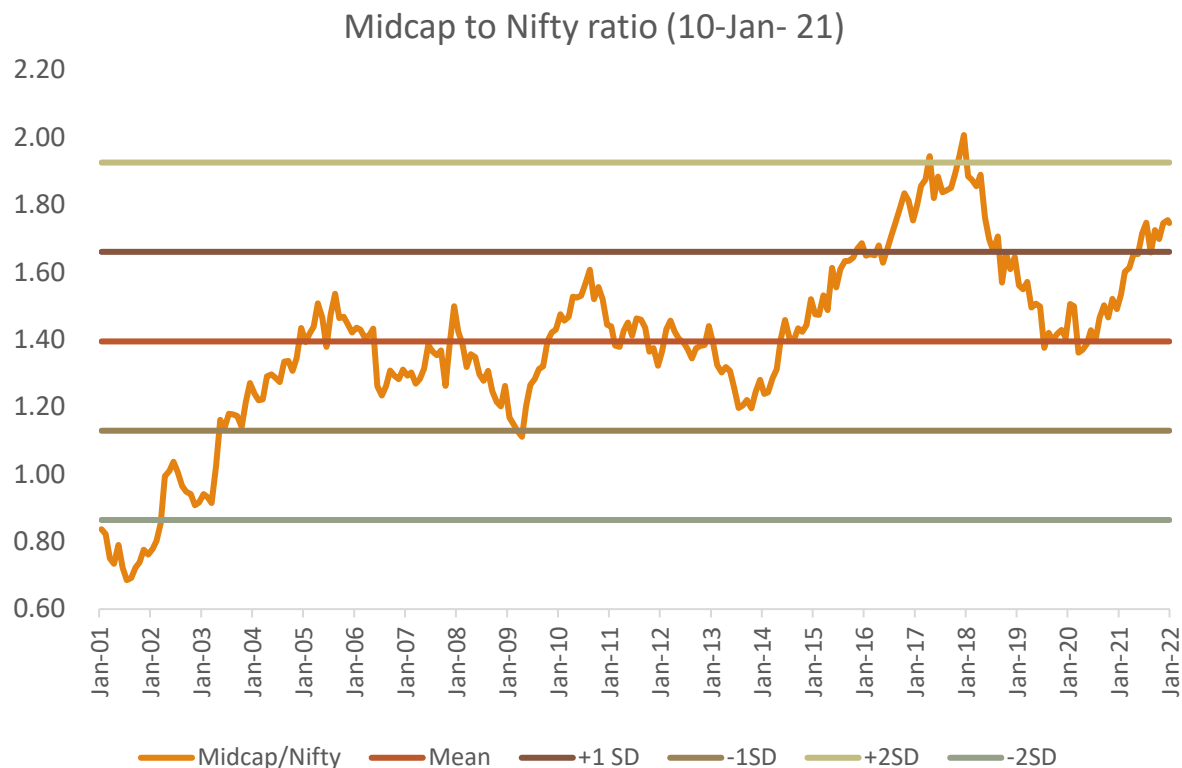
← Optimism

Risk Premium	
+2 SD	10.5%
+1 SD	8.3%
Average	6.0%
-1 SD	3.7%
-2 SD	1.5%

... Regulated Utilities Risk Premium has declined to mean levels from its highs. This suggests rise in optimism.

... PSU stocks were under pressure over last year. With rise in overall optimism in the market, PSU stocks have also fared well over last few months.

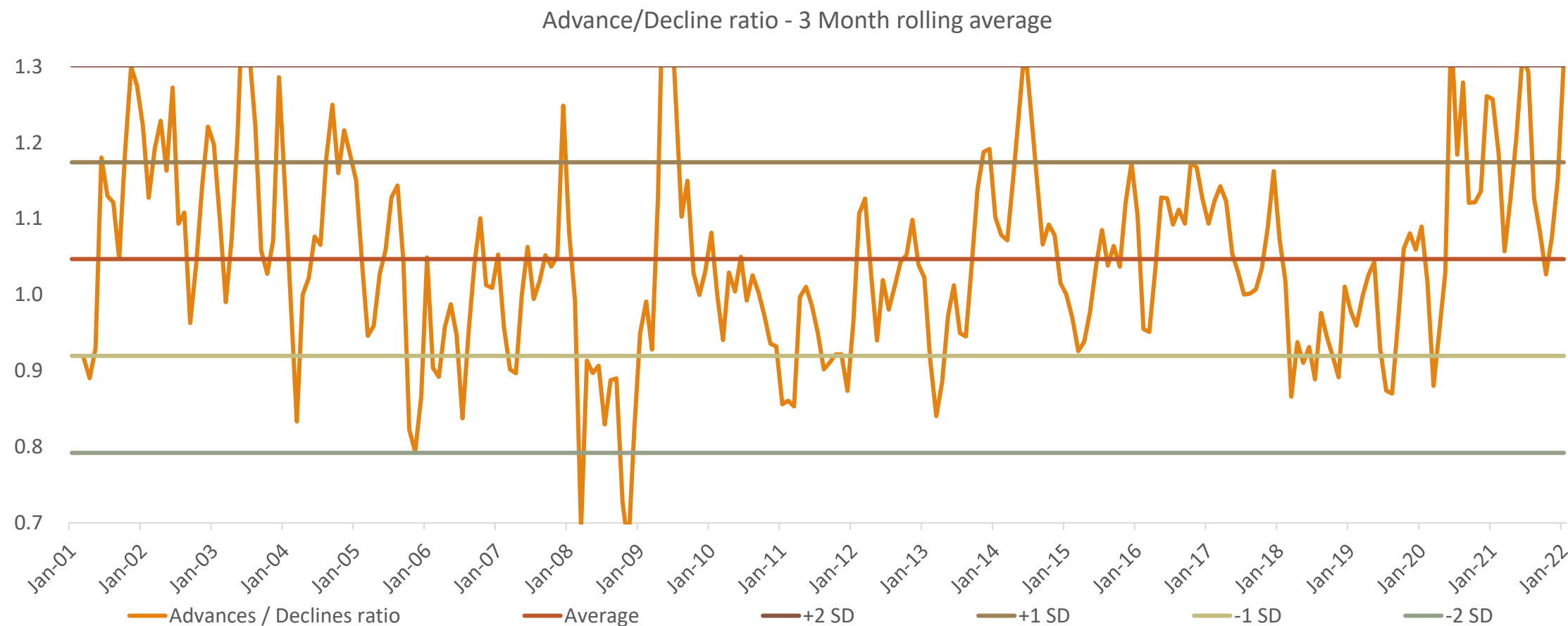
Sentiment – Midcap vs Nifty



... Midcap to Nifty ratio has been rising and is now above +1 SD levels.

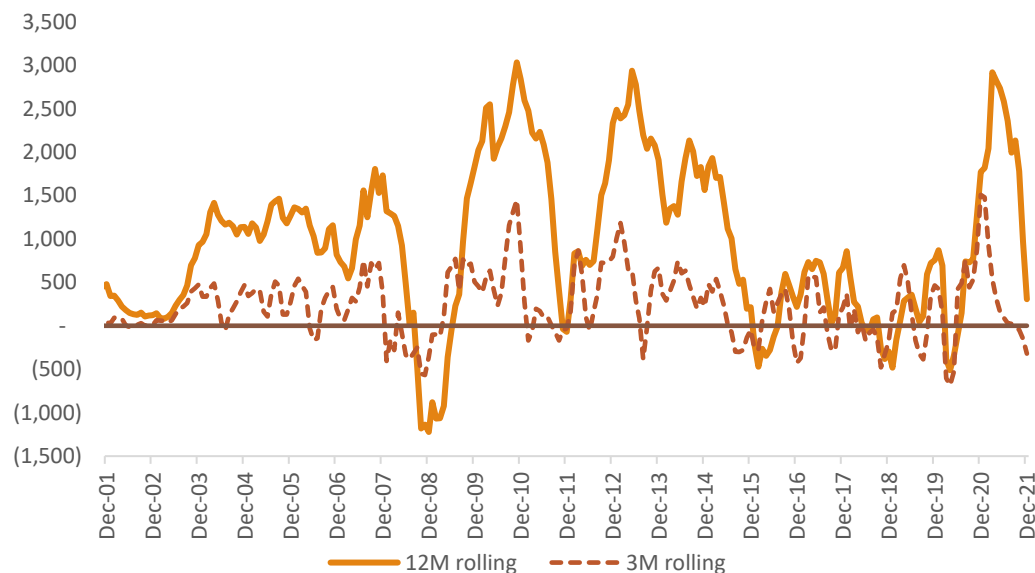
... Nifty 500 to Nifty 50 turnover data is now quoting close to all time highs indicating increased activities in small companies as compared to large cap names.

... The turnover for all the indices dropped in November and December.

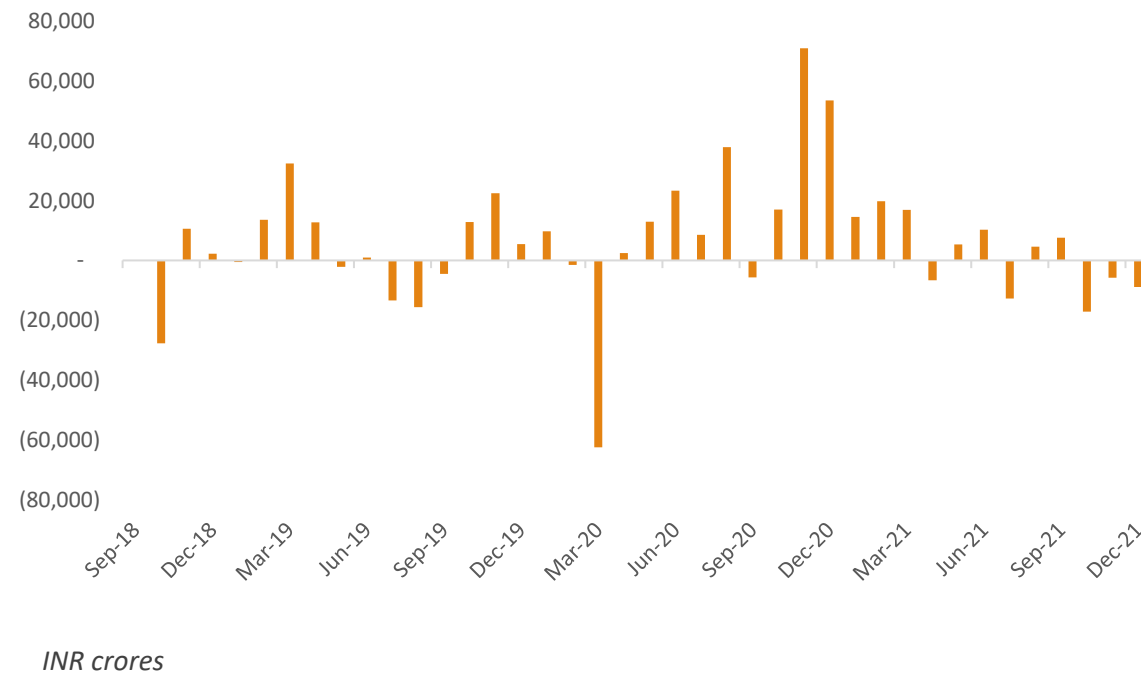


... Advance-Decline ratio rose again during the last month, indicating rise in overall optimism.

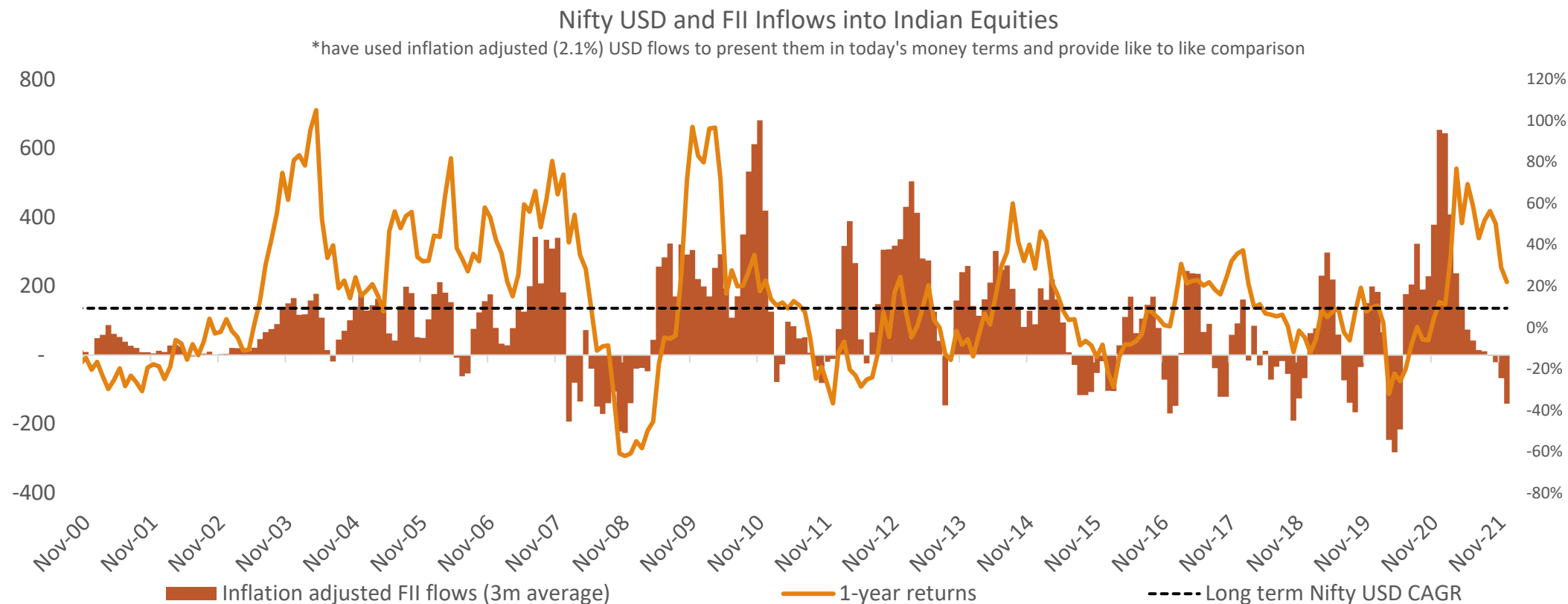
FII net inflows - 12M rolling and 3M rolling



Net FII inflows into Indian Equities



- ... FIIs pulled out money in the month of December 21, higher than the money pulled out in November 21. FII participation in the last few months has been weak.
- ... January has had moderate outflows till date.



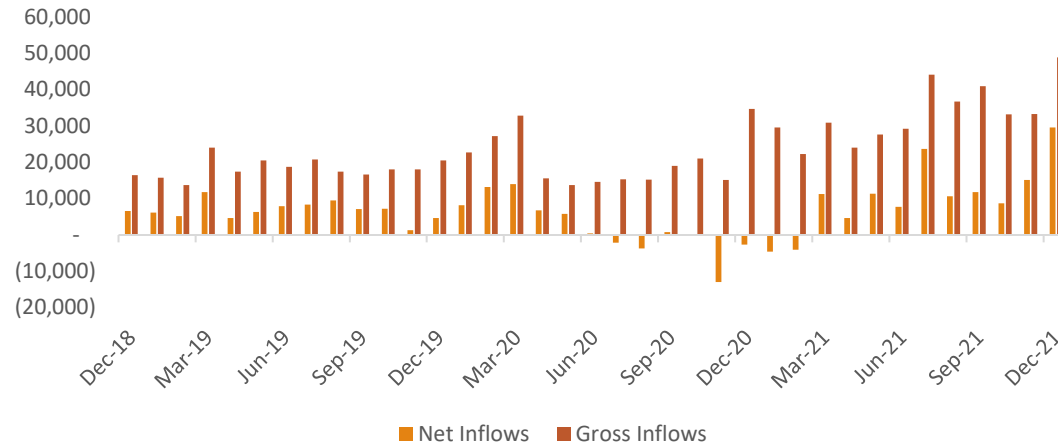
... With decline in “momentum” of Nifty USD Index, FII flows into Indian equities have slowed down. Though one year return continue to remain high.

FII – Sector wise holdings

Allocation as at Dec-21	Investment O/S growth MoM Since 2012	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
4% Automobiles & Auto Components											
29% Total Financial Services											
17% Banks											
13% Other Financial Services											
3% Capital Goods											
2% Construction Materials											
3% Consumer Durables											
3% Food, Beverages & Tobacco											
3% Household & Personal Products											
2% Insurance											
10% Oil & Gas											
4% Pharmaceuticals & Biotechnology											
15% Software & Services											
2% Telecom Services											
3% Utilities											
2% Metals & Mining											
2% Retailing											
2% Chemicals & Petrochemicals											
10% Others											
Total											

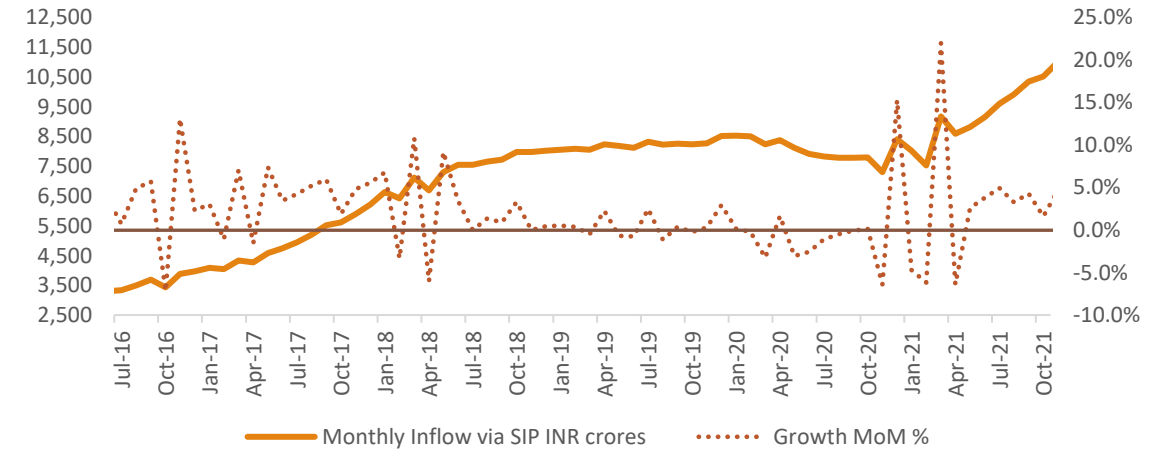
- ... During Dec- 21, Banks & Financial services, Retailing, Pharma and Auto saw significant outflows from the FII portfolio while the insurance and Capital goods sector saw significant inflows.
- ... Software, Chemicals and Capital goods also saw significant appreciation in the FII portfolio while Household & Personal products and Food and Beverages segment saw a significant decline.

Equity Mutual Fund Net and Gross Inflows



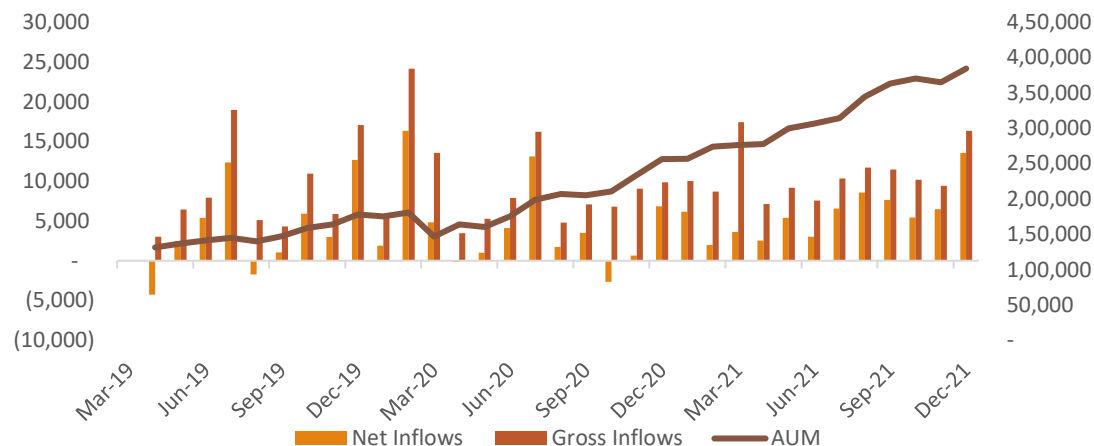
Above flows does not include balanced funds. Some reclassification in disclosures post Apr-19 have impacted the data.

Mutual Funds - SIPs



INR crores. Includes net flows into arbitrage funds till Mar-18. AMFI disclosures have changed since Apr-19 and may have impacted data.

Other ETF Inflows and AuM



- ... Net inflows into equity mutual funds for December-21 were the highest in the history.
- ... Monthly SIP amount remains high and provide steady stream of new funds into equities and has now risen to ~\$1.45 bn a month and has been growing MoM.
- ... Flows from “Other ETFs” or PF money flow has seen an improvement in the last few months.

What to make of all these?

- ... Economic indicators remain mixed and conclusive trend is not evident. Most indicators have recovered, but growth remains missing.
- ... Government has continued to remain conscious on spending despite robust tax collection. This may to cut down significantly on never-before-seen fiscal deficit that we saw last year. Economy “recovering” without much actual spending on government part may have led to such steps. However, economic “growth” may need kick start by way of major spending.
- ... Avoiding higher goods and services inflation may also have been one of the reason to avoid proposed government spending.
- ... Inflation and USD:INR rate remains one of the biggest macro factor to focus upon. Persistent high inflation, especially on the back of poor employment scenario can be a cause of worry. USD:INR has been hinging on sustained capital inflows. Adverse currency movement can add to the inflationary pressures and thus add also towards economic growth.
- ... RBI for the time being has continued to take steps to keep rates lower. With global central banks looking to tighten, Indian interest rates may also need to move upwards. This can increase cost of funds for government when it is already running high on debt as a % of GDP.
- ... Valuations remain unfavorable. Sentiment remain tilted towards optimism. Under such conditions, more often than not, investors are better off being more cautious. Such cocktail have been source of permanent loss of capital in the past.

Multi-Act Trade and Investments Private Limited

(SEBI Registered Investment Advisor - Registration No. INA000008589)

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