FAITH & *PATIENCE*

September 30, 2021

For the month ended September 30, 2021, Nifty 50 index was up 2.84% over the previous month's close. Midcaps and small caps outperformed large caps. NSE Midcap 100 Index was up 6.92% and NSE Small cap 100 index was up 6.11%. Within sectors, media, realty, auto, consumer goods, and oil & gas outperformed Nifty 50 index whereas healthcare, metals, and banks underperformed. Foreign funds (FIIs/FPIs) were net buyers in September 2021 at USD1.14bn

NSE Monthly Indices Return - September 2021

Index	Return
NIFTY 50	2.84%
NIFTY Midcap 100	6.92%
NIFTY Small cap 100	6.11%
NIFTY Auto	5.62%
NIFTY Bank	2.75%
NIFTY Financial Services	1.29%
NIFTY FMCG	2.27%
NIFTY IT	1.32%
NIFTY Media	33.51%
NIFTY Metal	-1.81%
NIFTY Pharma	0.85%
NIFTY Private Bank	3.24%
NIFTY PSU Bank	6.34%
NIFTY Realty	32.83%
NIFTY Consumer Durables	8.98%
NIFTY Oil & Gas	8.36%
NIFTY Healthcare Index	-2.02%

Key news flow over the last month -

- Vaccination drive has surpassed all expectations with 904 million doses administered so far and around 234 million people fully vaccinated.
- September average vaccination per day across India stood +8mn.
- 70% of adults have now received at least one dose.
- Fiscal deficit for April - August 2021 was significantly lower at 31% of budget estimates and improves scope for the government to expand spending on capital expenditure for driving economic growth.
- India registered a current account surplus of 0.9% in Q1FY2022 driven largely by growth in software services export and remittances by Indians employed overseas.
- India's eight core sectors grew 11.6% YoY in August 2021. Highest year on year growth was observed in cement, coal, natural gas and electricity.
- PMI-manufacturing at 53.7 for September 2021 picked pace as compared to August 2021.
- GST collections in September stood at a five-month high of Rs.1.17tn, 23% higher than the collections in same period last year.
- Surplus liquidity in the banking system continues to be high at ~Rs7trn.
- On the corporate front, incremental news flow continued to highlight capex plans, capital raise (including IPOs), investor activism, deleveraging and credit rating upgrades.

Markets have been volatile lately on the back of expectations of the start of quantitative easing tapering by the US Federal Reserve, rise in US bond yields, spike in energy prices, spike in commodity prices, inflation and China slowdown concerns emanating from the government's regulatory crackdown and liquidity crisis from the Evergrande. Surprisingly, sectoral performance in India does not seem to reflect a typical risk-off trade. Contrary to expectations based on historical trends, the systematic risk did not play out in Indian stocks with price decline largely seen in low-volatility stocks such as telecom, technology and consumer goods. As stated above, outperforming sectors were cyclicals and balance sheet driven leveraged sectors such as power, energy, realty, public sector undertakings, consumer durables, metals and infrastructure. Mid and small caps too outperformed benchmark indices.

We believe that the performance can be attributed to the relatively attractive valuation of stocks connected to the resilient commodity cycle and pockets of robust demand in the economy, which is being led by gross fixed capital formation and sectors such as construction, manufacturing and electricity. However, private final consumption expenditure and services sector continue to lag in terms of demand trends while commanding extremely high valuations.

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Our view:

Last few days have seen a surge in market volatility mainly due to rising commodity prices and inflation expectations. While the debate rages on whether the inflation surge is transitory or persistent, it appears most central bankers are of the opinion that it may well be transitory. In India, there is a concern around this topic and while rate hike is still some quarters away, but a calibrated normalisation of current excess liquidity conditions cannot be ruled out.

Sr. No.	Commodity	% change oya
1	Natural Gas	110
2	Heating Oil	104
3	WTI Crude	85
4	Gasoline	81
5	Coffee	77
6	Cotton	61
7	Aluminium	61
8	Sugar	52
9	Corn	46
10	Copper	37
11	Wheat	32
12	Soybeans	26
13	Lumber	23
14	Palladium	8
15	Silver	-7
16	Gold	-7

This has different connotations for different entities. For example, for top-rated borrowers a reduction in liquidity will not make a difference. Please note corporate India's debt equity is expected to hit an all- time low in 2022. Pandemic has made Corporate India wiser and corporate borrowing coming back with a bang despite capacity utilizations running at 70% seems unlikely. So, from a banking sector perspective (our key underweight), an anaemic credit growth persists despite excess liquidity. This is also cited as one of reasons to fend off inflation fears. This is good news for real estate sector (we are overweight construction) and retail borrowers as banks are competing to offer lower home loan rates especially when festive season starts in India.

While we do not rule out market corrections, but the real concern could emerge if the US Fed underestimates inflationary pressures and feels they are not just transitory. This in our opinion could cause global markets to fall and India too will participate in that. Other than that news flow emerging from China, be it government induced or result of ongoing geopolitical tensions, we believe, would simply push more global manufacturers to de-risk or diversify their supply chains. And here we believe, what is popularly known as China+1, replacement strategies being adopted companies will benefit India which has seen greater push on manufacturing and infrastructure sectors in recent times. However, further spike in crude oil does remain a key risk for the Indian economy.

looking statements as a prediction of actual results and we do not assume any responsibility for the accuracy or completeness of any of these forward-looking statements that may be made from time to time. We are under no obligation (and expressly disclaim any such obligation) to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise. The data contained herein is for informational purposes only and is not represented to be error free.