

February 24, 2022

Every Dark Cloud Has A Silver Lining

On the back of the 'Russia-Ukraine War' news, Indian markets witnessed one of the worst falls in recent times. NSE Nifty 50 Index fell by 4.78% or 815 points, and BSE Sensex 30 Index fell by 4.72% or 2702 points.

Index Name	23-02-2022	24-02-2022	% Change
NIFTY 50	17063.25	16247.95	-4.8%
NIFTY Midcap 100	28467	26832.65	-5.7%
NIFTY Smallcap 100	9956.85	9334.8	-6.2%
NIFTY Auto	11318.7	10609.8	-6.3%
NIFTY Bank	37392.05	35228.1	-5.8%
NIFTY Financial Services	17428.75	16531.55	-5.1%
NIFTY FMCG	35933.1	34735.15	-3.3%
NIFTY IT	34114.3	32547.9	-4.6%
NIFTY Media	2050.1	1907.6	-7.0%
NIFTY Metal	5608.9	5313.65	-5.3%
NIFTY Pharma	12976.3	12500.1	-3.7%
NIFTY Private Bank	18964.7	17829.7	-6.0%
NIFTY PSU Bank	2773.9	2544.7	-8.3%
NIFTY Realty	443.55	411.75	-7.2%
NIFTY Consumer Durables	27572.5	26549.35	-3.7%
NIFTY Oil & Gas	7340.55	6960.15	-5.2%
NIFTY Healthcare Index	8115.85	7801.4	-3.9%

Source: NSE

There was selling across the board with Nifty PSU Bank Index down 8.26%, Nifty Realty down 7.17%, Nifty Media down 6.95%, Nifty Small Cap 100 down 6.25% and Nifty Mid Cap 50 down 6.16%. Even the sectors which are beneficiaries of this crisis, e.g. energy, were not spared. Nifty Energy Index was down 5.12% and Nifty Metals was down 5.26%.

FMCG or consumer staples and pharma, which are considered defensives, were down 3.33% and 3.67% respectively. Another sector which benefits from currency depreciation, namely information technology, too was down 4.59%. So clearly this was a panic reaction by investors watching news.

Towards the end of CY2021 and beginning of CY2022, several market gurus and experts were expecting benign or single digit returns from markets in CY2022. Their reading was, much of the earnings growth is already in the price. So, markets were already priced to perfection and left little room for disappointment. Secondly, US Fed raising rates in CY2022 was another headwind markets were grappling with, and particularly foreign funds have been in

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aggressive selling mode for 4-5 months. Thirdly, oil prices going up was yet another concern investors have been wary about. To add to these global concerns, the Ukraine crisis appears to be the proverbial last straw that broke the camel's back, at least as regards to foreign funds. The provisional numbers for the day show that foreign funds were huge net sellers and domestic funds were huge net buyers.

FII DII Data						
DATE	FII RS CRORES			DII RS CRORES		
	GROSS PURCHASE	GROSS SALES	NET PURCHASE / SALES	NET PURCHASE / SALES	GROSS SALES	GROSS PURCHASE
Feb-22	1,15,943.30	1,53,244.20	-37,301.00	33,623.10	93,070.60	1,26,693.70
Jan-22	1,41,177.60	1,82,524.10	-41,346.50	21,928.40	1,20,006.60	1,41,934.90
Dec-21	1,46,073.80	1,81,567.50	-35,493.60	31,230.90	1,04,846.70	1,36,077.40
Nov-21	2,04,204.00	2,44,106.00	-39,901.90	30,560.30	1,05,489.30	1,36,049.60
Oct-21	1,85,566.80	2,11,139.00	-25,572.20	4,471.00	1,47,136.80	1,51,607.70
Sep-21	2,17,186.40	2,16,722.60	463.80	5,948.80	1,38,198.50	1,44,147.30
Aug-21	1,75,168.40	1,77,736.90	-2,568.50	6,894.70	1,24,290.50	1,31,185.20
Jul-21	1,25,896.70	1,49,090.10	-23,193.40	18,393.90	99,516.20	1,17,910.10
Jun-21	1,70,189.00	1,70,214.80	-25.90	7,043.50	1,07,246.20	1,14,289.70
May-21	1,24,242.50	1,29,597.00	-5,354.40	1,954.80	97,450.00	99,404.90
Apr-21	1,40,103.70	1,52,796.60	-12,692.90	11,088.60	92,020.80	1,03,109.40

Source: Trendlyne

What is called for at this moment is assessment of the impact of the Ukraine crisis on India and its economy. Firstly, other than oil prices going up, which could be temporary or transient, or as long as the crisis lasts, how does the Ukraine crisis directly affect India is a question one needs to ask. We have recently seen a panic reaction by markets to the Covid pandemic, and an equally sharp and smart recovery generating stellar returns. Secondly, Indian economy is on a strong footing and expected to grow by 9% even in 2022 as per IMF projections. Thirdly, Union Finance Budget has shown that Government of India remains steadfast on its path of fiscal consolidation and on capital expenditure growth. Infrastructure spend in India remained strong throughout the Covid pandemic.

So, the economy is on strong footing, but the markets have fallen due to a global event which has its theatre far away from India. The result is that concerns related to valuations getting addressed due to price action triggered by foreign fund selling.

Unless one fears a full-blown World War 3 (which could well involve nuclear weapons and hence appears very unlikely), the only other aspect for any long term investor is to check the quality of the companies held. The world has witnessed many crises in the last century including two world wars, great influenza epidemic, great depression, oil crisis, gulf war etc yet markets have rallied and generated stupendous returns over the period for long term investors.

Ashish Wakankar
 Director and Investment Adviser
 EquiPoise Investment Advisers

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