

26 January 2022

## Navigating through Equity market volatility

### Key Highlights

- While the **Sensex ended 1,546 points lower** at 57,492, the **Nifty cracked below 17,150** i.e. 469 points lower.
- With FOMC meeting due on 26 Jan 22 and inflation across the globe touching its peak**, Fed hawkish tone dampened investor sentiments.
- Global Markets were in the red** as the new variant threatened to disrupt trade and travel.
- Valuations are overheated** in comparison to other emerging markets.
- Fears of rising crude oil prices** which may hurt fiscal deficit target.
- FIIIs continued their shift to safer heaven** for the 9<sup>th</sup> straight trading session.

It was a Black Monday on dalal street on 24 Jan 2022 with the benchmarks Sensex and Nifty50 suffering sharp losses of ~2.6%, extending losses to the fifth trading session in a row. While the Sensex ended 1,546 points lower at 57,492, the Nifty cracked below 17,150 i.e. 469 points lower. All sectors were deep in the red, with financial, IT, oil & gas and consumer stocks the biggest drags for both headline indices and broader markets. This time on it was the Midcap & Smallcap which were deep in the red.

Indices	Absolute (%)						CAGR (%)	
	1 D	1 Wk	MTD	3 Mths	6 Mths	1 Yr	From Mar-20 Lows ^	From Jan-20 Highs ^
S&P BSE Sensex	-2.62	-6.23	-1.31	-5.48	8.52	17.62	53.94	16.79
Nifty 50	-2.66	-6.33	-1.18	-5.33	8.15	19.32	55.47	17.49
Nifty 500	-3.09	-6.78	-1.89	-4.47	7.49	24.11	59.30	20.50
Nifty Midcap 100	-3.86	-8.29	-3.48	-5.47	6.52	35.66	70.59	28.53
Nifty Smallcap 100	-4.78	-9.26	-3.70	-0.93	4.46	47.94	88.83	32.23
Key Sectoral Indices								
Auto	-2.65	-5.22	2.41	-0.60	11.49	7.22	61.27	16.65
Bankex	-1.65	-3.20	4.51	-8.40	6.02	19.36	52.77	7.39
Consumer Durables	-4.14	-8.69	-6.00	-3.19	16.90	35.84	60.38	28.86
FMCG	-2.41	-5.37	-3.90	-7.39	-2.90	4.57	25.87	5.76
Health Care	-2.47	-6.83	-9.09	-4.98	-9.51	11.67	52.10	31.31
IT	-3.30	-9.72	-8.21	0.70	13.61	31.52	84.91	45.75
Metal	-5.03	-7.77	-2.15	-7.39	-2.85	63.10	97.10	31.68
Oil & Gas	-2.24	-4.22	3.73	-2.96	15.59	25.14	46.91	10.79
PSU	-1.89	-4.11	4.56	-4.34	9.93	44.27	48.66	10.11
Realty	-5.94	-10.52	-4.57	-10.18	14.93	44.57	72.16	22.66

Highlighted are the sectors which have underperformed the broader market rally.

Source: Morningstar Direct; Key sectoral Indices are of S&P BSE; Data as on 24 Jan 2022

^ From Mar '20 Lows i.e. 23 Mar '20 & From Jan '20 Highs i.e. 14 Jan '20

### What led to this mayhem?

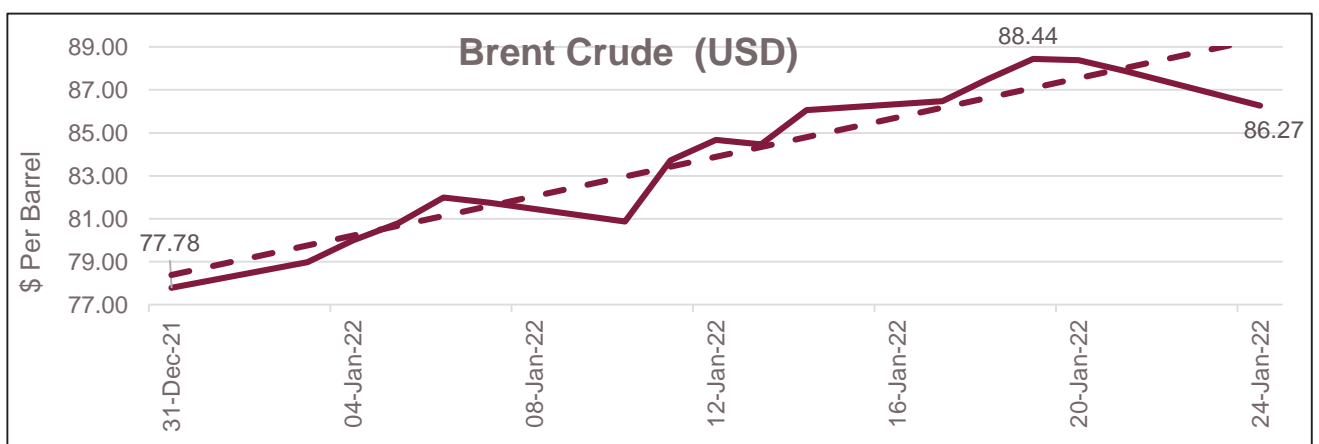
- ❖ **FOMC Meeting due on 26 Jan:** Investors globally have been staring at long impending hikes in key interest rates and withdrawal of COVID-era stimuli. Hawkish comments by the Fed. and data pointing to worsening inflation have forced investors to assess how soon it would be before central banks act on ultra-loose monetary policy. The Federal Reserve is due to reveal its policy decision on Wednesday 26 Jan 2022.

- ❖ **Global Markets were in the red:** The new variants of COVID-19 including the Omicron continued to threaten to disrupt trade and travel, which spooked investors and dragged world markets lower during the past couple of trading sessions. Though there is a fall in new infections in many parts of the country, it is still not clear whether the recently imposed restrictions will continue going forward.

Country	Index Name	Absolute Return (%)							CAGR (%)		
		1 D	1 Wk	MTD	1 Mth	3 Mths	6 Mths	1 Yr	2 Yrs	3 Yrs	5 Yrs
China	SSE Comp.	0.04	-0.50	-3.18	-2.60	-1.63	-0.74	-2.28	8.79	10.78	2.32
Europe	Euronext 100 *	--	-1.97	-1.95	-1.08	0.27	4.32	18.87	7.28	11.90	7.47
Hong Kong	HangSeng	-1.24	1.81	5.38	6.17	-5.63	-9.76	-16.19	-6.07	-3.12	1.44
India	Nifty 50	-2.66	-6.33	-1.18	0.85	-5.33	8.15	19.21	18.30	16.47	15.13
Japan	Nikkei	0.24	-2.63	-4.18	-4.15	-4.22	0.15	-3.62	7.59	10.26	7.98
Singapore	Strait Times	-0.35	-0.14	5.11	5.63	2.44	4.00	9.70	0.67	0.96	1.54
South Korea	Kospi	-1.49	-3.39	-6.23	-7.32	-7.12	-14.21	-11.04	11.46	9.18	6.21
U.S.	Nasdaq *	--	-7.55	-11.99	-12.04	-8.76	-7.20	1.67	21.64	24.91	19.73
U.S.	Russell 1000 *	--	-5.82	-8.25	-7.56	-4.99	-2.09	11.60	15.48	18.43	13.91
U.K.	FTSE *	--	-1.54	1.48	1.66	4.02	6.64	11.97	-0.61	3.20	0.94

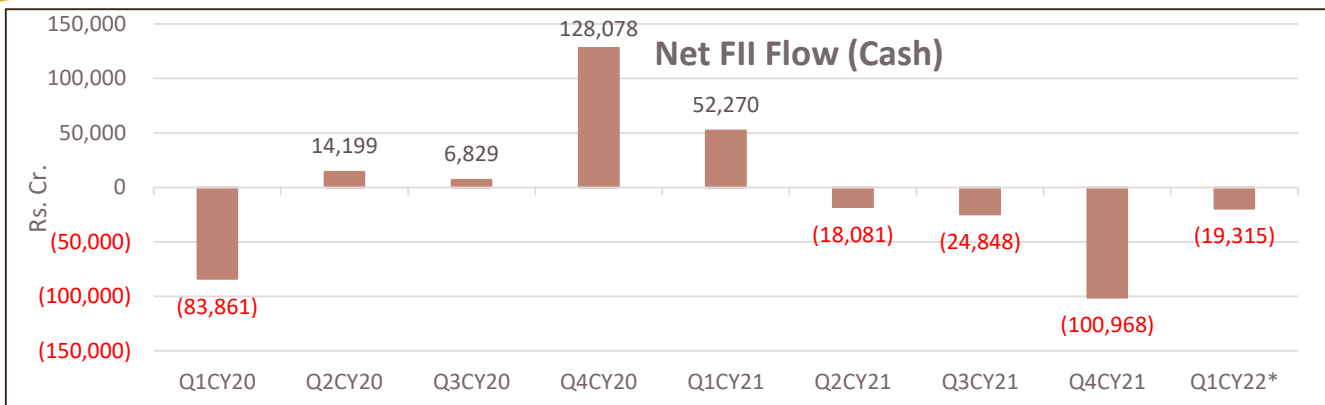
Source: ICRA Analytics (<http://www.icraanalytics.com/legal/standard-disclaimer.html>); Data as on 24 Jan 2022; \* Data not available for 24 Jan 2022

- ❖ **Valuations are overheated:** As per many experts Indian equities' valuations soaring to uncomfortable levels. Last year, several foreign brokerages and even the RBI flagged expensive valuations in India. Until late October 2021, the Indian market had seen a near one-sided rally driven by liquidity. Although this month, the benchmark indices had come over 1% down.
- ❖ **Surging crude oil prices:** Though crude oil has receded from its recent peaks, it is still up more than 10% for the year. Morgan Stanley has raised its forecast for Brent to \$100 a barrel for the second half of 2022. As India meets the lion's share of its oil requirement through imports which may affect the fiscal deficit target.



Source: Investing.com; Data as on 24 Jan 2022

- ❖ **FII's continued to shift money to safer heaven:** As COVID restriction risks rise and valuations have become pricey, foreign investors are continuing to move their money back to the safe haven market of U.S. On 24 Jan 2022 it was the 9<sup>th</sup> consecutive trading session where FIIs were net sellers.



Source: Moneycontrol.com; \* Data as on 24 Jan 2022

### Outlook

From the highs of ~61,766 on October 18, the markets had touched a low of ~55,822 on December 20 i.e. a correction 10.6%. Post this it recouped significant amount of losses by the January 17 however could not sustain such high valuations.

In **near term**, the **premium valuations** that India is trading in comparison to the emerging market peers, the persistently **high inflation**, **'taper tantrum' risks** arising from the U.S. Federal Reserve's change in policy stance and **lockdown like restrictions** imposed by countries across the globe which may hurt the **supply chain issue** further and **paralyse economic activity**, are still a concern.

The **longer term** view for the equity markets continues to be **positive** as **earning upgrade cycle continues** to positively surprise the market and **investment cycle is picking up**.

The **next few months may be volatile for equities** and investors should follow their desired asset allocation.

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