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Macro-economic developments

- The U.S. Federal Reserve kept interest rates unchanged at 0.25% since Mar 2020 as widely expected by the market in an effort to combat the economic impact of the coronavirus pandemic. However, the central bank indicated to soon raise the target range for the federal funds rate citing elevated inflation and a strong labor market. The US benchmark 10-year treasury yield hardened substantially and touched the high of 1.87% in the month of January 2022 and closed above 1.78% at the end of January 2022.
- The personal consumption expenditures (PCE) price index excluding the volatile food and energy components, rose 0.5% after a similar gain in November. The so-called core PCE price index accelerated 4.9% year-on-year in December, the biggest rise since September 1983. Inflation is running way above the Fed's flexible 2% target. The U.S. central bank indicated that it was likely to raise interest rates in March.
- India's fiscal deficit for the period from Apr to Dec 2021 stood at Rs. 7.59 lakh crore or 50.4% of the budget estimate for FY22 as compared to 145.5% in the corresponding period of the previous fiscal.
- Indian government projected a fiscal deficit of 6.4% of GDP in FY23 and 4.5% by FY26. It also revised the fiscal deficit for FY22 at 6.9% of the GDP. The states will be allowed 4% fiscal deficit to GDP in FY23. The finance minister announced disinvestment receipts have been pegged at Rs. 65,000 crores next year. The estimates for current year have been cut to Rs. 78,000 crores from Rs. 1.75 lakh crore.
- The Indian government proposed in the Union Budget to significantly step up the public investment by raising capital expenditure by 35.4% to Rs. 7.5 lakh crore or 2.9% of the GDP in FY23. The government will borrow about Rs. 11.6 lakh crore from the market in FY23 to meet its expenditure requirement.
- In Union Budget 2022, the finance minister announced that a new digital rupee powered by blockchain technology will be issued by the Reserve Bank of India during FY23. Meanwhile, the government has also announced that any income from transfer of digital assets including private digital currencies or crypto currencies, will be taxed at 30%.
- In Union Budget 2022, the finance minister said the PM Gati Shakti National Master Plan is a transformative approach for economic growth and sustainable development and is driven by seven engines – roads, railways, airports, ports, mass transport, waterways and logistics infrastructure. The 2022 Union Budget aims to construct 25000 Kms of National Highways in 2022-23, almost double of the previous year.
- India's index of eight core industries grew 3.8% in Dec 2021 as compared to a growth of 3.4% in Nov 2021 and 0.4% contraction in Dec 2020. Barring crude oil and steel, all sectors recorded growth in Dec 2021. The eight core industries grew 12.6% in Apr-Dec 2021 period as against contraction of 9.8% during the same period last fiscal.
- India's merchandise trade deficit widened to \$21.68 billion in Dec 2021 from \$15.72 billion in Dec 2020. The trade deficit thus widened by 37.92%. Merchandise exports grew 38.91% YoY to \$37.81 billion in Dec 2021 from \$27.22 billion in Dec 2020. Merchandise imports grew 38.55% YoY to \$59.48 billion in Dec 2021 from \$42.93 billion in Dec 2020.
- Brent crude oil prices rose to 15.48% during the month of January 2022, the highest level since October 2014. The rising tensions between Russia and Ukraine, a hawkish stance by the Fed and conflicts in the Middle East have led to the rise. It closed at \$91.21/bbl compared to the last month of \$77.78/bbl.
- Indian rupee depreciated around 0.50% against the US dollar in the month of January 2022 and closed at INR 74.529/\$, relatively a stable performer within peer Asian currencies in last few months.

Equity market developments and Outlook

- The benchmark Nifty 50 index delivered negative 0.08% return.

The broader market indices Nifty Midcap 50 index and Nifty Smallcap 100 also delivered negative returns of 0.18% & 1.53% respectively in January 2022.

- The top sectoral performers during the month of January 2022 were Power, PSU, Bank, Oil & Gas and Auto while IT, Healthcare, Consumer Durables and FMCG were among the bottom performing sectors.
- Amidst the spread of new COVID-19 variant Omicron and rising interest rates scenarios, the MSCI world index was down 5.34% during the month.
- For the US markets, the benchmark S&P 500 index underperformed and closed in red by 5.26% during the month. Within Europe, major markets like Germany and France also delivered 2.60% & 2.15% negative returns, respectively while UK managed to deliver positive 1.08% return. Within Asian markets, Singapore, Hong Kong and Indonesia markets closed in green while South Korea, Russia & China registered the lowest -10.6%, -10.1% & -7.65% return, respectively in the month of January 2022.
- Foreign portfolio investors (FPIs) outflows continued and increased to Rs. 35,975 crores in the month of January 2022 compared to a net equity outflow of Rs. 13,150 crores in the previous month.
- Domestic Institutional Investors (DIIs) inflows continued but at a slower pace. Total inflows were Rs. 21,928 crores in the month of January 2022 compared to net inflow of Rs. 31,231 crores in the previous month.
- We expect that the economic recovery will continue to be healthy going forward as domestic economy gradually returns to normalcy. New COVID 19 variant Omicron is no longer perceived to be as lethal as what was anticipated earlier. However, elevated market valuations and risk of higher than expected increase in interest rates, may cause some volatility in the short term.
- Investors can continue to invest systematically in the equities. Any market volatility/dips can be used as an opportunity by them to increase their equity exposure gradually (as per their individual risk profile)

Fixed Income market developments and Outlook

- Bond yields were on the rising trend during the month in anticipation of early US rate hike, faster FED taper, higher domestic inflation and widening fiscal deficit. Yield on the 10-year benchmark paper (6.10% GS 2031) rose to close at 6.68% as compared to the previous month close of 6.45% - up 23 bps.
- The gross GST collections for the month of January 2022 was at Rs 1,38,394 crore. The collections were 15% higher than in January 2021 and 25% higher than the GST revenues in January 2020. The highest monthly GST collection has been Rs 1,39,708 crore in the month of April 2021. The finance ministry attributed the robust growth in GST collection to economic recovery and anti-evasion activities, especially action against fake billers. The improvement in revenue has also been due to rate rationalization measures.
- The consumer price index (CPI) or retail inflation to a five-month high at 5.59% in December 2021 compared to 4.91% in the previous month. Last year, in December, CPI stood at 4.59%. A sharp rise in food inflation and unyielding inflation in the segments like fuel and miscellaneous components - led to an uptick in the CPI. The consumer food price index (CFPI) was at 4.05% in December 2021, more than doubling the rate of 1.87% in November 2021. In December 2020, food inflation was at 3.41%. India Core CPI Change was reported at 6.012 % in Dec 2021. This records a decrease from the previous number of 6.075% for Nov 2021.
- Foreign Portfolio Investors (FPIs) flows reversed to inflows, they turned into a net buyer of around Rs 4,847 crores in the month of January 2022, compared to a net outflow of Rs. 12,149 crores in the previous month.
- From an investment perspective we prefer the short to medium term part of the yield curve

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