Sakthi Financial Services

Weekly Update

16th May 2022 Vol: - 22.23.06

SENSEX	NIFTY	USD	GOLD	CRUDEOIL
52973.84	15842.30	77.54	50305.00	8511.00

How have markets performed during times of unforgiving inflation?

In two of the last four instances of correction in the Nifty, inflation was on a downtrend. On the other hand, inflation was also on a downtrend in two of the last three instances of upswings in the Nifty.

The RBI delivered a surprise with its off-cycle rate-hike of 40 bps earlier this month. Taking cues from this startling move, a high inflation print to the tune of 7.4-7.5 percent was being built into the expectations.

However, India's CPI for April 2022 of 7.79 percent came in still higher than anticipated. To put this figure into perspective, it's the highest inflation faced by India in 8 years, second only to 8.33 percent in May 2014.

Domestic impact of exogenous factors

These rising prices can be explained almost entirely by rising crude and the ongoing conflict between Russia and Ukraine. While OPEC's slow ramp-up in production and supply-chain constraints have led to high crude prices, vegetable and oil prices remained under pressure as Ukraine accounts for significant exports of sunflower oil and fertilizers to India.

This is to say that India's soaring inflation is being driven primarily by exogenous factors. However, its manifestation in the Indian economy is being shaped by the fact that domestic demand has not picked up pace yet, especially in the rural and low-income segments – IIP (Index of industrial production) grew by a meagre 1.9 percent in March. In effect, producers are unable to pass the rising costs on to consumers without causing a dent to the sales volumes. So, quite understandably, many listed companies are getting clobbered in the stock markets.

Historical "relationship" between inflation and stock markets

However, if we look back at the last decade, the relationship between inflation and stock markets has not been straight-forward to say the least. In fact, in two of the last four instances of *correction* in the Nifty, inflation was on a downtrend. On the other hand, inflation was also on a downtrend in two of the last three instances of upswings in the Nifty.

So, inflation as a standalone factor has not been a good indicator of the stock markets. This empirical finding is corroborated by fundamentals as well—if inflation is rising as a result of escalating demand, it's good news for the economy and consequently, the stock markets. But, if inflation is spiralling upwards due to supply constraints, despite low demand, as is happening now, it spells bad news for the economy unless demand is able to play catch-up.

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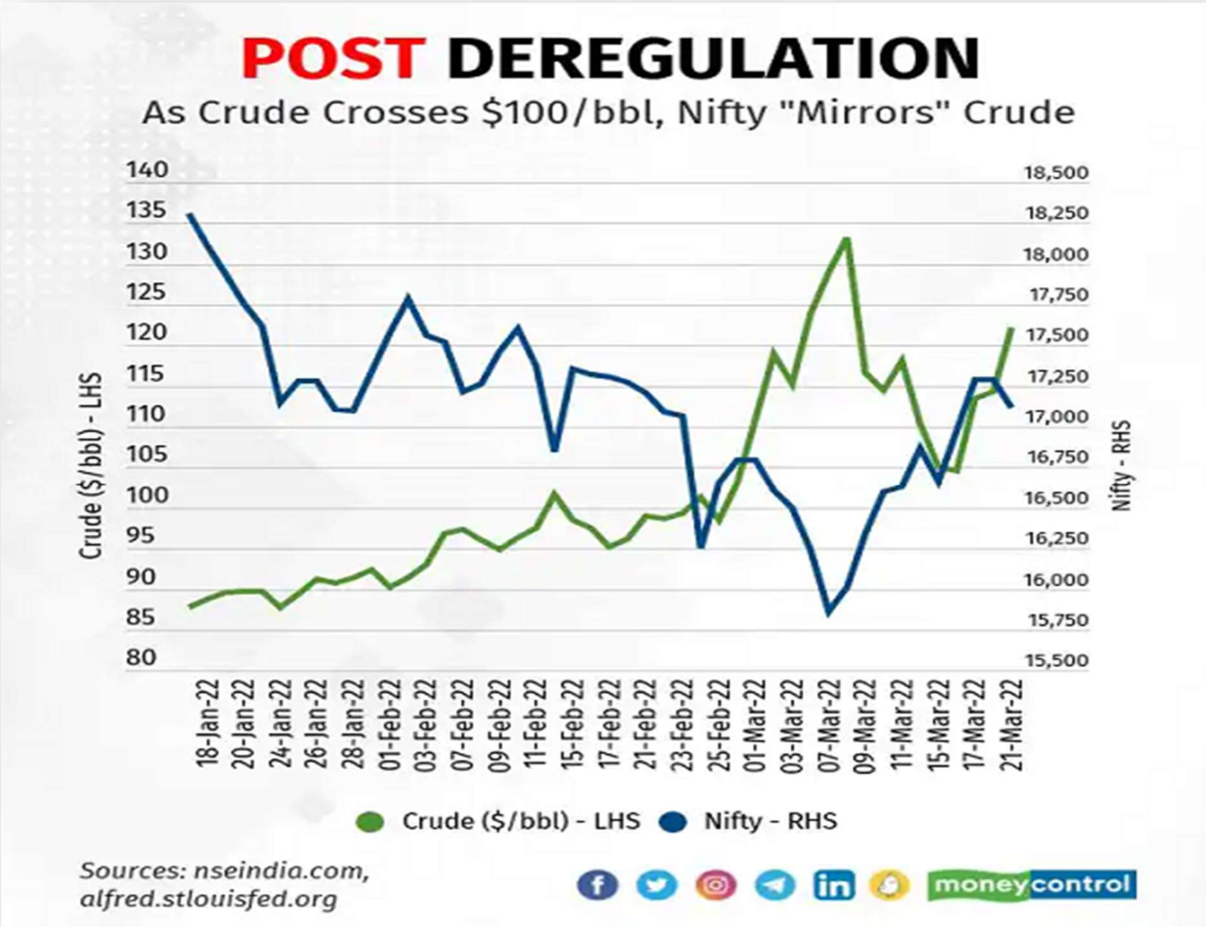

Other macroeconomic factors at play

Having established that inflation alone cannot be used to form expectations for the stock markets, let's look at which other macroeconomic factors play a role.

First on the block is crude. India imports 85 percent of its crude requirements. In fact, among major economies, India is *the most* dependent on crude as crude accounts for nearly one-third of its total imports. To be fair, crude is only a part of rising inflation. But Indian stock markets track crude much more closely than they do overall inflation. This has proven especially true since the fuel price deregulation.

Crude has followed a generally upward trend, just like stock markets have. However, unlike stock markets, crude has a tolerance cap of $100/bbl beyond which it starts unsettling equities. This has happened only a handful of times in the past, and in all those instances, the consumers were protected—at least partial regulation of domestic fuel prices meant that consumers did not have to bear the full brunt of spikes in crude price. This time, however, that's not the case. Barring a few lags due to political considerations, domestic fuel prices and thereby, stock markets have been closely mirroring the vagaries of crude.

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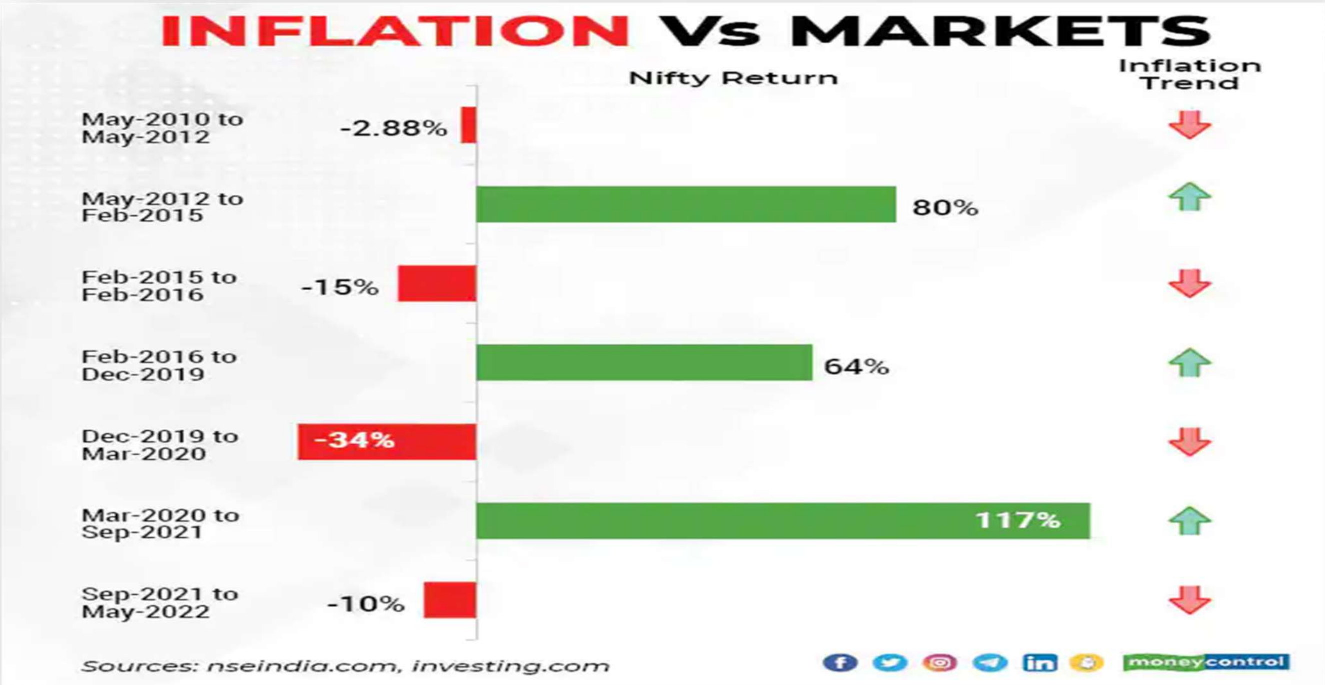

The next macroeconomic factors are yields and FII flows. The Indian economy has been among the fastest growing major economies, and thus, makes for an attractive investment destination for FIIs. While this makes it easier for Indian companies to raise funds and opens new avenues for their growth, on the flip side, it makes Indian stock markets particularly sensitive to movements in the yield spread. When yield spreads widen, Indian investments are rendered more attractive for FIIs. On the other hand, in times like today, when compared to India, the US is on a much steeper rate-hike curve so as to combat its decades high inflation, yield spreads with India have been narrowing down. This leads to FII outflows, **which unless countered by equally strong DII and retail inflows, leads to market corrections**. In fact, the ongoing market correction has been driven by month after month of FII exodus.

What can we expect going ahead?

The RBI has already embarked on its rate hike cycle, while the US has indicated that it may be looking at multiple 50bps rate hikes in the coming months. This indicates that the yield spreads may soon widen. However, it should be noted that the government plans on borrowing in order to support India's nascent recovery amidst rising inflation. To keep the government's borrowing costs in check, the RBI is expected to undertake Operation Twist which would bring down long term yields. So, longer term foreign funds are expected to remain at bay until domestic demand picks up and is no longer dependent on government spending.

Even apart from FII flows, quite a lot hinges on domestic demand. The wide gap between WPI and CPI inflation has been eroding company margins for a while now. This has reflected in their stock returns as well, and can be reversed only if demand strengthens enough to be able to effectively absorb price hikes.

Finally, developments along the geopolitical and pandemic dimensions remain key monitorable for the foreseeable future.

Investors keep the faith in SIP despite market weakness in April

Investors continued to pump money through the route of systematic **investment** plan (SIP) in April despite nearly 9% drop in the benchmark indices till the month end from their peaks. The **assets under management** (AUM) of the **SIP** linked funds reached a record Rs 5.8 lakh crore in April, the data from the Association of **Mutual Funds** in India (**AMFI**) show. The share of SIP linked AUM in the total mutual funds AUM was 15.2% compared with the long-term average of 11%.

The expansion in SIP AUM was led by continued buoyancy in the SIP monthly inflow. It remained more than Rs 10,000 crore for the eight-month row taking the total cumulative inflow in the past 12 months to Rs 1.3 lakh crore. This partially offset the impact of heavy selling by the foreign portfolio investors (FPIs), which pulled out about Rs 1.49 lakh crore during the period.

In April, 11.3 lakh new SIP accounts were opened taking the total tally to 5.4 crore. The SIP stoppage ratio, which is derived by dividing the number of closed SIP accounts into new accounts opened remained at 0.48, which was below the long-term average. The average ticket size of the SIP account fell by 21% to Rs 2200 during the month compared with the long-term average level.

Retail inflation in India surges to 8-year high of 7.79% in April

Retail inflation in India surged to 7.79% on an annual basis in the month of April owing to higher edible oil & fuel prices, data from the Ministry of Statistics and Programme Implementation showed on Thursday.

The headline inflation is now at the highest level since the 8.33% hit in May 2014.

Analysts had expected the CPI inflation to be around 7.5%, up from 6.95% in the month of March & 4.23% in April 2021. With this, the headline retail inflation has now remained above the Reserve Bank of India’s 6% upper tolerance level for the fourth consecutive month.

Rural inflation rose to 8.38% in April as compared to 7.66% in March and 3.75%% in April 2021 while urban inflation stood at 7.09% in April as compared to 6.12% in March and 4.71% in April 2021.

Meanwhile, the overall food inflation in April was 8.38%, against 7.68% in the previous month and 1.96% in April 2021.

The core inflation, which is calculated by excluding ‘food and beverages’ and ‘fuel and light’ from the overall inflation, shot up to 6.8% in April from 6.6% in March.

The Monetary Policy Committee last week, in an off-cycle move, had hiked rates by 40 bps for the first time since August 2018. “The MPC expects inflation to rule at elevated levels, warranting resolute and calibrated steps to anchor inflation expectations and contain second-round effects,” RBI Governor Shaktikanta Das said as he announced that the MPC had unanimously voted to increase the policy repo rate.

The MPC is scheduled to next meet on June 6-8. Sinha expects RBI to hike policy rate by another 25 bps in June and total of around 75-100 bps in FY23.

MF industry welcomes 7 lakh new investors in April

With the latest addition, the unique investor count has reached 3.4 crore, shows AMFI data.

The unique mutual fund investor count reached 3.4 crore in April 2022 as the industry added over 6.7 lakh new investors last month.

However, the growth in investor count was much lower in April compared to the average investor addition in the previous 10 months. In the last one year, the industry added more than 10 lakh investors on four occasions — July 2021, December 2021, January 2022 and February 2022. The highest investor addition happened in December 2021, when the industry reached the landmark of 3 crore unique investors with an addition of 22.5 lakh new investors.

The unique investor count is the total number of PAN and PEKRN (PAN exempt investor category) registered with mutual funds.

As of April-end 2022, the total number of unique PANs and PEKRNs registered with the industry was 3.38 crore and 4.63 lakh.

The last financial year was a breakthrough year for the industry as far as investor addition is concerned. The industry added over 1.09 crore new investors during the period. As a result, the count jumped 48% to 3.37 crore last financial year.

Month	Unique investor count	Growth
May-21	2.35 crore	—
Jun-21	2.4 crore	4,38,340
Jul-21	2.5 crore	10,92,111
Aug-21	2.58 crore	8,04,756
Sep-21	2.67 crore	9,14,270
Oct-21	2.76 crore	8,61,179
Nov-21	2.83 crore	7,72,801
Dec-21	3 crores	22,52,697
Jan-22	3.17 crore	10,98,579
Feb-22	3.27 crore	10,28,491
Mar-22	3.37 crore	9,37,836
Apr-22	3.43 crore	6,77,360

Indians investors have opened over 1.50 crore new SIP account in FY 2022

Indians have been doing SIPs like never before. AMFI data reveals that investors have opened 1.50 crore new SIP accounts in FY 2021-22. While the industry has added close to 2.66 crore new SIPs, it recorded discontinuation of 1.11 crore last financial year taking the net addition to 1.55 crore.

Overall, the mutual fund industry has recorded 5.28 crore net SIP accounts in FY 2021-22 as against 3.73 crore in the previous year, an increase of 42%.

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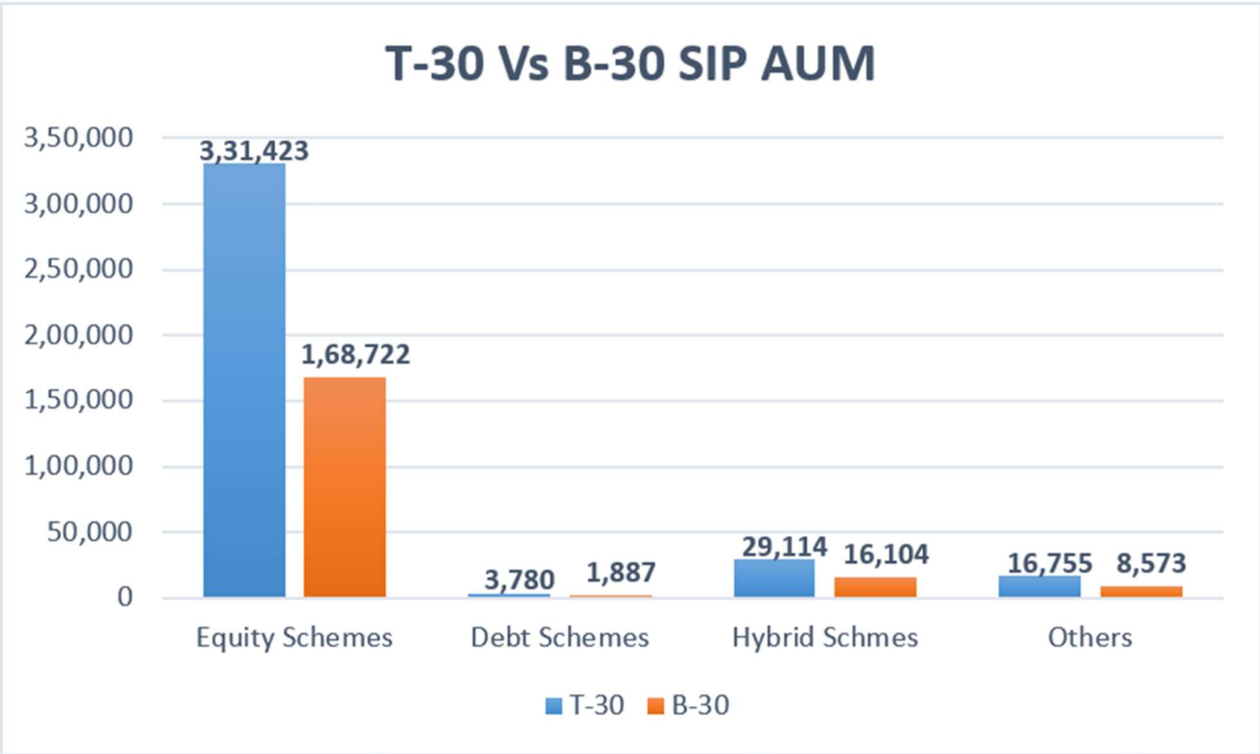
EQUITY	3-years return (%)	5-years return (%)	Corpus (₹ cr)
LARGE-CAP			
UTI Nifty Index Fund - Growth	13.88	12.84	6,882
HDFC Index Fund - Nifty 50 Plan	13.60	12.63	5,660
Category average	**13.39**	**12.27**	
EQUITY FLEXICAP			
Canara Robeco Flexi Cap	16.33	13.19	7,256
Parag Parikh Flexi Cap	22.99	18.03	21,768
Category average	**15.01**	**11.18**	
EQUITY SMALL AND MIDCAP			
Axis Midcap	20.95	16.45	17,645
SBI Small Cap	25.96	18.21	11,577
Category average Midcap	**20.06**	**11.66**	
Category average Smallcap	**23.59**	**13.53**	
EQUITY (TAXSAVER)			
Canara Robeco Equity Tax Saver	18.67	14.36	3,586
Mirae Asset Tax Saver	19.23	15.29	11,790
Category average	**14.57**	**10.55**	
HYBRID			
BALANCED ADVANTAGE			
Edelweiss Balanced Advantage	13.81	10.67	7,843
ICICI Prudential Balanced Advantage	11.52	9.76	39,479
Category average	**9.84**	**8.26**	
ARBITRAGE			
Kotak Equity Arbitrage	4.49	5.22	23,826
Tata Arbitrage	4.57	NA	9,857
Category average	**4.27**	**4.98**	

T-30 cities continue to dominate SIP books



**Data as on Mar 31, 2022*

*** Figures mentioned are in crore*

An analysis of AMFI data shows that of the total 5.28 crore live SIP accounts, 52% or 2.75 crore are from T-30 cities. Following T-30 closely, B-30 cities contribute the remaining 48% or 2.53 crore SIP accounts. The data also reveals that 66% or Rs. 3.81 lakh crore of the total SIP AUM of Rs. 5.76 lakh crore has come from T-30 cities. B-30 cities make up for the remaining 34% by contributing Rs. 1.95 lakh crore.

While the SIP AUM has increased 35%, the proportionate contribution of T-30 and B-30 cities in the AUM remains almost the same.

T-30 cities lead across fund categories

A major part of the SIP AUM across fund categories is from T-30 cities. These cities contribute 66% of equity SIP AUM, 67% of debt SIP AUM, 64% of hybrid SIP AUM and 66% of the remaining SIP AUM. Other schemes include solution-oriented funds, index funds, domestic FoF etc.

Equity schemes enjoy the biggest slice of the SIP AUM pie

Equity schemes contribute close to 87% to the total SIP AUM in T-30 as well as B-30 cities. Hybrid schemes enjoy the next big slice but they form only 8% of the total SIP AUM. The share of other schemes including debt funds and index funds is far less.

(Source :- Economictimes, Live mint, Cafemutual, Moneycontrol, AMFIindia, IBJArates Etc.)