February 2022

Monthly Newsletter

Wealth First Advisors Pvt. Ltd.

Value, Focus, Action

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Budget Highlights and Events to watch

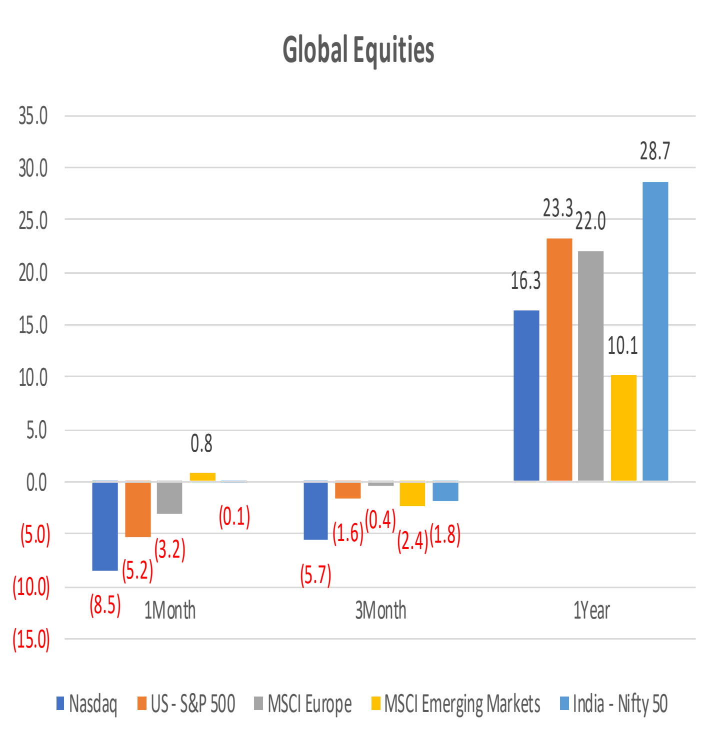
Key Points:

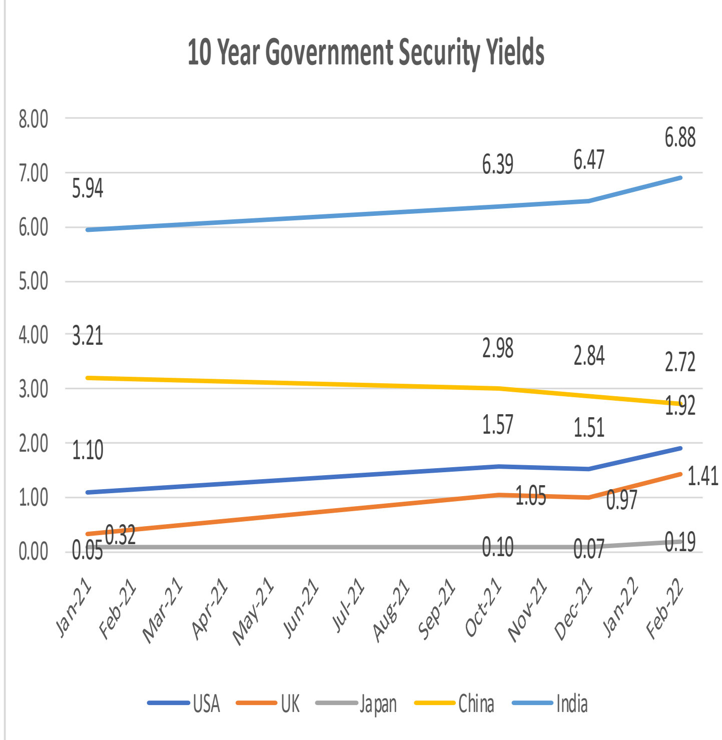
- GDP Growth for FY22 expected to be 9.2% (as against initial expectations of 11%), FY23 GDP growth expected in 8.0-8.5% range, IMF has forecasted this to be 9.0%.
- **Fiscal Deficit projected at 6.9% for FY22 and 6.4% for FY23**. Both these numbers are higher by ~50 bps compared to market expectations
- FY23 Gross market borrowing at 14.95L cr (approx. 2.5L cr higher than market expectations)
    - ➢ This resulted in sharp up move in interest rates – 10Y G-sec moved up 17 bps on budget day. Subsequently, 10Y G-sec has moved up further to 6.88% and 10Y SDL yields (State Development Bonds) moved up to 7.20-7.25% range.
- The Budget has put emphasis on Capital expenditure (7.35 cr Vs 5.60L cr, up 35% YoY) – buoyancy in tax collection (**GST at record high of 1.41L cr**), is being used by the Government on capital expenditure. Equity markets reacted positively to this – Nifty moved up by 2% on budget day
- Government nominal GDP growth expectations are conservative at 11.5%, and growth in tax collection has not been fully factored in. Some buffer has been kept due to uncertainty regarding timing of the LIC IPO.
- RBI led digital rupee using block chain to be launched in FY23, 1% TDS on transfer of virtual digital assets & income to be taxed at 30%
- Tax related changes
    - ➢ **Surcharge on long-term capital gains tax capped at 15%** (as against 37% for above 5 cr income) effectively reducing the tax rate by 4.5%
    - ➢ Loopholes related to Bonus stripping plugged in the budget, effective April 2022 (section 94 modified)

Events to watch out:

- US employment data on 4th February
- RBI Policy outcome on 9th February
- UP Elections starting on 10th February
- US CPI data – second week of February

Global Markets





Source: Morningstar Direct as on 31st January 2022

Source: Trading Economics as on 4th February 2022

Comments on Global Equities:

- Overall a weak month for global equities, many markets delivered negative returns. Higher inflation, Central Banks withdrawing Covid related additional support and tensions in eastern Europe are main reasons for increased volatility.
- US: Amongst the most Impacted markets. US Fed announced the end of bond buying program by March 2022 and start of interest rate hikes soon thereafter. S&P 500 outperformed Nasdaq 100
  - ➢ It was the largest monthly outperformance for value stocks versus growth in more than 20 years.
- European equities relatively outperformed developed markets but underperformed Emerging markets.
- Emerging markets
  - ➢ Brazil: Best performing market (+7%) – strong commodity prices and successful oil auction which got big foreign investments are key positives.
  - ➢ India: After underperforming global peers for 3 months, markets delivered average performance. FII outflows intensified in the January second half.
  - ➢ China: Underperformed again (concerns of slowing economic growth and changing regulations) – worst performing market over last 12 months now.

Comments on Global Debt:

- US Fed began to taper bond purchases in Nov 2021. In the January meet, the Fed reiterated possibility of rate hikes in 2022 (given the rising inflation and improving employment environment). US 10Y Bond yield moved up by 20 bps in January
- While the ECB had mentioned they will try to keep interest rates at lower levels this year, market participants are already factoring in at least 2 hikes in 2022
- Bank of England hiked rates recently - first back-to-back rise since 2004. The Bank had started rate rises in December, hiking its main interest rate to 0.25% from its historic low of 0.1%. Bank raised its inflation forecast to an April peak of 7.25% from the 6% projected in its December
- Japanese government bond yields have been rising in January as stubborn inflation and more hawkishness from other major central banks spurred bets that the Bank of Japan would need to tighten policy soon

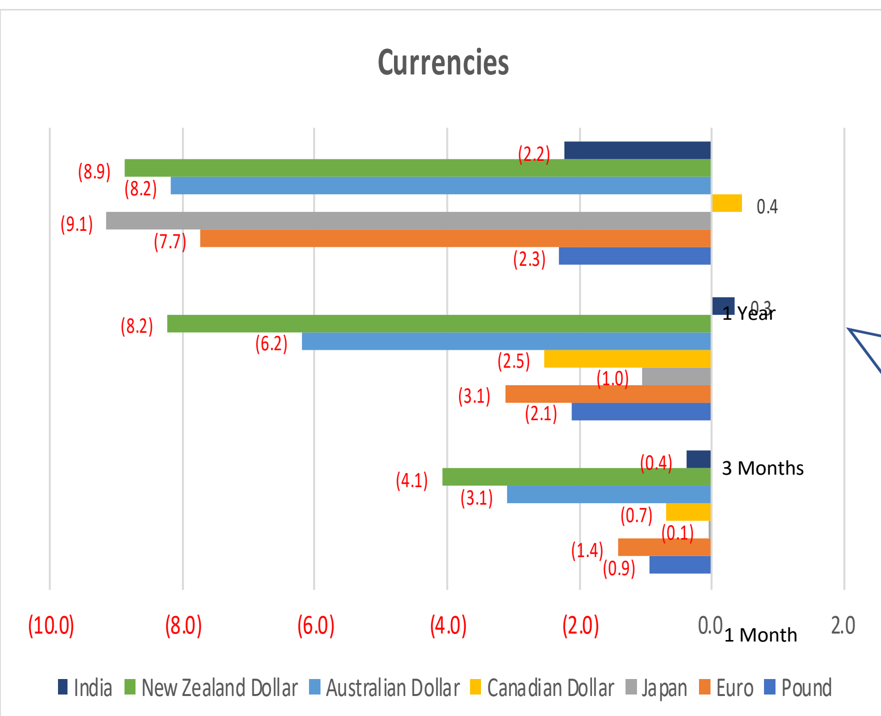
Commodities & Currencies

Commodity Name	Measure	Price in USD				Returns %		
		Current	1M Ago	3M Ago	1Y Ago	1M	3M	1Y
Oil	Barrel	91.2	77.8	85.1	55.9	17.3	7.2	63.2
Precious Metals								
Gold	Ounce	1,796	1,819	1,783	1,849	(1.3)	0.7	(2.9)
Silver	Ounce	22.4	23.1	23.9	26.9	(3.0)	(6.4)	(16.7)
Industrial Metals								
Steel	Tonne	769	755	875	617	1.9	(12.1)	24.7
Iron Ore	Tonne	131	113	102	168	16.6	28.5	(22.0)
Aluminium	Tonne	3,076	2,806	2,694	1,987	9.6	14.2	54.8
Copper	Tonne	9,620	9,692	9,950	7,877	(0.7)	(3.3)	22.1
Zinc	Tonne	3,675	3,630	3,455	2,565	1.3	6.4	43.3
Nickel	Tonne	22,800	20,925	19,475	17,727	9.0	17.1	28.6
Lead	Tonne	2,289	2,329	2,449	2,013	(1.7)	(6.5)	13.7

Source: LME and Investing.com as on 31st January 2022

Comments on Commodities:

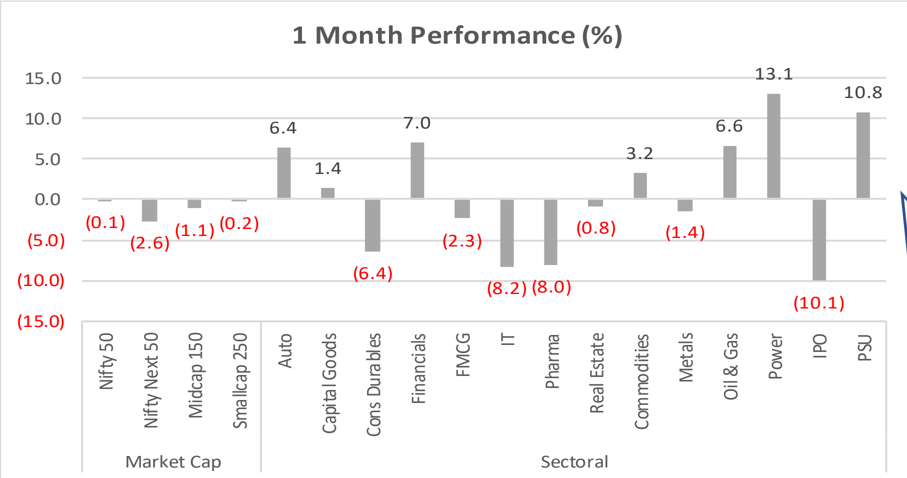
- Continuing the December rally, Commodities have been the best asset class in January. All other asset classes delivered negative returns, while Bloomberg Commodity Index is +8.8%.
- Reports suggest that metal prices may move higher if Russia – Ukraine tensions continue (specially as Russia is a key supplier of oil, metals and other commodities)
- Oil – Moved up 17% in the month despite OPEC beginning to increase supply from Feb. Key reasons include reducing stockpiles in US and rising political tensions involving Russia.
- Gold / Silver – Both precious metals fell marginally.
- Iron Ore – Another big month for Iron Ore prices (+16.6%) with prices reaching a 5 month high. Monetary easing and improving demand outlook after winter Olympics in February are key positives.
- Among the nonferrous metals, aluminum and nickel were up ~9% each.

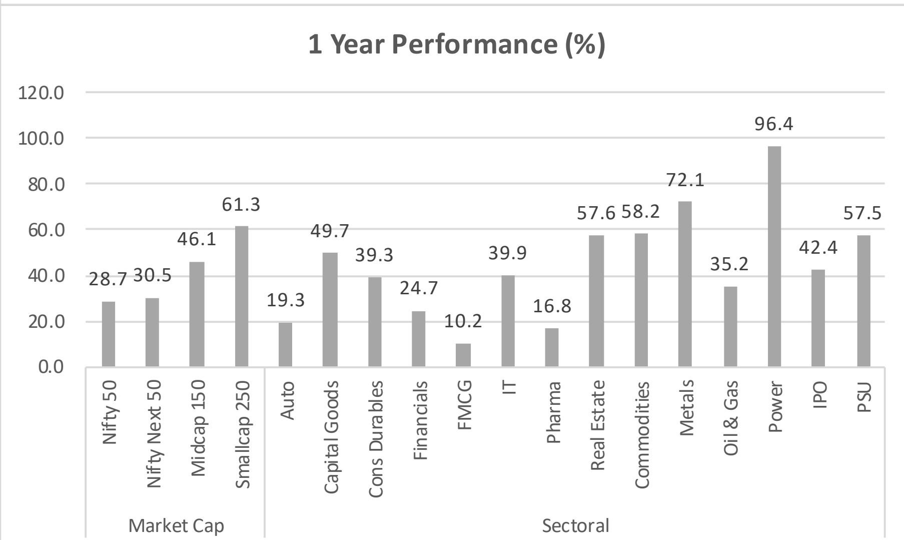


- Most currencies weakened versus the USD as US Fed turned hawkish.
- Commodity currencies (NZD, AUD) weakened much more - clear risk off signals.
- The Dollar Index (value of the USD compared to a basket of select currencies) has moved from 96.2 to 95.3 during the month

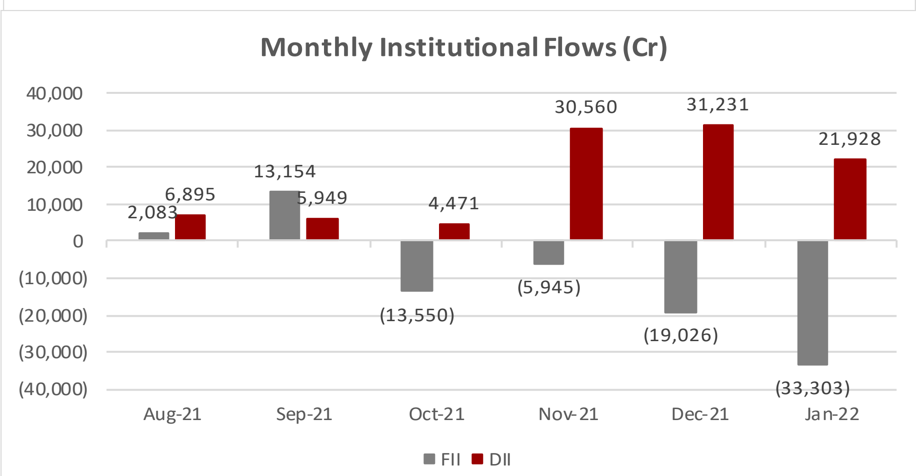
Source: Morningstar Direct as on 31st January 2022

Domestic Equities





- Increased volatility - Volatility Index was at 21.9 as against 1Y average of 17.5 . The gains of first two weeks were completely eroded in the second half.
- Large caps and small caps outperformed (almost flat for the month). Nifty Next 50 (-2.6%) and Midcap 150 (-1.1%) both underperformed.
- Power (+13%) and PSU (+10.8%) were the best performing segments.
- IPOs (-10%) was the worst performing segment- New age Tech IPOs like Zomato, PayTM, Nykaa kept making new lows during the month
- Financials (+7%) outperformed after many months of underperformance.
- Autos (+6.4%) – like last month outperformed again.



FIIs selling continued for the 4th consecutive month and quantum of sale was highest till now. DIIs continue to be net buyers which offered support to the markets. As such, equity markets performance was better compared to historical instances of heavy FII selling

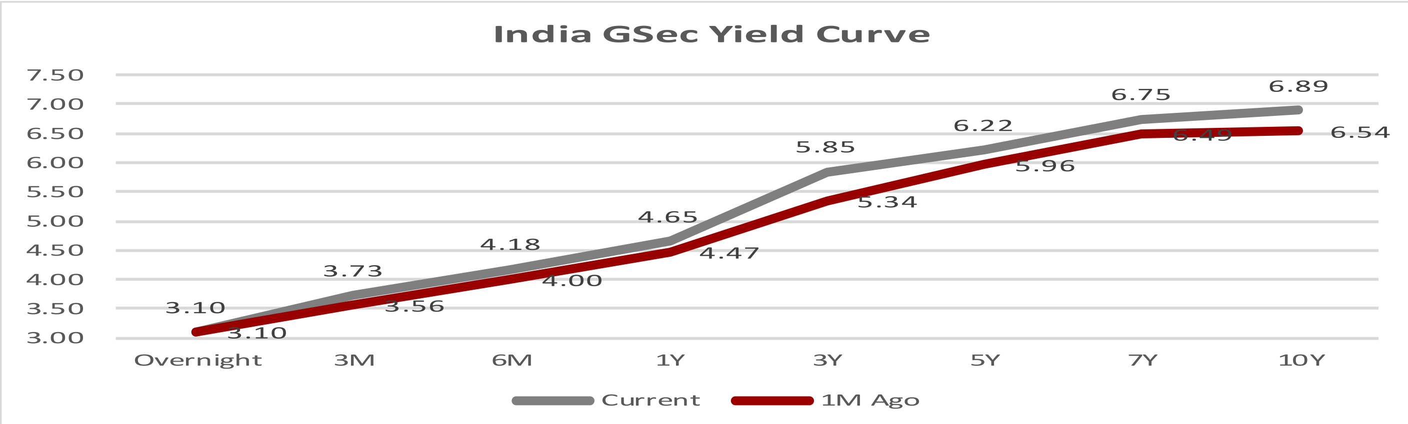
Source: Morningstar Direct, NSDL, NSE and Moneycontrol.com as on 31st January 2022

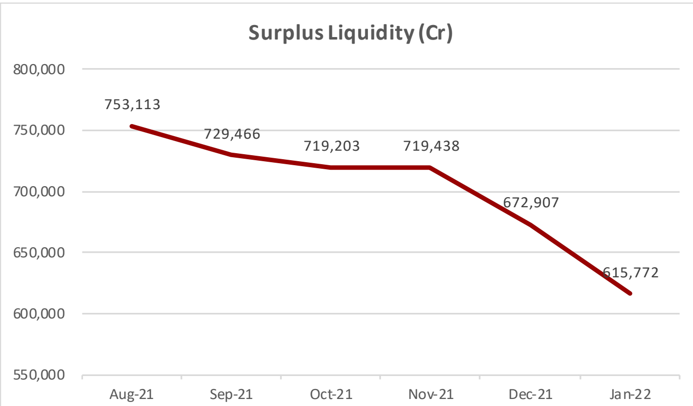
31st January: Nifty50 17,354 Equities continue to remain expensive, however it touched 16,546 briefly last month and reversed. Interest rates have started to move up

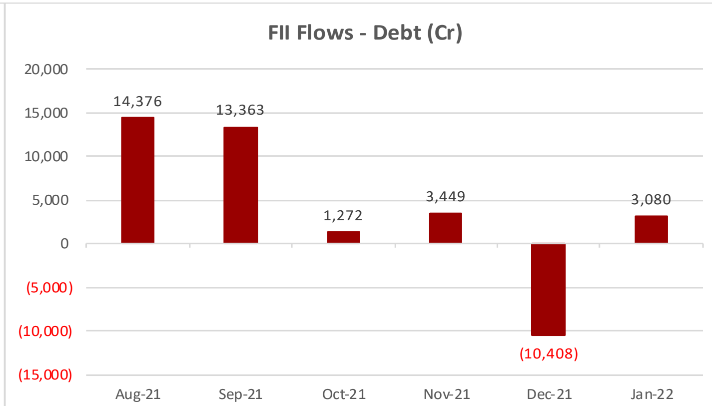
Valuation Zone	Nifty 50 level
Expensive (PE>21.5)	Above 15,760
Fair (PE 16 to 21.5)	11,950 - 15,760
Cheap (PE 14 to 16)	10,240 - 11,950)
Very cheap (PE <14)	Below 10,240

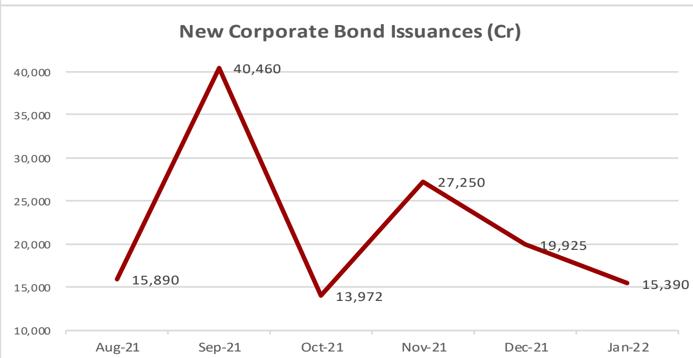
Wealth First Value Strategy
Proprietary model to gauge the attractiveness of the Indian Equity Market for investments. Parameters: Nifty 50 historical price to earnings and price to book combined with the mean reversion theory. The index has a track record since 2000.

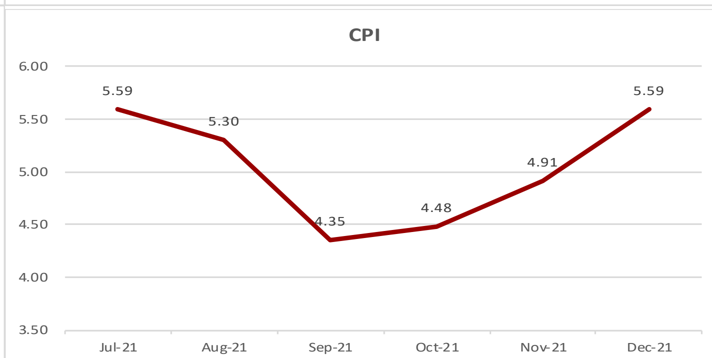
Domestic Debt









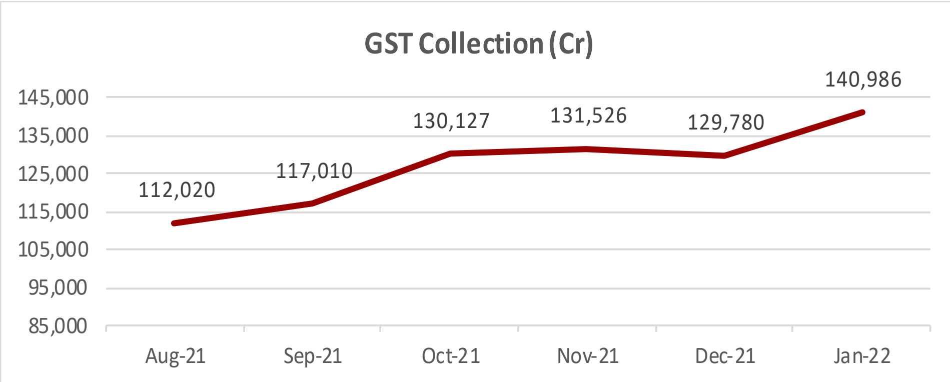


Source: NSDL, NSE, RBI, MOSPI and worldgovernmentbonds.com as on 31st January 2022

Comments:

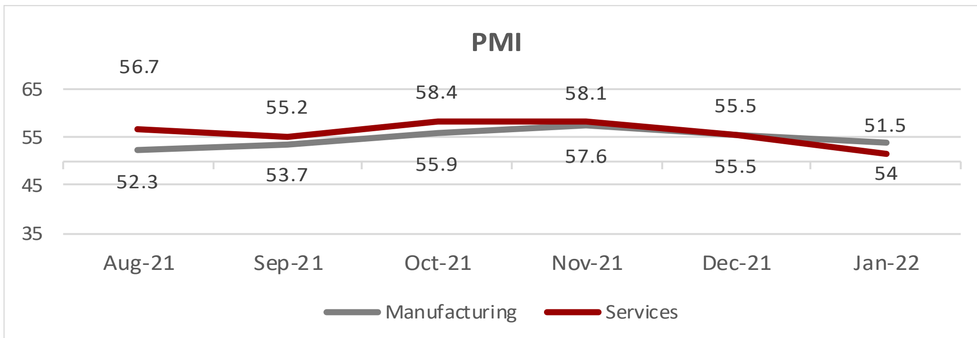
- Bond market witnessed the issue of 18 new Corporate Bonds in the Month of January 2022 (Amount Raised Rs 15,390 Crore) compared to the 19,900 Cr issued in December 2021.
- Overnight, Liquid fund yields have been moving in the wide range of 3.2% to 4%.
- CPI rose to 5.59% in December compared to 4.91% in November (6-month high). It has continued to be in RBI's comfort zone of 4-6%. Oil moved up sharply in January but domestically prices haven't moved up to that extent. We see this translating into higher inflation over the next 2 to 3 months
- Fears of heavy supply of Government securities (as indicated in the budget), and interest rates going up globally have led to 10Y G-sec moving up sharply. 10Y SDLs yields also moved by ~40 bps since December to 7.2-7.25% range.
- The yield for 1Y G-sec is 4.7%, 5Y is 6.2% and for 10Y is 6.9%. The yield curve continues to show favorable risk reward for the 3-5Y duration segment. Given the global inflationary environment, interest rates are likely to remain at elevated levels. Trading range for 10Y G-sec could be 6.75%-7.25% over short to medium term. Risk to this assumption is India's inclusion in Global Debt indices, which would mean interest rates moving lower, even accounting for other factors

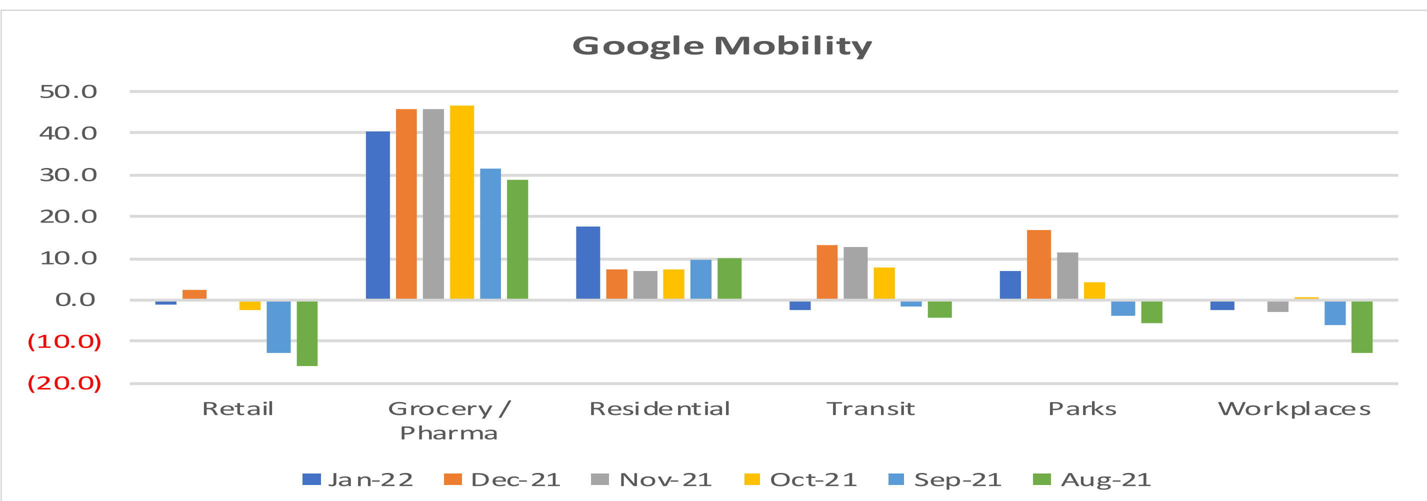
Macros & Other Important Data Points



January collection highest till now. 4th consecutive month of collection over 1.3L cr. WPI remaining at 10%+ levels has helped GST numbers to some extent.

Both manufacturing and services PMI's growth has slowed down. Services PMI moved down to ~51 indicating bearish sentiment





Source: Google, gstcouncil.gov.in and trading economics as on 31st January 2022

Comments on Macros and other High Frequency Indicators:

- Mobility indicators weakened in January but are expected to improve as Omicron cases become steady and states start to reduce Covid related restrictions.
- Consumer sentiment indicators fell in January.
- India's daily Covid cases rise above 125,000 cases a day.
- Vaccination: With over 165 crore doses administered, over 70% of the Indian population has received at least one dose. 52% population has received both doses.

Thank You

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