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Weekly Insights

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Global Markets Review and Outlook

Last week, a majority of equity indices in the US and Europe gained in the range of 3.2% to 7.5%, with **Nasdaq gaining the most. In Asia, indices gained 1% to 3.1%** last week. Global equity markets gained despite many adverse macro conditions:

- **Many economies see downward revisions in growth**:
  - **US Fed Chairman says**, "it is possible that **rates will rise to level that causes recession";**
  - **The IMF expects US GDP to grow 2.9% in 2022**, less than **previous forecast of 3.7%. For 2023, the IMF cut its US growth forecast to 1.7% from 2.3%;**
  - **Germany's economic growth for 2022 is expected to be 1.5%, rather than the 3.5%** forecast given before war broke out in Ukraine;
- US final reading of June **consumer sentiment was revised down to its lowest level in records dating back over four decades**;
- Though moderated in some economies, **global inflation still remains at elevated levels in many economies. Last week**:
  - **UK inflation hits 40-year high** of 9.1% in May. UK business groups warned that **more price rises are coming for consumers** after **producer output prices jumped 15.7%** in the year through May;
  - **Singapore core inflation hits 13-year high** of 3.6% in May amid rising food prices;
  - **Zimbabwe's annual inflation rose to 191.6%** in June;
- **Many economies see continued tightening of interest rates**:
  - **The central bank in Mexico** unanimously voted **to raise its key rate by 75 bps** to 7.75%, **the largest increase since 2008**;
  - **Zimbabwe's central bank plans to more than double the benchmark interest rate** - already the highest in the world - **<u>to 190%;</u>**

However, there were some positive developments on global front:

- **US Fed's interest rate hikes almost touched mid-point of targeted ultimate rate hikes**;
- Though **IMF** also expects the US economy to slow down in 2022 and 2023, it **anticipates the US to "narrowly avoid a recession";**
- **US consumer inflation expectations falls from 14-year high-** Respondents expect inflation to rise 3.1% over the next 5 to 10 years, down from earlier reading of 3.3%;
- **Singapore announced a S$1.5 billion ($1.1 billion) package to shield lower-income households** from surging costs of living;
- **Federal Reserve Bank of St. Louis President said fears of a US recession are overblown**, as consumers are flush with cash built up during the Covid-19 pandemic and the expansion is in an early stage;
- **Metals continue to fall. While <u>metals fell up to 36%,</u> <u>iron ore crashed 47%</u> from their respective recent record highs. <u>Crude oil also fell nearly 10%</u> from its recent record high. <u>Global edible oil prices also fell to a 6-month low</u>. These corrections augur well for moderation in inflation rates across the world;**
- **China vows more pro-growth policies** as banks are urged to step up. **The government will further accelerate fiscal spending**. The Chinese President said China will "strengthen macro-policy adjustment and adopt more effective measures to strive to meet the social and economic development targets for 2022 and minimize the impacts of Covid-19;
- Meanwhile, **China's covid cases at 4-month low** as threat of curbs remains and its **economy starts improving in June;**

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Global Market Outlook

Many believe that the recovery seen in the US markets in the last few days is not sustainable. However, **we believe that though volatility in the US markets may continue for a few more weeks, they could slowly start rising and they are unlikely to fall badly from the current levels.** In our view, **the rate hikes are being discounted to a large extent by the US markets** as they have touched almost midpoint (175 bps) of ultimate targeted interest rate (3.80% in 2023). **We firmly believe that the balance sheet reduction plan of the US Fed would be ultimately positive for the US markets.**

US dollar is strengthening against many currencies in the world: **The Philippine peso slumped to its lowest level** in more than 16 years; **South Korea's won fell to the weakest level in 13 years**; **Japanese yen remained near a 24-year low** against the US dollar; and **many more currencies of emerging markets including Indian rupee have fallen quite badly**. In this background, **there is a proposal to reduce the balance sheet size of the US Fed by $2.5 to $3 trillion**. **This is likely to strengthen the US dollar further and therefore, we expect the US markets to recover quite significantly in the short-term** as the global investors may prefer US markets. Initially, emerging markets may also show some recovery due to some correlation with the US markets – but that may not be sustained in the short-term as rising dollar against currencies of emerging markets will lead to outflow of investments from these markets back to the US in the short-term.

Some global analysts predict that the S&P 500 Index may fall further by more than 20% by year-end, if the past 150 years of financial-market history are any guide. **But we firmly believe that last two decades have seen several structural changes** (emergence of powerful millennials in the markets, evolution of crypto currencies, technology developments, which enable simultaneous dissemination of information and ability to trade instantaneously, record high level of balance sheet reduction by the US Fed, emergence of powerful second largest economy, emergence of e-commerce / fin tech stocks, etc.). **Therefore, the experience of the last 150 years may not be the right approach to explain what is going to happen to the equity markets in the next 1 to 2 years**.

Domestic Market Review

Domestic benchmark indices gained 2.7% last week, helped by the positive global cues and falling crude oil prices. However, **FIIs** continued to offload domestic equities and they **sold shares worth Rs.11,512 crore last week,** a slower pace as compared to the previous many weeks. **The DIIs bought equities worth Rs.11,671 crore last week**. **FPIs have pulled out $39 billion from the Indian equities since October 2021;**

Domestic Market Outlook

Over the next few days or a couple of weeks, the domestic equity markets may firm up due to recent strengthening of the US markets. However, we expect the domestic equities to come back to volatility with downward bias once again. Though certain indicators like GDP growth, tax collections and exports remain quite robust, there are disturbing developments on India's external economic front:

- **India's foreign exchange reserves continue to decline** as **FIIs are sellers of both equities and debt instruments in India**. Forex reserves declined $5.9 billion to $590.59 billion for the week ended June 17. In past two weeks, foreign exchange reserves have dropped over $10 billion;
- **Rupee also continues to fall**. Last week, the Indian rupee ended lower and closed at an all-time new low against the US dollar as it depreciated 27 paise lower at 78.34 per dollar;

Fortunately, India's current account deficit (CAD) decreased sequentially to $13.4 billion (1.5% of GDP) in Q4FY2022 from $22.2 billion (2.6% of GDP) in Q3FY2022. **However, on a yoy basis, CAD went up** to $13.4 billion in Q4FY2022 from $8.1 billion in Q4FY2021. Also, **it is not quite clear at this stage whether CAD would continue to fall** as exports growth rate has come down slightly and gold imports remain robust.

The rainfall deficit as of June 25th 2022 stands at 20%. Therefore, kharif sowing has taken a significant hit - it is down by 24% on a yoy basis. However, we hope that the kharif crop could improve significantly in the following weeks as the IMD expects the Southwest Monsoon to likely cover the entire country by 6 July 2022. **In our view, the most significant concern for the domestic equity markets is the US FED's plan to reduce its balance sheet by a record level in history**. This could further strengthen the US dollar which could lead to continued selling of equities by the FIIs for a few more months. Thus, the markets would remain volatile with downward bias for at least for two to four months, in our view. **However, we continue to believe that the medium to long-term outlook for the Indian markets look very impressive**. Growth story, continued inflow of new retail investors into the markets and attractive valuation would ultimately attract foreign investors once the US Fed reduces the balance sheet by at least 1/3rd of targeted amount ($2.5 to $ trillion). Till then we suggest investors to tilt towards large caps, large midcaps, 5% to 10% cash calls within equity asset class and also significant exposure to the US equity index like S&P 500 through ETFs. At the same time, we suggest investors stay invested in high-conviction small cap stocks which could possibly emerge as multi-baggers in the long-term.

Thanking You,

Yours sincerely,

G. Chokkalingam,

Update on Coverage stocks on next page

Corporate Developments (Coverage Stocks)

- **Cyient Ltd (Cyient):** Cyient has **announced the launch of an AI-Powered Framework for Automated System and Software Testing** (CyFAST), to accelerate end-to-end test automation. The platform enables end-to-end test automation across web, mobile, desktop, and embedded application and hardware devices, providing a comprehensive environment for managing testing projects. Enterprises have spent about $250 billion in 2021, on smart, connected, and autonomous products, with expectations of 15-20% CAGR through 2025. While more than 90% of enterprises are actively thinking about integrating software and digital technologies in their products, only ~25% have managed to scale their initiatives across multiple product lines and geographies, indicating **huge potential for future growth. In our view, it is very attractive stock at the current price**;
- **DCM Shriram Ltd (DCM):** The Company said that the board has approved to invest up to Rs.65 crore for minimum 26% equity stake in an SPV which will be created for setting up a wind-solar hybrid renewable power project. The company will get 50 megawatt of renewable power supply (25 MW round the clock) from the SPV. It will also invest up to Rs.57.10 crore to manufacture sulphate of potash (K2SO4) with a capacity of 4,600 TPA at Hariyawan (UP) sugar facility to optimize the circular economy and derive value from byproducts. **In our view, it is very attractive stock at the current price**;
- **HDFC Bank Ltd (HDFC Bank): HDFC Bank says "it can potentially add an HDFC Bank every 5 years**". In our view, this would mean that it **could double its book value every 5 years** and **the same could possibly lead to doubling of its stock price every 5 years, if market conditions remain normal;**
- **Hindustan Zinc Ltd (HZL):** As per media sources, the government will shortly begin the process to hire merchant bankers to advise and manage the disinvestment of its 29.54% residual stake in HZL in tranches. Vedanta chairman Anil Agarwal recently said that it could bid for a 5% stake when the government sells its residual stake in HZL. **We believe this is a positive development for our coverage stock;**
- **ITC Ltd (ITC): Key Highlights from Annual Report FY2022**

  ITC Ltd clocked 47% jump in direct foreign exchange earnings at Rs.9,779 crore in FY2022 compared with Rs.4,600 crore in FY2021, driven mainly by exports of agri-commodities and FMCG products, including foods and stationery products. **Foreign exchange earnings of the ITC Group over the last 10 years totaled $8.2 billion, of which agri exports constituted 59%.** During FY2022, **ITC exported its brands to nearly 60 countries.** ITC is well poised to address adjacent growth opportunities by leveraging over 25 powerful mother brands it has established over the years. The company **launched over 110 new products across target markets during the year**, leveraging the innovation platforms of Life Sciences and Technology Centre;

  As per the media sources, **ITC's Sri Lanka hotel project's construction** was running on schedule till the third quarter Q3FY2019, but was **adversely impacted** due to disruptions in the aftermath of the terror incidents in 2019 and thereafter by recurrent waves of the Covid-19 pandemic. ITC is executing $300-million project under WelcomHotels Lanka (Private) Limited (WLPL), a wholly-owned subsidiary of ITC. This project comprises a luxury hotel and a super-premium residential apartment complex on 5.86 acres of prime sea-facing land. ITC's investment in WLPL stood at Rs.2,169 crore as on FY2022. As of FY2022, the carrying value of capital work in progress and inventories (excluding leasehold land value of Rs.212.56 crore) was Rs.639.44 crore and Rs.493.09 crore, respectively. It said, the impairment assessment was carried out in view of the prevailing macroeconomic situation in Sri Lanka as required under the applicable accounting standard and based on such assessment no impairment/write-down was deemed necessary. We believe that **the delay in the project execution and impairment losses are negative for the company but in the long run, it is likely to be executed once the Sri Lankan economy stabilizes**. Also, **the benefits of steady profits from cigarette business, growth of Other FMCG business and impressive growth in its agri products exports would outweigh the adverse impact of the delay in this hotel project, in our view. ITC remains as safe defensive stock**;

- **Matrimony.com Ltd (Matrimony): Matrimony has fixed July 04, 2022 as the record date for its buyback**. The company will buyback 6.52 lakh shares (equity shares representing 2.85% of the total equity) **at a price of Rs.1,150 per share,** which is at **a premium of 40%** to its current market price. We find it very strange that many dot.com companies, which are loss-making or making insignificant profits are commanding multi-fold valuations as compared to Matrimony's valuation. Considering relatively cheap valuation, steady business growth prospects, we continue to recommend a BUY on the stock with a target price of Rs.1,000/ (with one to two years investment horizon), which is 28.6x its FY2024E EPS of Rs.35/. It is worth noting that this target valuation multiple is substantially cheaper than most listed e-commerce ventures;
- **WIPRO Ltd (WIPRO):** As per the media sources, **Wipro is betting on hyper scaler partnerships, inorganic acquisitions, and cloud initiatives to deliver growth in the coming years.** Cloud is at the core of most of its transformation initiatives with significant headroom for growth and **the company will be investing $1 billion in Wipro Full Stride Cloud Services over the next few years** to deliver an orchestrated transformation to accelerate client business results. Wipro Full Stride Cloud Services is a collaboration between Wipro's chief growth office and existing global business lines to create an integrated and comprehensive cloud transformation capability. Wipro's robust order pipeline and record net new addition of over 45,000 employees reflect their growth strategy. **We consider WIPRO stock as the most attractive one within the large cap segment at the current price;**

Compliance Disclosure on next page

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Sr No	Name of stock	G. Chokkalingam & Family	Mrs. Parimalam Chokkalingam (Director)	Equinomics Research & Advisory Private Ltd.	Analyst- Gaurav Khanna	Analyst- Nisarg Shah
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2.	DCM	**No**	**No**	**No**	**No**	**No**
3.	HDFC Bank	**No**	**No**	**No**	**Yes***	**No**
4.	HZL	**No**	**No**	**No**	**No**	**No**
5.	Matrimony	**No**	**No**	**No**	**No**	**No**
6.	ITC	**No**	**No**	**No**	**Yes***	**No**
7.	Wipro	**No**	**No**	**No**	**No**	**No**

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