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MONTHLY REPORT

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NIFTY 50
Closing – 17,354
PE – 25.27x
PB – 4.37x
Div Yield – 1.19%

NIFTY MIDCAP 100
Closing – 30,443
PE – 29.64x
PB – 3.62x
DivYield – 0.98%

10 Yr GOI Yield
6.45%

CRUDE
77.78 $/bbl

USD/INR
74.34

GOLD
1,829 $/Oz

Data as on December 31, 2021
Source: Bloomberg

Indicators	Dec-21	Nov-21	Oct-21	Sep-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21	Mar-21	Feb-21	Jan-21	Dec-20
Sensex	2.08%	-3.78%	0.31%	2.73%	9.44%	0.20%	1.05%	6.47%	-1.47%	4.55%	7.24%	-2.26%	8.15%
Nifty	2.18%	-3.90%	0.30%	2.84%	8.69%	0.26%	0.89%	6.50%	-0.41%	5.89%	7.99%	-1.72%	7.81%
Nifty Midcap	2.67%	-2.69%	0.28%	6.92%	2.16%	3.13%	4.64%	6.53%	2.12%	14.36%	12.41%	0.92%	5.21%
Nifty SmallCap 250 Index	5.40%	-0.43%	0.13%	5.76%	-3.03%	8.03%	5.59%	10.09%	4.58%	15.36%	13.75%	1.87%	8.18%
S&P 500 Index	4.36%	-0.83%	6.91%	-4.76%	2.90%	2.27%	2.22%	0.55%	5.24%	6.36%	5.09%	-0.57%	2.58%
Nifty 50 EPS TTM (Rs)	686.80	686.58	654.76	619.87	618.90	584.17	525.49	509.05	444.80	412.33	420.30	422.68	401.77
Nifty 50 Price/Earnings (PE Ratio)	25.27	24.74	26.99	28.42	27.68	26.98	29.92	30.61	32.89	35.63	35.65	32.26	34.80
Nifty Midcap 100 (PE Ratio)	29.64	29.28	29.69	28.51	22.04	22.60	21.99	21.26	19.19	29.22	41.95	40.65	40.55
India Economic Indicator													
Bank Credit Growth (%)	7.25%	6.97%	6.84%	6.72%	6.55%	6.45%	5.83%	6.02%	5.32%	4.11%	5.92%	6.35%	6.06%
Bank Deposit Growth (%)	9.56%	9.80%	9.93%	9.31%	10.58%	10.65%	10.32%	9.87%	10.94%	10.20%	10.87%	11.42%	11.33%
Debt Market Indicator													
RBI Repo Rate (%)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
G-sec 10 year Yield (%)	6.45	6.33	6.39	6.22	6.22	6.20	6.05	6.02	6.03	6.17	6.23	5.91	5.87
1 Year Tbill (%)	4.37	4.26	4.11	4.03	3.76	3.72	3.87	3.77	3.76	3.75	4.04	4.19	3.37
Corp Bond 10 Yr AAA Yield (%)	7.00	6.94	7.00	6.86	6.95	6.75	6.90	6.90	6.72	7.19	7.24	6.66	6.59
Corp Bond 10 Yr AA Yield (%)	7.79	7.73	7.82	7.70	7.74	7.52	7.65	7.64	7.49	7.90	7.94	7.36	7.35
Corp Bond 10 Yr A Yield (%)	9.43	9.29	9.39	9.18	9.22	9.17	9.32	9.24	9.21	9.30	9.29	8.91	8.84
Corp Bond 5 Yr AAA Yield (%)	6.22	6.07	6.14	5.98	5.98	6.11	5.97	5.94	5.86	6.28	6.34	5.70	5.52
Corp Bond 1 Yr AAA Yield (%)	4.74	4.78	4.40	4.21	4.16	4.13	4.30	4.15	4.26	4.15	4.41	4.22	3.92
CD 1 Yr (%)	4.56	4.39	4.31	4.04	4.22	4.02	4.16	4.15	3.90	4.38	4.25	3.97	3.78
Commodity & Currency													
Gold Price (USD)	1829	1775	1783	1757	1814	1814	1770	1907	1769	1708	1734	1848	1894
Gold (Rs/10gm)	47899	48031	47794	45624	47106	48250	46504	48933	47569	43994	46425	49205	49774
Crude($)	77.78	70.57	84.38	78.52	72.99	76.33	75.13	69.32	67.25	63.54	66.13	55.88	51.34
INR/1 USD	74.34	75.17	74.88	74.24	73.01	74.42	74.33	72.62	74.09	73.11	73.47	72.95	73.31
INR/1 EURO	84.21	85.41	87.28	86.10	86.33	88.54	88.39	88.50	89.60	85.78	89.10	88.40	89.91
Flows													
FII-Equity (Rs.cr)	-13150	-5710	-17034	8348	7454	-12746	10932	5360	-111163	16959	21959	14512	53499
FII-Debt (Rs.cr)	-12149	1151	-1102	10949	13637	-643	-4317	-1336	-2672	-3984	-7158	-3661	5635
MF-Equity (Rs.cr)	21923	24121	5866	6960	11546	13917	6437	105	5926	2476	-16306	-12980	-35251
MF-Debt (Rs.cr)	1585	13463	1865	8365	21094	12331	6449	3332	21216	14068	8161	11832	26295

Source: Bloomberg, W2W Research

Summary:-

- As of 31st December 2021, Nifty 50 was trading at a PE of 25.27x and Nifty Midcap 100 was trading at a PE of 29.64x.
- CPI inflation edged up to 4.91% in November 2021 from 4.48% in October. Core inflation was reported at 6.08% in November 2021. WPI inflation rose to 14.23% in November 2021 from 12.54% in the previous month.
- Credit growth rose by 7.25% YoY as of 17-December 2021. Aggregate deposit growth stood at 9.56% YoY.
- The gross GST revenue collected in the month of December 2021 was Rs 1.29 trillion, marking sixth month in a row when revenue from goods sold and services rendered stood at over Rs 1 trillion. It was 13% higher than the GST revenues in the same month last year. This bodes well for the fiscal going ahead.
- Manufacturing PMI stood at 55.5 (from 57.6) in December. India Services PMI inched down to 55.5 in December 2021 from 58.1 in November, pointing to the weakest reading since September 2021, amid concerns over another wave of Covid-19.

Debt Market Review

- The December monetary policy review contained a somewhat more dovish than expected assessment of the growth-inflation trade-off.
- RBI has started to supplement the longer variable rate reverse repo (VRRRs) with very short ones now, thereby bringing down further the amount parked under the overnight reverse repo rate window.
- G-Sec yields rose across all the tenures (barring 2 year) in Dec vs. Nov 21. 10 year G-Sec yield ended the month at 6.45%, 13 bps higher than previous month's close. 1 year T bill ended at 4.27% (+14 bps), 3 year G-Sec ended at 5.30% (+21 bps) and 5 year G-Sec ended at 5.79% (+14 bps).
- CPI inflation edged up to 4.91% in November 2021 from 4.48% in October. Core inflation was reported at 6.08% in November 2021.
- Concerns on the new COVID 19 Variant were largely ignored by the bond market and by the end of the month bond yields started to rise worldwide as the US Fed turned more hawkish and Bank of England surprised by hiking rates.
- Given that the key developed market's central banks have indicated dropping the transitory narrative on inflation, RBI so far has deterministically tied monetary policy actions to the prospects of durable economic growth.
- 10 year US treasury yields closed at 1.51% for the month of Dec 21, 7 bps higher than previous month.
- FII turned net sellers in the Debt market to the tune of Rs. 12,149 Cr in December 21 compared to buying of Rs 1,151 Cr in the previous month. MF institutions remained net buyers in Debt market to the tune of Rs 1,585 Cr compared to buying of Rs. 13,463 Cr in the previous month.

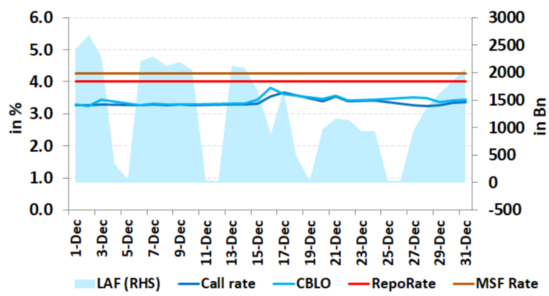
Debt Market Outlook

- The imbalance in vaccination availability as well as coverage globally, remains a key risk for economic prospects globally. Geopolitical developments could be another source of risk.
- We believe even as US Fed looks to raise rates in 2022, policy rates across most developed markets may top off lower than previous tightening phases.
- The next big trigger for the Indian Bond markets, apart from the evolving situation with respect to the new Covid variant, will be the Union Budget.
- Liquidity management is likely to remain the key challenge even as any near term move in the Policy repo rate is unlikely, notwithstanding the elevated expected CPI readings over the coming months.
- We expect RBI to continue with other forms of ad hoc secondary market bond purchases to ensure orderly evolution of the yield curve.
- We expect a gradual repo rate hike cycle to start only in 2HCY22 with 2 rate hikes in CY22. RBI's policy rate actions will become data dependent on growth-inflation dynamics.
- As markets become comfortable that growth will hold up, we expect the longer end of yield curves to move up more rapidly than they have done so far.

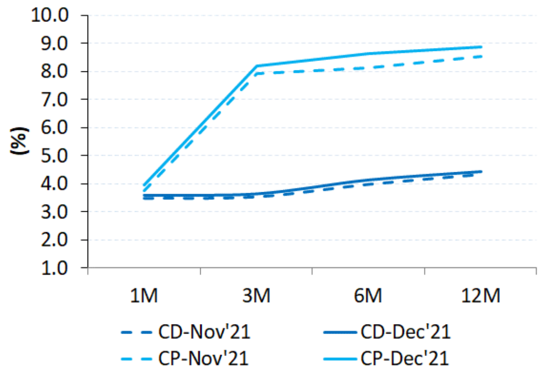
Investment Strategy

- Investors can consider investing in recommended Low Duration, Short Term, Banking & PSU, Corporate Bond or Medium Duration funds as per the investment horizon and risk appetite.
- For debt allocations, bar-belling may remain the best way to navigate these times. Thus intermediate maturity points can be clubbed with near cash funds to arrive at an appropriate average maturity. For longer horizons or more aggressive portfolios, one can just have a plain long position in intermediate maturity bucket of 4 – 6 years.

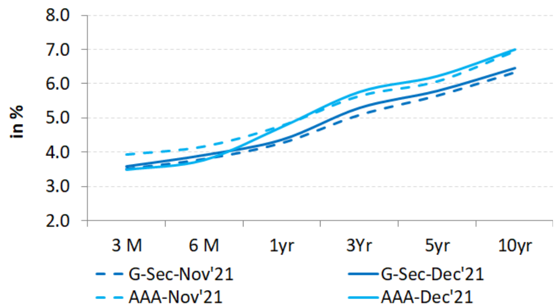
LAF and Money Market Rate Movement



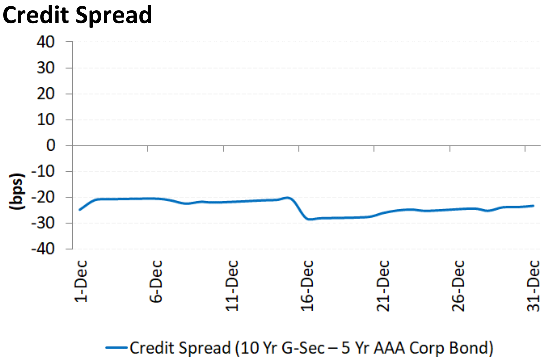
CD Rate Movement



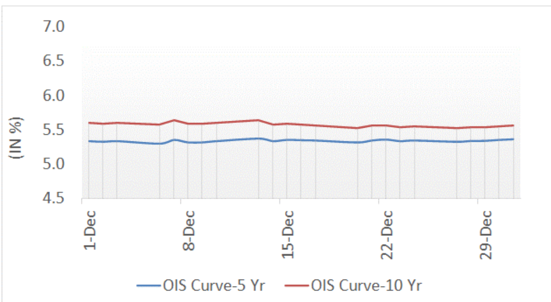
G-Sec and AAA Corp Bond Yield Movement



Credit Spread



OIS Curve

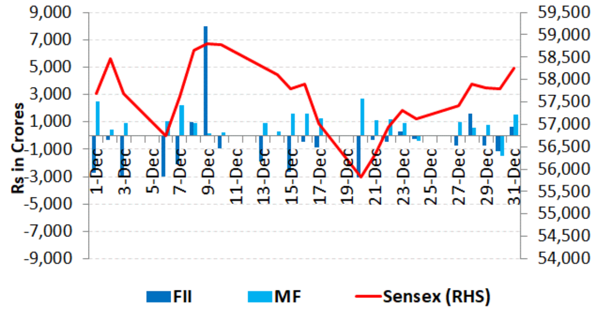


Source: Bloomberg, W2W Research

Equity Market Review

- Despite disruptions and volatility on account of rapid spurt in Covid cases, shortage of medical supplies, imposition of lockdowns, supply chain disruption, China tech crackdown, Evergrande debt crisis, the year ended on a strong note for equities led by accommodative monetary policies, the rapid pace of vaccination, strong corporate earnings growth and strong participation of the retail segment.
- Nifty 50 bounced back in December 2021 (+2.2%) after a sharp fall in November. The BSE Mid-cap index also recovered 1.1% while BSE Small-cap index continued its strong momentum with 5.4% gains. The positive returns on the indices masked the intra-month volatility and continued FII selling. Developed markets and emerging markets inched up by 4.2% and 1.6% respectively.
- US Markets also advanced after the US Centers for Disease Control and Prevention authorised Pfizer's Covid-19 pill for people aged 12. Further gains were added after the White House resumed talks to pass major spending and climate change bills. However, sharp gains in the markets were prevented owing to a rise in the US Treasury yield and on concerns over omicron-driven travel disruptions.
- China's Shanghai Composite Index ended 2.1% higher, after witnessing a volatile month. Some gains were reversed as the country announced lockdown restrictions due to a rise in Covid-19 cases and a sell-off in property stocks. China slashed its benchmark lending rate for the first time in more than one-and-a-half years. The move likely indicated policymakers concerns around the slowing economic growth in China, which worried investors.
- FII remained net sellers in Equity market amounting to Rs 13,150 Cr in December 2021 compared to selling of Rs 5,710 Cr in the previous month. MF institutions remained net buyers in Equity market to the tune of Rs 21,923 Cr in December 2021 compared to buying of Rs 24,121 Cr in the previous month.

Sensex, FII & MF Movement



Indices Performance

Index	31-Dec-21	30-Nov-21	Change	% Chg
India				
Sensex	58,254	57,065	1189.0	2.1%
Nifty	17,354	16,983	370.8	2.2%
US				
Dow Jones	36,338	34,484	1854.6	5.4%
Nasdaq	15,645	15,538	107.3	0.7%
EC				
FTSE 100	7,385	7,059	325.1	4.6%
Asia				
Nikkei 225	28,792	27,822	970.0	3.5%
Hang Seng	23,398	23,475	-77.6	-0.3%
Shanghai Comp	3,640	3,564	75.9	2.1%
Bovespa	104,822	101,916	2906.9	2.9%
RTS	2,134	2,184	-50.3	-2.3%
Other				
MSCI WORLD	3,232	3,102	129.9	4.2%
MSCI EM	1,232	1,212	19.6	1.6%
MSCI EM Asia	666	658	8.6	1.3%

Equity Market Outlook

- The year 2022 will be a tale of two halves; 1HY22 likely to see volatility as markets continue to react to global monetary policies on one hand and omicron on the other. 2HY22 should see markets normalizing and continuing their earnings driven journey.
- On the domestic side, stickiness of inflation and subsequent policy normalization could impinge on growth recovery. Release of pent-up demand from consumers and corporates is expected to support a strong cyclical recovery, against the backdrop of benign monetary policy.
- Industrial Indicators remain strong, supported by robust export growth. Imports are also inching up, symptomatic of improved domestic demand.
- While it is certain that markets will trend upwards in the long term, it's also certain that this journey will not be completely smooth. There will be bouts of correction in the market. Unlike the "institutions" driven market rally in 2009-20, this one has a strong retail undertone.
- We expect global growth to normalize, remaining above its long-term trend but decelerating to a more sustainable rate as fiscal stimulus is gradually removed. We continue to see demand recovery in India in FY 2023. Downside risks may emanate from any virulent strain of Covid, sharp commodity led inflation and growth slowdown in China/Gobally.
- Upcoming budget and state elections will be the key events to watch out for in the near term.

Sector Performance

Sector Index	31-Dec-21	30-Nov-21	Change	% Chg
BSE Auto	24,818	23,989	828.4	3.5%
Bankex	40,409	40,779	-370.6	-0.9%
BSE CD	44,768	43,101	1667.6	3.9%
BSE CG	28,751	26,893	1857.9	6.9%
BSE FMCG	13,785	13,689	95.2	0.7%
BSE HC	26,206	25,502	703.9	2.8%
BSE IT	37,844	34,382	3462.3	10.1%
BSE Metal	19,246	18,218	1028.0	5.6%
BSE Oil	17,508	17,502	5.5	0.0%
BSE Power	3,482	3,457	25.2	0.7%
BSE PSU	8,141	8,152	-10.9	-0.1%
BSE Real	3,841	3,800	41.2	1.1%
BSE TEC	16,616	15,367	1249.6	8.1%

Investment Strategy

- India's long term growth story remains intact since it is better placed in terms of fundamentals. We recommend our aggressive-moderate investors to increase allocation in a staggered manner to our recommended Balanced Advantage Fund, Flexi-cap, Mid cap and Small cap funds with a medium to long term view.
- We also recommend investors to allocate 10 to 15% of the equity allocation in recommended themes like PSU Equity Funds, Banking & Financial Services Funds with an investment horizon of 2 to 3 years. (Click to refer our special note on Banking & Financial or PSU Equity Fund).

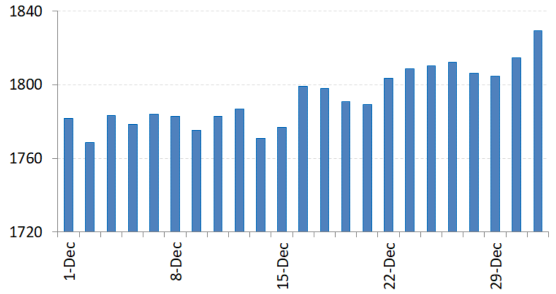
Review

- Gold fell 0.3% to 47,899 in December 21 from 48,031 in previous month.
- Brent crude bounced back strongly after the sharp correction of 16% last month to end the month at 77.8 USD up 10.2% from the previous month closing of 70.6 USD.
- Rupee appreciated 1.1% in December 21 from 75.2 to 74.3. INR was very volatile during the month; it went to a low of 76.2 intra month and then bounced back sharply towards the end of the month.

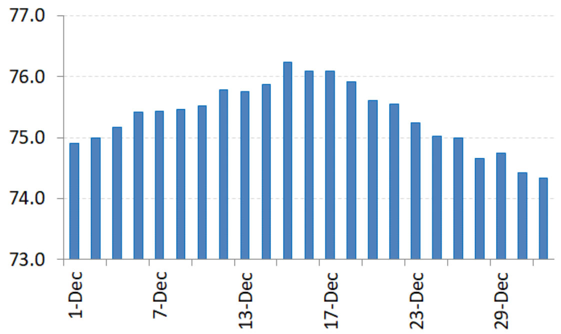
Outlook

- The yellow metal could see some buying as the downside remains capped amid safe-haven buying sentiment due to an Omicron-driven surge in the Covid-19 infections globally. Long term outlook for gold remains intact and positive.
- The Omicron variant has introduced additional uncertainty into oil markets, and this uncertainty is reflected in the recent increase in oil price volatility. With supply and demand moving into relative balance in first quarter of CY22, we expect limited upward price pressure in the coming months.
- Indian Rupee is expected to trade with negative bias on strong Dollar and surge in crude oil prices. Worries over sharp rise in Covid-19 cases in India and concerns that various state governments may impose restrictions to contain the spread of the virus may also put pressure on Rupee. However, rise in risk appetite in global markets may prevent sharp downside.
- We recommend investors to invest some part of their portfolio in gold or silver. Investment interest in the commodities have increased over the years due to low correlation compared to traditional asset classes like equity and fixed income. They also provide certain degree of portfolio diversification and are regarded as potential hedge against inflation.

International Gold Movement



USD/INR Movement



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