

Indian benchmark indices rebound after being in oversold terrain; smallcaps and midcaps remain under pressure..

Index	Today's Close	Prev. close	Change	% change	Open	High	Low
Sensex	51,597.84	51,360.42	237.42	0.46	51,470.03	51,714.61	51,062.93
Nifty	15,350.15	15,293.50	56.65	0.37	15,334.50	15,382.50	15,191.10

- 1) On Monday, Indian benchmark indices rebounded on short covering after being under severe pressure last week. Earlier, US Fed hiked interest rates by 75 bps, the biggest since 1994. Domestically, rising bond yields and Wholesale Price Index (WPI) inflation jumping to 15.8 percent in May 2022 has affected sentiments.
- 2) Earlier, ECB revised baseline inflation projections up significantly and its intent of a rate hike in the coming policy meet which affected investor sentiments. Indian rupee hitting an all time low against the US Dollar is also playing in investors mind. The overall mood has been affected led by fresh outbreak of COVID-19 cases in China after reopening, increasing COVID-19 cases in India, RBI hiking repo rate by 50 bps in the recent monetary policy (earlier hiked the repo rate by 40 bps in a surprise move), ongoing war between Russia and Ukraine with no signs of cooling off, rising crude oil prices, commodities and gas prices, high bond yields across the globe, high global inflation especially in US, slowdown concerns in US and hawkish stance of global central banks.
- 3) The Sensex was up by 237.42 points or 0.46 percent to end at levels of 51,597.84. On the other hand, Nifty was up by 56.65 points or 0.37 percent. Among the Sensex 30 stocks, the major gainers were HDFC, Hindustan Unilever, Ultratech Cement, Asian Paints, HDFC Bank, Wipro up in the range of 2.30 percent to 3.97 percent. On the other hand, Tata Steel, IndusInd Bank, NTPC, Reliance Industries were the major losers down in the range of 1.80 percent to 5.03 percent.
- 4) However, the broader markets were under pressure today. The BSE MidCap index was down by 1.39 percent, while the BSE SmallCap index was down by 2.95 percent.
- 5) In terms of sectoral indices performance, the major losers were the BSE Metal index, BSE Oil and Gas index, BSE Energy index, BSE Basic Materials index, BSE Capital Goods index down in the range of 2.14 percent to 4.46 percent.
- 6) Month till date, FIIs sold equities worth Rs. 43,305.75 Crore. On the other hand, DIIs have bought equities worth Rs. 32,406.24 Crore. In May 2022, FIIs had sold equities worth Rs. 54,292.47 Crore. On the other hand, DIIs bought equities worth Rs. 50,835.54.

Sectors and stocks

- 1) Shares of metal companies were under severe pressure on Monday. The S&P BSE Metal index hit a 15-month low amidst demand slowdown concerns and finally ended down by 4.46 percent today. Among individual stocks Tata Steel was under pressure down by 5.03 percent to end at Rs. 861.20. The whole metal pack has been under in the last one month. Tata Steel, Hindalco Industries, Jindal Steel and Power (JSPL), NMDC and Vedanta have witnessed a fall of upto 35 per cent during the period.
- 2) Shares of Oil and Gas companies were under pressure falling by up to 17 per cent on the BSE in Monday's trade led by fall in oil prices. The fall in crude oil prices is owing to slowdown concerns led by interest rate hikes from central banks across the globe.

Key recent major developments..

- 1) Oil prices fell on Monday, continuing last week's losses as concerns about slowing global economic growth overshadowed tight supply. Brent crude futures were down 50 cents, or 0.44%, at \$112.62 a barrel by 1429 GMT. Front-month prices tumbled 7.3% last week for their first weekly fall in five.U.S. West Texas Intermediate crude was down 68 cents, or 0.62%, at \$108.88. Front-month prices dropped 9.2% last week for the first decline in eight weeks. (Source: Reuters)
- 2) The Finance Ministry said on Monday that while India faces a lower risk of stagflation than other nations, there is now an upside risk to gross budget deficit due to additional welfare and subsidy spending and recent cuts in excise duties, and the economy faces slowing growth due to global factors. In its latest Monthly Economic Report (for the month of May), the Finance Ministry stated: "India faces near-term challenges in managing its fiscal deficit, sustaining economic growth, reining in inflation and containing the current account deficit while maintaining a fair value of the Indian currency."
- 3) The US Fed hiked interest rates by 75 bps to 1.75 percent, the biggest hike in 28 years since 1994 which was as per expectations of the global investors. The US Fed said in its press release "The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The invasion and related events are creating additional upward pressure on inflation and are weighing on global economic activity. In addition, COVID-related lockdowns in China are likely to exacerbate supply chain disruptions. The Committee is highly attentive to inflation risks." It further added "The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 1-1/2 to 1-3/4 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee will continue reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May. The Committee is strongly committed to returning inflation to its 2 percent objective."
- 4) Last week on Wednesday, The European Central Bank promised fresh support to temper a market rout that has fanned fears of a new debt crisis on the euro area's southern rim but appears to have disappointed investors looking for bolder steps Government borrowing costs have soared on the 19-country currency bloc's periphery since the ECB unveiled plans last Thursday to raise interest rates to tame painfully high inflation that is at risk of becoming entrenched. The sell-off was then exacerbated by the ECB's vague commitment to limit the rise in borrowing costs, raising fears that policymakers were abandoning more indebted nations, such as Italy, Spain and Greece. Keen to avoid the repeat of the debt crisis that almost brought down the single currency a decade ago, the ECB reversed course just six days later, unveiling plans for a new support scheme and directing cash from debt maturing in a recently-ended 1.7 trillion euro (\$1.8 trillion) pandemic support scheme towards indebted nations. (Source: Reuters).
- 5) OPEC has stuck with its forecast that world oil demand will exceed pre-pandemic levels in 2022, although the producer group said Russia's invasion of Ukraine and developments around the coronavirus pandemic pose a considerable risk. Last week, in a monthly report released on Tuesday, the Organization of the Petroleum Exporting Countries (OPEC) maintained its forecast that world oil demand would rise by 3.36 million barrels per day (bpd) in 2022, extending a recovery from 2020's slump. The Ukraine war sent oil briefly above \$139 a barrel in March, the highest since 2008, worsening inflationary pressures. COVID lockdowns in China, where a Beijing outbreak has prompted the resumption of mass testing, have curbed oil demand. "Looking ahead, current geopolitical developments and the uncertain roll-out of the pandemic toward the end of the second half of the year continue to pose a considerable risk to the forecast recovery to pre-pandemic levels," OPEC said in the report. (Source: Reuters)
- 6) Fitch Ratings on last Tuesday said the Reserve Bank is likely to raise interest rates further to 5.9 per cent by December 2022, on deteriorating inflation outlook. In its update to Global Economic Outlook, Fitch said India's economy faces a worsening external environment, elevated commodity prices, and tighter global monetary policy. "Given the deteriorating outlook for inflation, we now expect the RBI to lift rates further to 5.9 per cent by December 2022 and to 6.15 per cent by the end of 2023 (vs. previous forecast of 5 per cent) and to be unchanged in 2024," Fitch said.
- 7) Wholesale price-based inflation surged to a record high of 15.88 per cent in May as crude prices rose and heatwave brought about a spike in prices of vegetables and fruits. The Wholesale Price Index (WPI)-based inflation was 15.08 per cent in April and 13.11 per cent in May last year. The Wholesale Price Index (WPI)-based inflation maintained its increasing trajectory for the third month in a row, and remained in double digits for the 14th consecutive month since April last year.
- 8) Domestically, the Consumer Price Index had slipped to 7.04 percent in May 2022 as against 7.79 percent in April 2022. However, it is still above RBI's upper tolerance band of 6 per cent.
- 9) According to data released by the Ministry of Statistics and Programme Implementation (MoSPI), India's factory output growth accelerated to an eight month high at 7.1 per cent in April 2022. The growth was led by growth in Electricity output by 11.8 per cent in April, followed by mining output and manufacturing output rising by 7.8 per cent and 6.3 per cent respectively.
- 10) Fitch Ratings has revised the Outlook on India's Long-Term Foreign-Currency Issuer Default Rating (IDR) to Stable, from Negative, and has affirmed the IDR at 'BBB-'. "India's strong medium-term growth outlook relative to peers is a key supporting factor for the rating and will sustain a gradual improvement in credit metrics. We forecast growth

of around 7% between FY24 and FY27, underpinned by the government's infrastructure push, reform agenda and easing pressures in the financial sector. Nevertheless, there are challenges to this forecast, given the uneven nature of the economic recovery and implementation risks for infrastructure spending and reforms," Fitch said. Fitch Ratings on Friday revised India's GDP growth forecast to 7.8 per cent for the current fiscal (April 2022 to March 2023) from the 8.5 per cent owing to inflationary impacts of the global commodity price shock which is dampening some of the positive growth momentum.

- 11) Globally, US consumer inflation in May reached its highest level in more than four decades led by rising energy and food prices pushed prices higher. The Labor Department on Friday said that the consumer-price index increased 8.6 % in May from the same month a year ago, marking the highest reading since December 1981. Record gasoline prices and geopolitical factors threaten to keep inflation high in the coming months, suggesting the Fed will have to pump the brakes on the economy for longer.

Ajcon Global's observations and view..

- 1) **Short term view:** Indian benchmark indices are expected to remain rangebound. Investors are likely to follow the pattern of sell on rise and buy on dips in the near term as there are too macroeconomic headwinds at the moment. Globally, investors have turned cautious after US Fed hike of 75 bps, biggest in 28 years which would affect growth outlook and raise slowdown concerns. Domestically, COVID-19 cases are increasing which will too play on investors mind as after China's reopening from lockdown there has been a fresh outbreak of COVID-19 cases. With WPI inflation, CPI Inflation and IIP data out, investors will track onset and progress of monsoon in different parts of the nation and crude oil price movement.

We expect market to be volatile considering headwinds like rising crude oil prices, high inflation across the globe especially in US, slowdown concerns in US, rupee falling to all time low against the US Dollar and earlier US Fed hiking interest rates by 50 bps. There are other headwinds like weak global demand outlook led by hawkish stance of global central banks, ongoing war between Ukraine and Russia, rising bond yields globally. However, domestically, robust GST Collections in the past few months and Direct Tax collections depict strong revival in Indian economy which will keep bulls in picture. However, the recent steep fall and any further decline should be considered as a Buying opportunity in quality names in a staggered manner.

- 2) **Long term view:** Always remember, steep corrections and crash in a structural bull market will keep markets healthy. Structurally, Indian economy is poised to do well after major reforms like thrust on digital economy after demonetisation, implementation of GST, RERA, Insolvency and Bankruptcy Code, reforms in power sector, one of its kind Union Budget announced last year which focused on investment led spending to drive growth with impetus on Privatisation, thrust on Aatmanirbhar Bharat resulting into Production Linked Incentive (PLI) schemes for various sectors, reforms in Direct Taxes, thrust on renewables sector, Ethanol blending, scrapping policy etc.
- 3) **Strong line up of IPOs:** There is a strong line up of IPOs upcoming in the near future. We suggest investors to be careful with IPOs that are look expensive and understand the fundamentals based on risk reward profile before taking a decision to invest. No doubt, IPOs of sectors in limelight like E-Commerce, Insurance, companies engaged in Digital space, Speciality chemicals, Companies business model suited to new age, companies having business model which caters to the demands of Electric Vehicles would always gain maximum attention. However, investors need to be careful with expensive IPOs whose valuations are beyond logic. The carnage witnessed in some of the recently listed companies makes a case for investors to be more cautious.
- 4) **Approach suggested for investors:** It is advisable for investors to look out for stock specific opportunities considering growth outlook and management pedigree amidst the ongoing turmoil. History has proved that after any crisis, equities recover strongly and give stellar returns. One should also remember that not every fall is worth buying and investors should evaluate the Company based on fundamentals and valuation before taking any decision. We recommend investors for the near term to Buy quality names on dips and sell on rise considering the volatility in the market in the near term. Considering there are too many macroeconomic variables, we believe markets would give opportunities to enter quality stocks at reasonable valuation. Sector wise Financial sector (specially banking), Pharma , automobile, auto components , Infrastructure & food processing looks attractive at the current valuations.



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