

Our Views

Thank God, 2022 ride is over! Tighten belts for another roller coaster!

Mood was still upbeat despite Omicron - the third wave of Covid - and the global warning on liquidity tightening as we walked into the new year of 2022. There was an overhang of the unprecedented market growth driven by significant liquidity and positivity of 2021, and the sensex gained almost 4% in the first 11 trading sessions.

But soon in the new year we began to realise that 2022 is far from 2021. As was expected, the devil side of high liquidity, i.e. inflation, started showing its true colour globally. As a result, the domestic and the global markets witnessed uncertainty and volatility. Adding to this turmoil, **the Russia-Ukraine conflict in February 2022**, caused supply chain pressure across the globe. India also faced the ripple effects as the conflict broke out, and the sensex crashed by c.3.0% and c.4.7% on Feb 14 and Feb 24.

To reign in inflation, central banks across the globe resorted to liquidity tightening and started announcing interest rate hikes. In March 2022, the Fed increased the benchmark interest rate by c.0.3%, for the first time since December 2018. Following the trend, the RBI also increased the Repo Rate from c.4.0% to c.4.4% in May 2022, after a series of reduction since April 2019. The Sensex slipped by c.2.3% on the day of announcement. These events, coupled with consumer inflation touching an 8-year high of c.7.8%, dragged the Sensex down by c.10.4% in the first half of 2022.

However, the second half of the year started on a positive note with Sensex jumping up c.8.8% in July making it the best month of 2022, followed by August closing with a positive gain. FII flows also turned positive in July, after six consecutive months of outflows. Just when market seemed to recover, India's consumer inflation became a worry and sensex closed c.2.3% lower for the month of September. However, with easing of inflation in October, coupled with better than estimated quarterly results of most companies, especially in the banking and consumer sectors, the market sentiment improved. The positive momentum continued for a while, marking sensex at its lifetime high in December 2022.

The performance of 2022 has been as per the trend observed over the past 10 years - whenever sensex has provided returns of over 25.0% in a calendar year, the following year has seen a muted return. For instance, a gain of c.25.2% in 2012 was followed by a muted return of c.8.1 in 2013. Similarly, with c.30.1% returns in 2014, the following year saw a negative return of c.5.1%. The same trend was seen when after a return of c.28.1% in 2017, the next year saw a muted return of c.6.7%. In line with the trend, with a remarkable return of c.25.2% in 2021, history repeated itself with a muted return of c.2.2% in 2022.

A lot of new age companies had shelved their market debut in 2022 because of the volatility and the changing perception of tech companies. In India, the ecosystem of new-age tech companies is still evolving, one is not sure that their public debut will pass the test of market expectation. Overall we had 38 IPOs in 2022 compared to 65 in 2021.

Our Views

Thank God, 2022 ride is over! Tighten belts for another roller coaster!

Even though listings are down by more than 40.0%, India continues to be a bright spot in what was an underwhelming year for IPOs globally. The silver lining was that the Govt of India finally listed the Life insurance of India, which was nothing short of a miracle. Furthermore, Indian Capital Market also saw a few historic landmarks this year as it entered the world's top five club in terms of market capitalisation, and as it appointed the first woman Chairperson of SEBI. Under her leadership, SEBI has announced significant measures to boost the Indian Capital Markets, including allowing confidential pre-filing of offer documents. The regulator is also planning to cut down the time taken to clear IPO documents from up to 70 days currently to 7 days. Also, despite the challenges, the markets saw the consummation of some quite interesting and significant transactions like the privatisation of Air India, large M&A situations such as HDFC and HDFC Bank merger, and the launch of CBDC by the RBI on currency side.

Looking forward to a next ride...

India is not insulated from the global macro-economic headwinds and is likely to see a spill over in 2023. Though to a lesser extent. While tightening liquidity, increasing interest rates and re-emergence of China could pose a significant challenge, the increasing domestic consumption and the positive demographic dividend, coupled with great learnings from 2022, will boost the confidence of Indian businesses. The resilient economic outlook and better risk sentiments as compared to other markets will continue to make India one of the most attractive emerging markets for investment.

The 2022 ride was a roller coaster with its own tight turns and steep slopes. Let us tighten our belt and head with hope into a new year which could again be full of surprises!

Sunil Sanghai
Founder & CEO
NovaaOne Capital Pvt. Ltd