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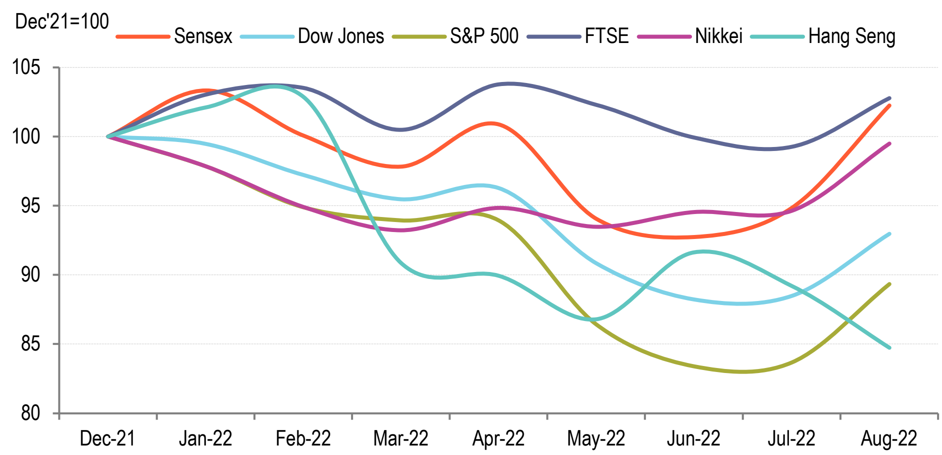
India versus global equity markets

In CY22 so far, we have observed that Indian equity markets (both Sensex and Nifty) have performed relatively better than other major global equity markets. For comparison purpose, we have assumed December 2021 to be the base and have analysed how global markets have performed this year since then.

The figure below shows that amongst major markets, it is Sensex (Nifty also mirrors the trend) and FTSE which have largely outperformed in CY22 so far. Compared with Dec'21, Sensex and Nifty are up by 2.3% in Aug'22, and FTSE is up by 2.8%. On the other hand, Dow Jones (-7%), S&P500 (-10.7%), Nikkei (-0.5%) and Hang Seng (-15.3%) are all considerably down compared to last year. A key reason for the performance of stock markets in the US remains concerns regarding growth slowdown and Fed's aggressive monetary policy stance. Recently at Jackson Hole too, Fed Chair Powell reasserted that Fed will continue to remain hawkish to tame currently elevated levels of inflation. This is expected to hurt growth in the near-term. Tech-heavy S&P500 has thus been impacted the most in the US.

Figure 1: Sensex and FTSE performed better than others



Source: Bloomberg, Bank of Baroda Research

In case of UK, FTSE is largely dominated by financial, energy and material stocks (contributing to 41% in FTSE versus 16% in S&P). These stocks have been buoyed by increase in rates and global commodity prices. Also there is limited dominance of tech stocks which acted as a drag in other market indices.

In India's case, sustained improvement in economic growth has helped its stock markets. So far in CYTD22 (till Aug), air passenger traffic growth is up by 82% (YoY), rail freight traffic by 9.3%, toll collections by 62% and diesel consumption by 13%. Corporate results for Q1FY23 rose solidly. Even looking at 3Y CAGR, sales rose by 13.3% during this period compared with 39.8% when reckoned over FY21. Even IMF expects India's growth at 7.4% in the current year, compared with 3.3% in China and 5.3% in ASEAN-5. This will also be much higher than 4.6% average growth expected for emerging Asia and developing economies. Developed markets like the US and Euro Area are estimated to register 2.3% and 2.6% growth this year. UK's growth is however projected to be higher at 3.2%.

In India, FPIs (equity) have also seen a turnaround in the last 2 months (Jul-Aug'22) with inflows at US$ 6.8bn, compared with outflow of US$ 28.6bn between Jan-Jun'22. In CYTD terms, FPI outflows from India stood at US$ 21.7bn (till 26 Aug), compared with outflows of US$ 85.3bn (till Jun'22) from China, US$ 38.2bn from Taiwan (till 29 Aug), US$ 211.8bn from US (till Jun'22), and US$ 133.1bn from Euro Area (till Jun'22).

Going forward, global markets will react to incoming data from US, Europe and China to assess the impact of consistent rate hikes by major central banks. Energy crisis in Europe and increasing bills of utilities, food, beverages in the UK will affect consumption demand in the area, thus increasing risk of recession. China's looming property crisis will add to global woes. In India, with festive season ahead, investors will closely monitor impact of inflation and front-loading of rate hikes by RBI on domestic demand.

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