



**Capital**  
—SPROUT—

# NEWSLETTER

MAY 2022



# The Chairman's Message

Dear Readers,

Greetings from Capital Sprout!

It gives me immense pleasure to share with our clients, friends and readers across the globe the May 2022 issue of the Capital Sprout's Wealth Bulletin.

We are in a market correction led by interest rate increase in India and around the world, as central banks try to curb inflation. This edition features articles on a variety of recent developments in the wealth and global economy space. With a particular focus on effect of rising Inflation, we have given the comparative analysis of how interest rates affect the Mutual fund and stock market.

Inflation has assumed a menacing proportion in almost all countries. The situation is critical in US and UK. Steps to mitigate inflation had already begun with both US and UK hiking rates since the start of 2022. With rates expected to rise further as well, India had no choice but to increase rates and is expected to continue rise further.

While concerns around inflation and rising interest rates exist, historical analysis both in India and the US reveals, that in most cases, the economy has gone on to do better over the period of the interest rate hike cycle as compared to the start of the hiking cycle, and equity markets have followed suit, ending higher!

Those who have invested in recent months will have to wait out this correction and look at the long term benefits of investing in equities.

*CA DR Rajesh Khandol*



## United State of America

The United States faces a nationwide crisis of shortages and inflation. This trend has steadied in April, but still, the inflations are close to the 40 year high.

Americans have struggled to afford some necessities, with market prices of fuel and food hitting the roof since August 2021. Air rates have increased by 40% in the previous three months. Property has become expensive for many Americans, particularly people of color, due to a rising housing market.

However, the Consumer Price Index showed that the rate of rising inflation is down from 1.2% in March to 0.3% in April.

The inflation is said to be a result of the tremendous imbalance between demand and supply, which is the secondary effect of the Pandemic.



Federal Reserve Chair **Jerome Powell** emphasized his resolve to get inflation down, saying he will back interest rate increases until prices start falling back toward a healthy level.



“If that involves moving past broadly understood levels of neutral we won’t hesitate to do that,” the central bank leader told The Wall Street Journal in a live streamed interview. We will go until we feel we’re at a place where we can say financial conditions are in an appropriate place, we see inflation coming down.

Earlier this month, the Fed raised benchmark borrowing rates by half a percentage point, the second increase of 2022 as inflation runs around a 40-year high.

Powell said that similar 50 basis point moves were likely to come at ensuing meetings so long as economic conditions remained similar to where they are now.

## **United Kingdom**

As the cost of living rises in the United Kingdom, people around the country are finding it harder to afford basic goods and services, including groceries, gas, and utilities. It’s a virtual vicious cycle as energy costs affect food and farming prices, and vice versa. This comes as the UK experiences its highest rate of inflation in the past 30 years, a whopping 7% and many still feel the strains of the ongoing Covid-19 pandemic in multiple areas of their lives.



## India

The global economy is now projected to grow by only 3.1% in 2022, down from the 4.0% growth forecast released in January 2022. Global inflation is projected to increase to 6.7% in 2022, twice the average of 2.9% during 2010–2020, with sharp rises in food and energy prices.

The report said that the outlook in South Asia has deteriorated in recent months, against the backdrop of the ongoing conflict in Ukraine, and higher commodity prices and potential negative spillover effects from monetary tightening in the United States.

The regional economic output is projected to expand by 5.5% in 2022, which is 0.4 percentage points lower than the forecast released in January.

“India, the largest economy in the region, is expected to grow by 6.4% in 2022, well below the 8.8% growth in 2021, as higher inflationary pressures and uneven recovery of the labour market will curb private consumption and investment.

For the fiscal year 2023, India’s growth is forecast to be 6%. Lead Author & Chief, Global Economic Monitoring Branch, Economic Analysis and Policy Division, United Nations Department of Economic and Social Affairs Hamid Rashid told reporters at the UN Headquarters that almost all regions in the world are affected by high inflation except for East Asia and South Asia.

He said “India in that sense” is a “little bit” in a better position as it did not have to aggressively pursue monetary tightening compared to other countries in Latin America.



# Indian Stock Market

Majority of domestic asset managers see scope for up to 15 % further fall in benchmark Nifty 50 and BSE Sensex due to higher inflation across the globe and tightening global monetary policy. Benchmark Nifty 50 is down up to 15,809 on 19<sup>th</sup> May, 2022 from its top of 18,477 on 18<sup>th</sup> Oct, 2021. Selling pressure of FII is one of the major reasons of recent bear face of Indian stock market. Expectation of further increase of interest rates by U.S. Federal Reserve is also a fear for the market.



# Performances



## Equity Market

| Indices        | 01 <sup>st</sup> May, 2022 | 31 <sup>st</sup> May, 2022 | High   | Low    |
|----------------|----------------------------|----------------------------|--------|--------|
| BSE S&P SENSEX | 57,060                     | 55,566                     | 57,060 | 52,792 |
| NIFTY 50       | 17,102                     | 16,584                     | 17,102 | 15,809 |

## Mutual Fund

During the month of Apr-22. Net outflow in Debt Mutual fund is **1.14 Lakh crore** but Net inflow in Equity oriented fund is **Rs. 0.28 Lakh crore**.

### AUM Data of Mutual Fund for the Month of April - 2022

*(INR. In Lakh Crore)*

| For The Month Of March                  | AUM As On 31-03-2022 | Fresh Fund Mobilize During April-22 | Redemption During April-22 | AUM As On 30-04-2022 |
|-----------------------------------------|----------------------|-------------------------------------|----------------------------|----------------------|
| Total AUM of all mutual funds scheme    | 37.31                | 8.17                                | 7.44                       | 38.03                |
| AUM of equity oriented (growth) schemes | 13.50                | 0.32                                | 0.17                       | 13.65                |

*Source: Association of Mutual Fund of India (AMFI)*

# Performances

## Year wise SIP Contribution

(INR. In Crore)

| Year       | SIP Contribution |
|------------|------------------|
| FY 2021-22 | 1,24,566         |
| FY 2020-21 | 96,080           |
| FY 2019-20 | 1,00,084         |

| Year       | SIP Contribution |
|------------|------------------|
| FY 2018-19 | 92,693           |
| FY 2017-18 | 67,190           |
| FY 2016-17 | 43,921           |

## FII & DII Inflow/Outflow Position

FII's are selling continue in the month of May 22. At the same time, DII's shows bullish trend in similar period. FII'S Net outflow in Cash segment **Nov-21 to May-22** is approx **Rs. 3.00 Lakh crore**. DII's Net Inflow in Cash segment during **Nov-21 to May-22** is approx **Rs. 2.46 Lakh crore** which shows the positive impact in Mutual fund industry.

### Inflow/Outflow position in the month of May - 2022

(INR. In Crore)

| For The Month Of May | Gross Purchase | Gross Sale | Net         |
|----------------------|----------------|------------|-------------|
| FII                  | 1.84 Lakh      | 2.39 Lakh  | - 0.54 Lakh |
| DII                  | 1.48 Lakh      | 0.97 Lakh  | +0.51 Lakh  |

