mint primer

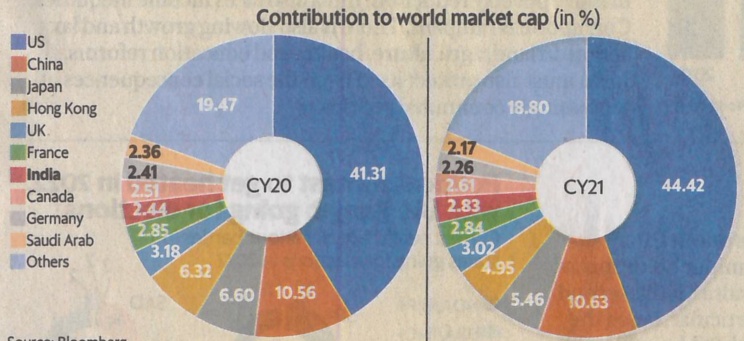
Can the markets continue to see a bull run in 2022?

BY NASRIN SULTANA

Markets ended 2021 with over 20% gains even as coronavirus-related uncertainty and inflation threatened to knock the stuffing out of equities. Now, amid a host of emerging factors, *Mint* examines if there's a bull market reprisal on the horizon this year.

Robust gains

Total market capitalization of Indian stocks rose to $3.42 trillion in 2021 from $2.52 trillion at the end of 2020.



Source: Bloomberg

SARVESH KUMAR SHARMA/MINT

1 Will the rally sustain this year?

Punchy valuations, likely monetary policy normalization from early 2022 and, potential short-term disruption to the economy from the covid-19 pandemic may act as headwinds in the first half of this year. However, equities are expected to outperform bonds and cash, albeit with more modest returns. But earnings growth expectations, the main driver of equity returns in mid-cycle, remain robust with upgrades likely. Consensus expects Nifty index earnings per share (EPS) to grow at 16% compound annual growth rate (CAGR) for FY19-FY23 compared to 4% in FY12-FY19.

2 Will liquidity continue to pump markets?

Markets are likely to feel the pressure of liquidity constraints in 2022 if easy money supply by global central banks starts drying up. So far, major central banks have been buying assets to supply money and keep financial conditions supportive for economic recovery. Now, they are expected to start reducing purchases. Foreign institutional investors (FIIs) bought Indian equities worth $3.86 billion in 2021, but were net sellers at $4.70 billion in October-December. Domestic institutional investors were net buyers of shares worth ₹97,109.66 crore in 2021.

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3 What about other asset classes in 2022?

The rupee's depreciation will support domestic gold prices but this may be contained given the Reserve Bank of India's (RBI's) forex reserves, the possibility of a balance of payments surplus, continued flows in Indian equities, initial public offerings (IPOs) attracting overseas investors, and India's potential global bond index inclusion in 2022, said analysts.

4 Will primary markets continue to shine?

The IPO pipeline continues to remain strong with 35 companies set to raise roughly ₹50,000 crore and another 33 awaiting the market regulator's nod to raise about ₹60,000 crore. Besides, the much-anticipated mega IPO of Life Insurance Corporation of India is expected this year. In 2021, a record ₹1.18 trillion was raised through 63 public offerings. This was nearly 4.5 times the ₹26,613 crore raised through 15 share sales in 2020 and almost double the previous best year 2017.

5 How did Indian equities fare in 2021?

Markets saw a roller coaster ride driven by global tailwinds and optimism over India's growth. Among emerging markets, India stood out as a favoured destination for global investors. Stocks logged the sixth straight year of gains, with the Sensex and Nifty gaining 22% and 24%—their best since 2017 when both gained 28%. BSE MidCap and SmallCap indices gained 39% and 63%. Total market capitalization of Indian stocks rose to $3.42 trillion from $2.52 trillion at the end of 2020.

QUICK EDIT

GST is too complex

The Goods and Services Tax (GST) Council has deferred an earlier proposal to raise the rate on textiles to 12% from 5%. In its meeting held on Friday, it did, however, raise the GST levy on footwear to that level. The textile hold-off was in the face of opposition from several states that feared it would weaken demand for apparel and hurt small and medium enterprises engaged in the business. This would have, in turn, resulted in job losses and possible business shutdowns. As clothing is an essential item, that argument does hold merit.

However, the fact that GST Council time was expended on such rate specifics reveals a flaw in how we have applied this reformist tax in India. For it to work well, we need a common low rate that's held stable across all categories, as global success cases demonstrate, with only a few exceptions paying more. That would also untangle our inverted duty structures, a pain point in textiles. Unfortunately, over-reliance on indirect taxes has turned Indian GST into a revenue source more than an efficiency enabler. It'll take an economic upsurge to get the fiscal space needed to fix it. Even so, our GST system must be simplified at the earliest.

MINT METRIC

by Bibek Debroy

A Chinese trial shows prosecution
Is amenable to AI-based solution.
Some day the judiciary
Will become ablutionary,
Saving us from much circumlocution.

QUOTE OF THE DAY

India is likely to have one of the highest rates of growth in the world as there are gradual moves towards normalisation, even as stimulus and support for vulnerable sectors continue.

ASHIMA GOYAL
ECONOMIST AND MEMBER OF MPC