

'India's stronger visibility to economic and earnings growth makes it more attractive to FPIs than other EMs.'



A new year comes with new possibilities. **A Balasubramanian**, Managing Director and Chief Executive Officer, Aditya Birla Sun Life AMC shares his outlook on RBI's repo rate, earnings growth, inflation and foreign flows in 2022.

WHILE FPI EQUITY FLOWS TO EMS ARE PREDICTED TO BE MODEST IN 2022, INDIA IS EXPECTED TO FARE BETTER THAN THE OTHERS.

We believe that RBI has done an amazing job supporting the economy. The pandemic's most significant economic effects are behind us, and growth is steadily improving. So, the RBI is absorbing surplus liquidity via Variable Reverse Repo Rate auctions. We expect monetary policy normalisation to proceed in a measured manner, without affecting market sentiment. In our opinion, two 25bps repo rate hikes this year and a return to 25bps LAF corridor are possible.

And, the rate hike by the central bank is not just limited to India.

In the US, a massive stimulus created a surplus demand that was not met by pandemic-constrained global supply systems. So, they are facing multi-decade high inflation.

And, to fight against inflation, we may witness US policy tightening. This may reverse FPI flows to emerging markets. While FPI equity flows to EMs are predicted to be modest in 2022, India is expected to fare better than the others. Unlike most EMs, India has seen robust FPI equity flows in the last three years. India's stronger economic and earnings growth visibility makes it more attractive to FPIs than other EMs.

The nature of inflation in the US and India is different. Aside from the import channel

and high commodity prices, India's inflation is mostly within the RBI's target range. As a result of fewer regulations and the economy adapting to living with the virus, the Omicron wave is projected to have a lighter impact than previous waves.

An increase in crude prices can drive inflation, but the impact will depend on price pass-through and sustainability. The government recently reduced fuel taxes, helping to temper recent price increases. Since the start of the year, 10-year government bond yields have risen about 15bps due to higher crude prices, US yields, and less RBI support for government borrowing. However, we are reassured by the RBI's pledge to keep bond yields close to macro-fundamentals and do not expect a substantial rise in the short term.

On the growth side, we expect 6.50-7% GDP growth this year and sectors such as consumption, investment, and exports will expand faster than expected. This may lead to a significant turnaround in corporate profitability, which may keep market participants optimistic.

However, the valuation of Indian markets is 15% above its long-term average. The premium valuation is driven by the China factor and the ongoing reforms in India.