

MOTILAL OSWAL AMC EXPECTS THESE SECTORS TO OUTPERFORM IN 2022

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

2021 has been one of the most active years for IPO with the digital companies making their debut and lapping up a vast proportion of the new money. Also, the markets have been in an uptrend barring last couple of months. With inflation moving up and the Fed showing its intentions to tighten liquidity, markets in last couple of months have been a bit volatile, with the FIIs being seller almost on a daily basis.

Hence, 2022 is starting with an expectation of tightening liquidity, increasing interest rates and uncertainty around Covid still remaining. However, on the brighter side, economy is showing strength and the corporate earning cycle is on an uptrend. With two opposing themes playing around, I would expect 2022 to be much more range bound for the broader markets, however some of the sectors may do really well.

a) Financials: Large banks are very well placed with one of the best expected years on credit quality front in more than a decade, unless Covid creates havoc. We can also see credit growth starting to pick up. Non lending financials specifically insurance had a bad year in CY21 from stock market perspective despite environment turning positive structurally. We can see CY22 turning out to be great for them with traction in earnings and cheap valuations.

b) Pharma: This is a structural play and given Covid the sector may remain under focus in the next year as well. We have seen some of the domestic pharma companies with US exposure starting to do well. We may see large pharma companies doing really well from stock market perspective.

c) Real estate: This sector saw a big revival in CY21 and hence massive outperformance from many stocks. We may see this revival continuing given the demand scenario is improving as well as the supply is still restricted. Commercial real estate may see a revival later on during the year if covid gets under control.

Themes which may continue to play out:

a) Digitization of the economy: This was the predominant theme during CY21 with IPOs of multiple new age digital companies. Digitization has also meant that the Indian IT companies are growing at the fastest pace seen over last decade. We may see this theme to remain one of the predominant one during next year as well.

b) Capital expenditure: Both private capex as well as household capex were missing for last 5 years, we can see a revival driven by lower interest rates and pent up demand. Also, government will have to focus on job creation which may lead to higher capex. However, as said in the beginning the market may remain range bound as inflation is rising and interest rates may start moving up. This would mean that very high valuation companies may start seeing relative correction as the discount rate would start moving up. Also, a lot of high valuation companies are consumers of commodities and if the prices remain firmed up then the margin can remain under pressure. Hence, next year may not be a year of broad-based rally but would be a year for stock pickers.

One needs to be very selective as the value destruction in certain segments can be significant.

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