

# Indian mkts likely to feel the pinch of hawkish Fed

SUNDAR SETHURAMAN

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The Indian markets are likely to witness turbulence on Monday following US Federal Reserve Chairperson Jerome Powell's signal that interest rates will stay high for some time. His statements diminished expectations of an economic soft-landing.

Spooked by the comments of Powell, the S&P 500 index in the US dropped 3.4 per cent on Friday. The Indian markets — which have moved in lockstep with American equities this year — may also fall over 2 per cent, fear experts.

In his speech in Jackson Hole, Wyoming, the Federal chair reiterated that another “unusually large”

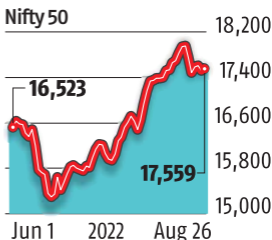
rate increase is on the cards in September, and showed strong resolve to achieve price stability. “We must keep at it until the job is done,” he said.

Last week, the Sensex and the Nifty shed over 1 per cent but were still up nearly 15 per cent from their June lows.

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## TURBULENCE AHEAD?



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₹ MAY BREACH 80 VS \$ TO HIT FRESH LOWS, SAY EXPERTS

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POWELL'S SPEECH ERASES \$78 BN FROM RICHEST AMERICANS

weight to stakeholders' comments, especially when it involves the merger of two of the country's largest payments gateway businesses. So, clearance requires a cautious approach," said a regulatory official.

As many as 40 stakeholders responded, with most flagging a potential dominance and monopoly that could cause disruption. They urged the regulator to deny approval to the merger.

"The Commission takes longer in exceptional cases. The proposed deal is among the five per cent cases where the commission is taking time to clear it. Only two per cent matters were passed with remedies," the official cited above said.

The deal is slated to become the second largest acquisition in the Indian digital space, after Walmart's \$16 billion buyout of ecommerce behemoth Flipkart in 2018.

## Indian mkts...

"The markets are now bracing for a 100-basis points hike. So, all the predictions about inflation being under control go out of the window. The Fed is back to being hawkish and intends to keep rates high. That's the reason the US markets tanked. There will be a bout of volatility because it takes some time for the markets to absorb this sudden change of stance, but eventually, they will settle down," said U R Bhat, co-founder, Alphaniti Fintech.

Global equities had staged a strong rebound over the past two months on the premise

that the Fed would move to a marginally restrictive policy and then pause. However, the Fed's commitment to keeping interest rates higher for a longer period may once again take the wind out of the sails for equities.

"The ultra-hawkish stance of the Fed at Jackson Hole is a short-term negative for the equity markets. This may impact overseas flows in the short term," said V K Vijayakumar, chief investment strategist, Geojit Financial Services.

After yanking out over \$32 billion between October 2021 and June 2022, foreign portfolio investor (FPI) flows into domestic stocks have turned positive over the past two months. FPIs have poured in over ₹55,000 crore (nearly \$7 billion) into domestic stocks since July. However, ahead of the Jackson Hole Symposium, FPIs flows were seen tapering.

"The Fed's statements following the Jackson Hole symposium underscore its strong commitment towards controlling inflation over growth. Powell said that inflation is likely to remain higher for a longer period and thus requires an aggressive stance. This is likely to be negative for the equity markets. The impact was clearly visible in the US markets, which fell more than 3 per cent. The Indian markets are also likely to react negatively on Monday with increasing volatility over the next few days," said Siddhartha Khemka, head-retail research, Motilal Oswal Financial Services.