

Market Outlook

April 2019



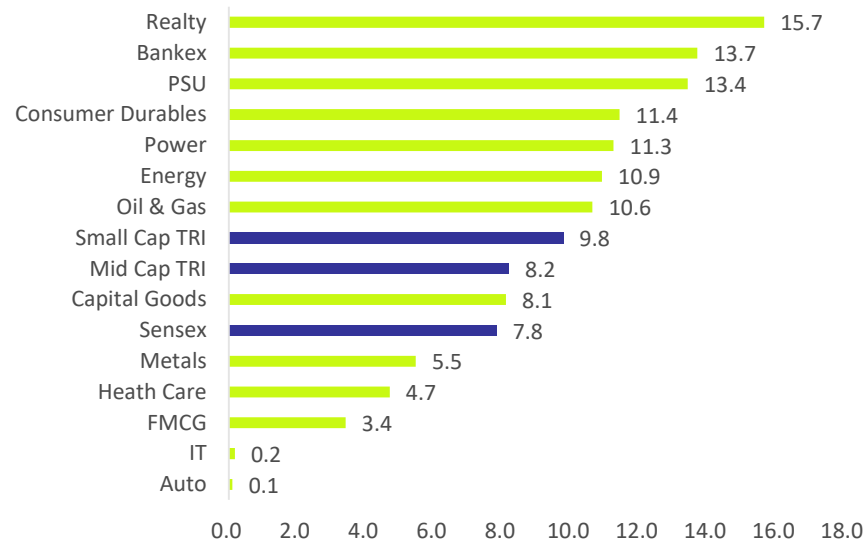
Equity Markets - Review

Equity Roundup - Movement in March

| S | Closing Value | 1-Month Return (%) | 1 Year Return (%) |
|---------------------|---------------|--------------------|-------------------|
| U.S | | | |
| S&P 500 | 2834 | 1.8 | 5.4 |
| Nasdaq | 7729 | 2.6 | 6.6 |
| Dow Jones | 25929 | 0.0 | 7.5 |
| Europe | | | |
| DAX | 11526 | 0.1 | -4.8 |
| FTSE 100 | 7279 | 2.9 | 0.3 |
| Asia/Pacific | | | |
| Nikkei | 11624 | 7.7 | 6.7 |
| KOSPI | 2141 | -2.5 | -10.2 |
| Hang Seng | 29051 | 1.5 | -4.9 |
| Domestic | | | |
| Sensex | 38673 | 7.8 | 8.8 |
| Nifty | 11624 | 7.7 | 6.7 |
| BSE Mid cap TRI | 18353 | 8.2 | -9.5 |
| BSE Small cap TRI | 17667 | 9.8 | -18.8 |
| BSE 100 TRI | 14018 | 7.6 | 5.9 |
| BSE 200 TRI | 5821 | 7.7 | 4.1 |
| BSE 500 TRI | 18123 | 7.9 | 1.6 |

Data as on 31 Mar 2019
TRI – Total Return Index

Sectoral Performance – Domestic



*S&P BSE Sectoral Indices movement between 28 Feb'19 to 31 Mar'19 in % terms

- Indian equity markets ended last month of the financial year on a strong note. Benchmarks - BSE Sensex and Nifty rallied around 8% each in the month; owing to encouraging domestic and global developments.
- On the BSE sectoral front, all the indices closed on a positive note. Realty was the major gainer, up 15.7% followed by Bankex that grew 13.7% and PSU index which rose 13.4%.
- Surge in one of the major PSU banks following reports that the government has decided to infuse funds worth Rs. 5,042 crore as capital ahead of its merger with two other public sector lenders; led to gains in the financial sector.

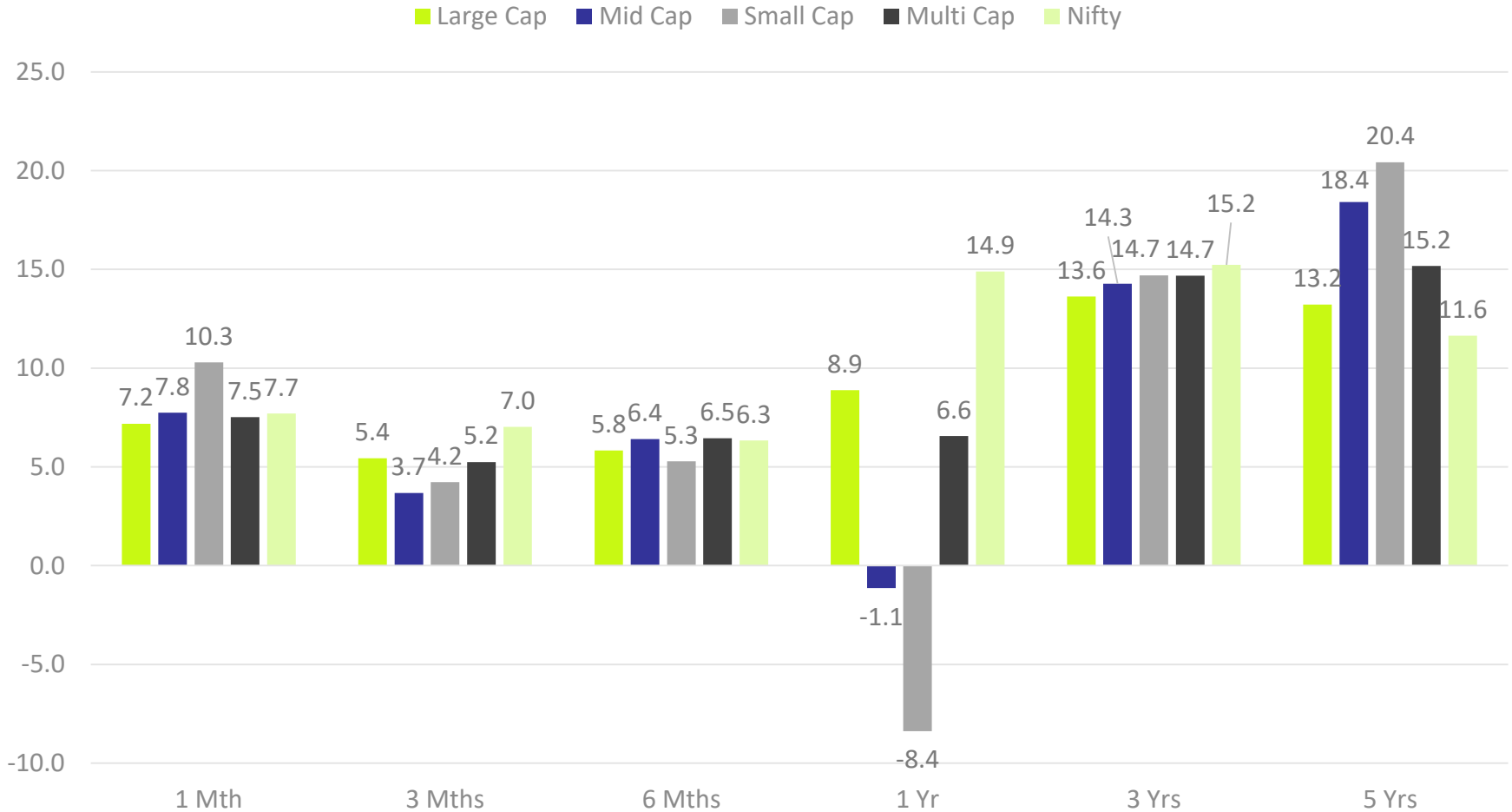
Equity Market Roundup - Key Takeaways



- **Factors which affected Indian Equity Markets:** Strong FII inflows, easing of the Indo-Pakistan tensions and strength in the rupee against the dollar were some of the factors which boosted investor sentiments.
- A positive **FII / FPI inflow of Rs. 33,981 cr** in March also supported the markets.
- On the global front, the Federal Reserve decided to hold interest rates steady and indicated that no more hikes will be coming this year, optimism over US-China trade talks and development around Brexit; augured well for the Indian equity markets.
- However, **sell-off in global equities on renewed fears of global economic slowdown along with release of weak economic cues from the US and Europe;** limited the downside.
- Further, investor sentiment got hurt following **inversion of the US bond yield curve** which have now reignited fears of potential recession in the world's largest economy; have also dented investor sentiments .
- **Performance:** The month of March witnessed a strong rally. Midcaps and Small Caps outperformed both – Sensex and Nifty. **Benchmarks Sensex and Nifty surged 7.82% and 7.70%, respectively, in the month.**
- **Other data points:** India's fiscal deficit for the period from Apr 2018 to Feb 2019 stood at Rs. 8.51 lakh crore or 134.2% of the budget estimate compared with 120.3% of the budget estimate in the corresponding period of the previous year.
- On the other hand, **India's trade deficit narrowed to a 17 month low of \$9.60 billion in Feb 2019 from \$14.73 billion in the previous month and \$12.30 billion in the same month of the previous year.**

Performance across Market Caps v/s Nifty -

Mid & Small Cap funds rallied after a long haul and ended the month being the top performers



Data as on 31 Mar 2019; Source: ICRA MFI

Geo Political tensions do not deter the market sentiments!



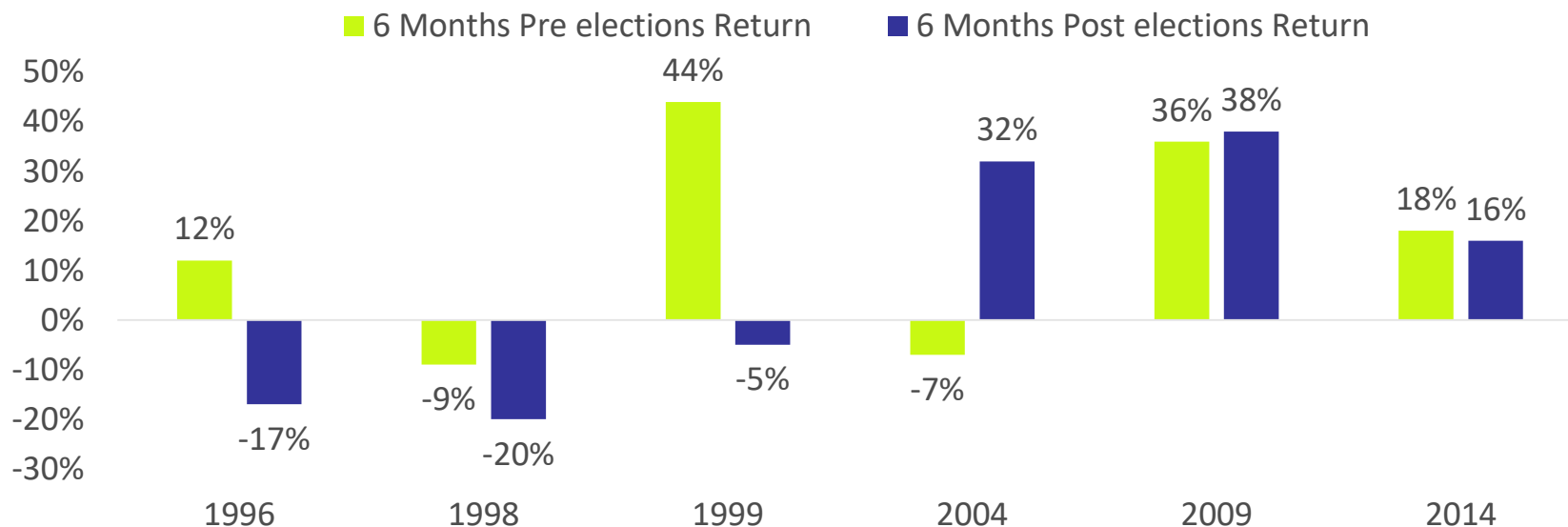
Market Performance post URI Surgical Strike

| Index | Strike Date (29-Sep-16) | 1 Month Post (30-Oct-16) | 3 Months Post (29-Dec-16) | 1 Year Post (29-Sep-17) | Return 1 year (%) |
|--------|-------------------------|--------------------------|---------------------------|-------------------------|-------------------|
| Sensex | 27828 | 27930 | 26366 | 31284 | 12.4% |
| Nifty | 8591 | 8626 | 8104 | 9789 | 13.9% |

During Kargil War

| Indicators | 26-May-99 | 26-Jul-99 | Return (%) |
|------------|-----------|-----------|------------|
| Sensex | 3973 | 4625 | 16.4% |
| Nifty | 1136 | 1326 | 16.7% |

Sensex movement during General Elections



Source: ICRA MFI

- The uncertainty surrounding the general elections scheduled in May19 shall get over in the first quarter of the fiscal 2020.
- A study of market movement 6 months pre and post elections has shown that markets have typically delivered positive returns.
- Inflows by the Foreign Portfolio Investments (FPIs) have seen to pick up once the clouds of uncertainties have cleared post elections results.
- There may be short term glitches before and after election results, however; the markets have always been driven by strong fundamentals.

Markets have rallied post election results

| Year of General Elections | Bought - 6 M Prior to GE Results | Sold - 18 M Post GE Results | Sensex (CAGR %) |
|---------------------------|----------------------------------|-----------------------------|-----------------|
| 1996 | Dec-95 | Dec-97 | 9% |
| 1998 | Nov-97 | Nov-99 | 16% |
| 1999 | Apr-99 | Apr-01 | 7% |
| 2004 | Nov-03 | Nov-05 | 28% |
| 2009 | Nov-08 | Nov-10 | 46% |
| 2014 | Nov-13 | Nov-15 | 13% |

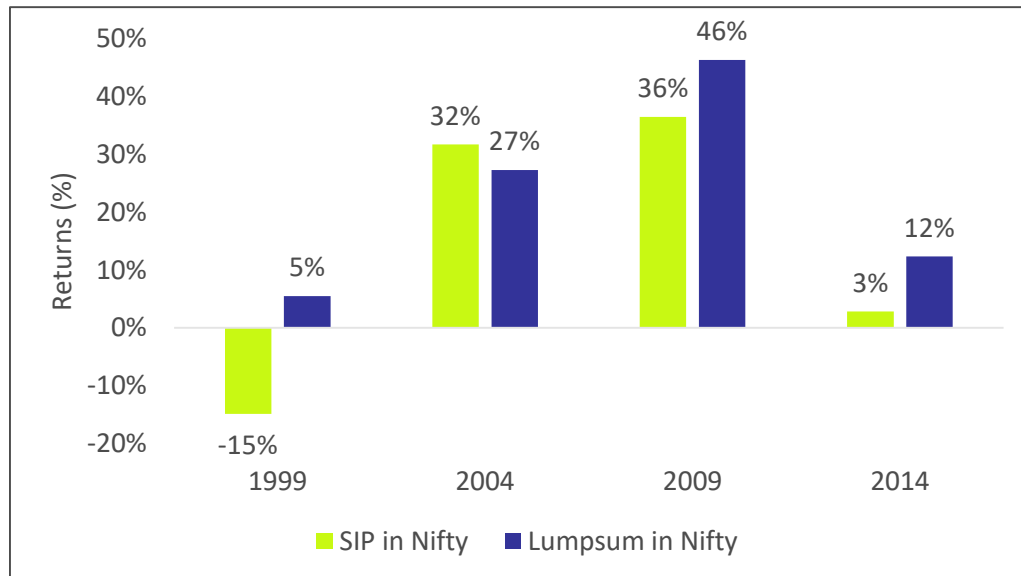
Do Elections Matter?

Sure, election results matter - but only in the near term



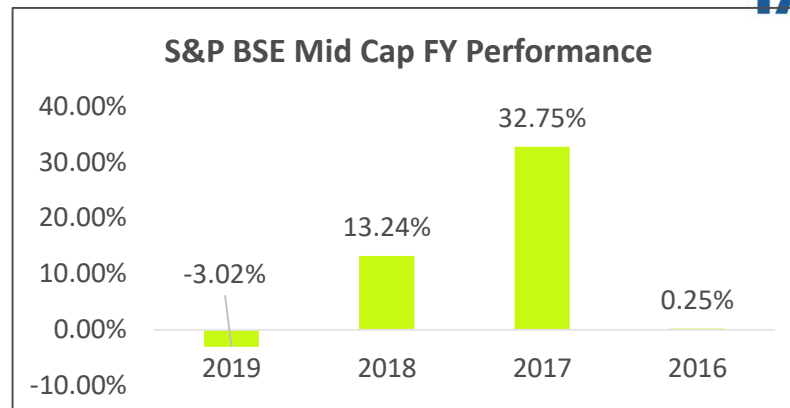
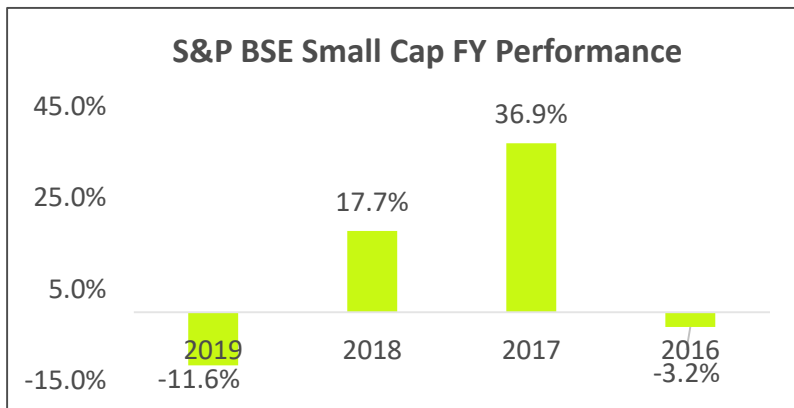
Case of Investing During Elections - Lumpsum v/s SIP

| Election Year | Nifty | | Sensex | |
|---------------|-------|---------|--------|---------|
| | SIP | Lumpsum | SIP | Lumpsum |
| 1999 | -15% | 5% | -19% | 0.1% |
| 2004 | 32% | 27% | 36% | 31% |
| 2009 | 36% | 46% | 36% | 46% |
| 2014 | 3% | 12% | 2% | 11% |

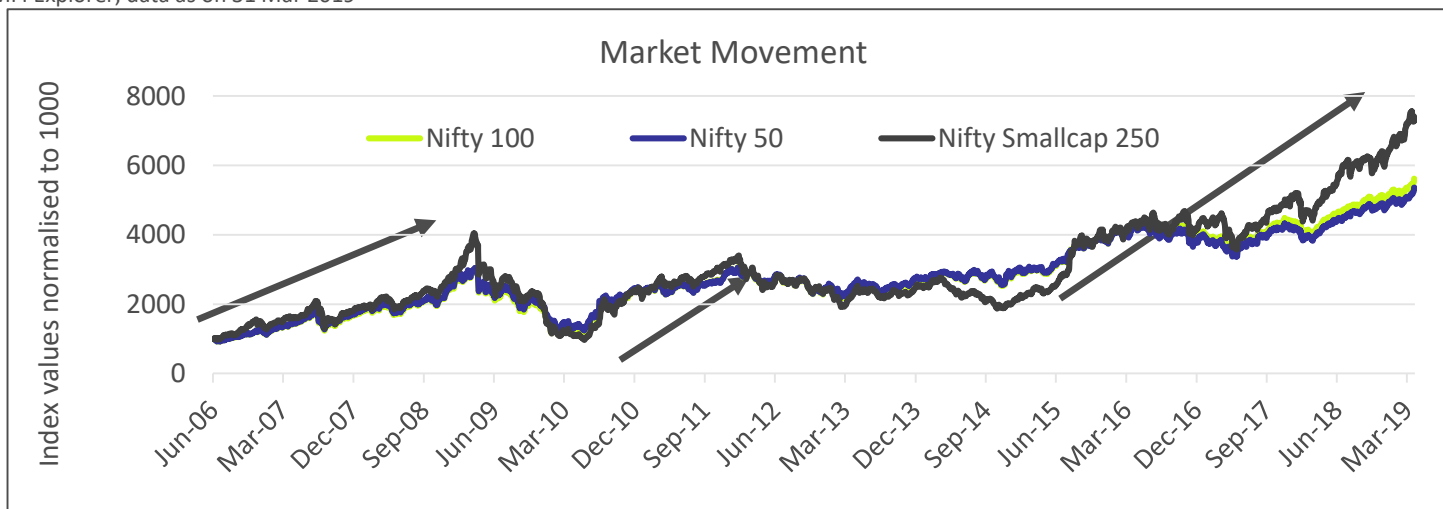


- Data shows that investing through SIP/STP mode starting six months prior to general elections for two years, generated negative or lower returns; while **the same cumulative corpus invested through lumpsum mode delivered higher returns.**
- For the election year 2014, **SIP/STP in Nifty index - 3% XIRR**; while **Lumpsum investment in Nifty - 12% returns.**
- **Every election seems to be an important event** which causes occasional volatility; but **no sustained impact has been seen on indices due to elections in the longer run.**
- Markets performance has always been driven by the **strength of the economy.**

Valuations Corrected Significantly for Mid & Small Caps



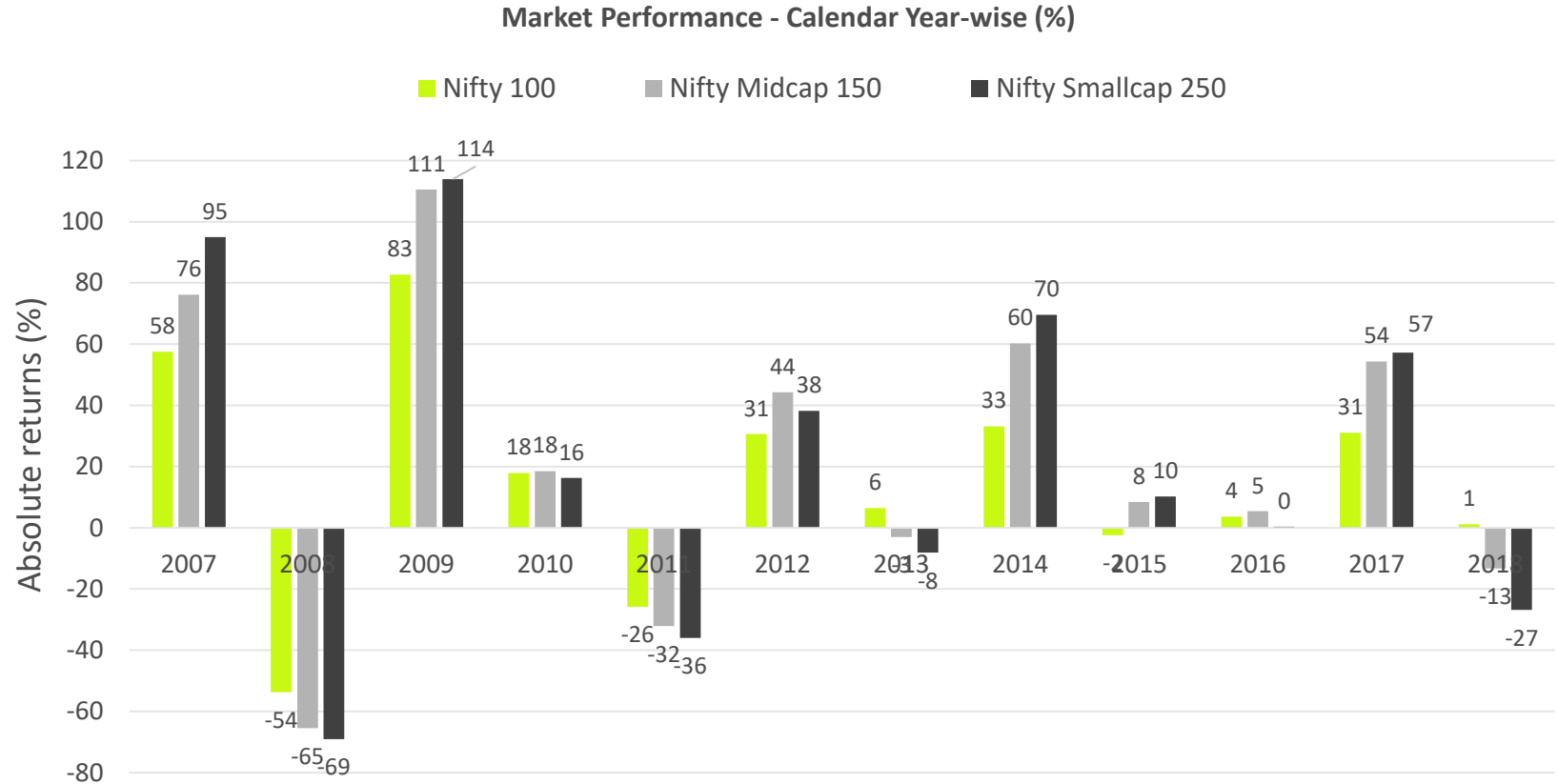
Source: ICRA MFI Explorer; data as on 31 Mar 2019



Source: ICRA MFI, Above illustration shows the index value movement. Large Cap: Nifty100, Mid Cap: Nifty Midcap 150, Small Cap: Nifty Smallcap 250. Index values normalized at 1000.

- ✓ In Financial Year 2018-19, Mid and Smallcaps witnessed a significant correction post which valuations have cooled off.
- ✓ Investments in equity, particularly mid and small caps, should be in a staggered manner through SIP/STP.

Small Caps Outperform in favorable times



Source: ICRA MFI, CY 2018 as on Dec 31, 2018. Large Cap: Nifty100, Mid Cap: Nifty Midcap 150, Small Cap: Nifty Smallcap 250.

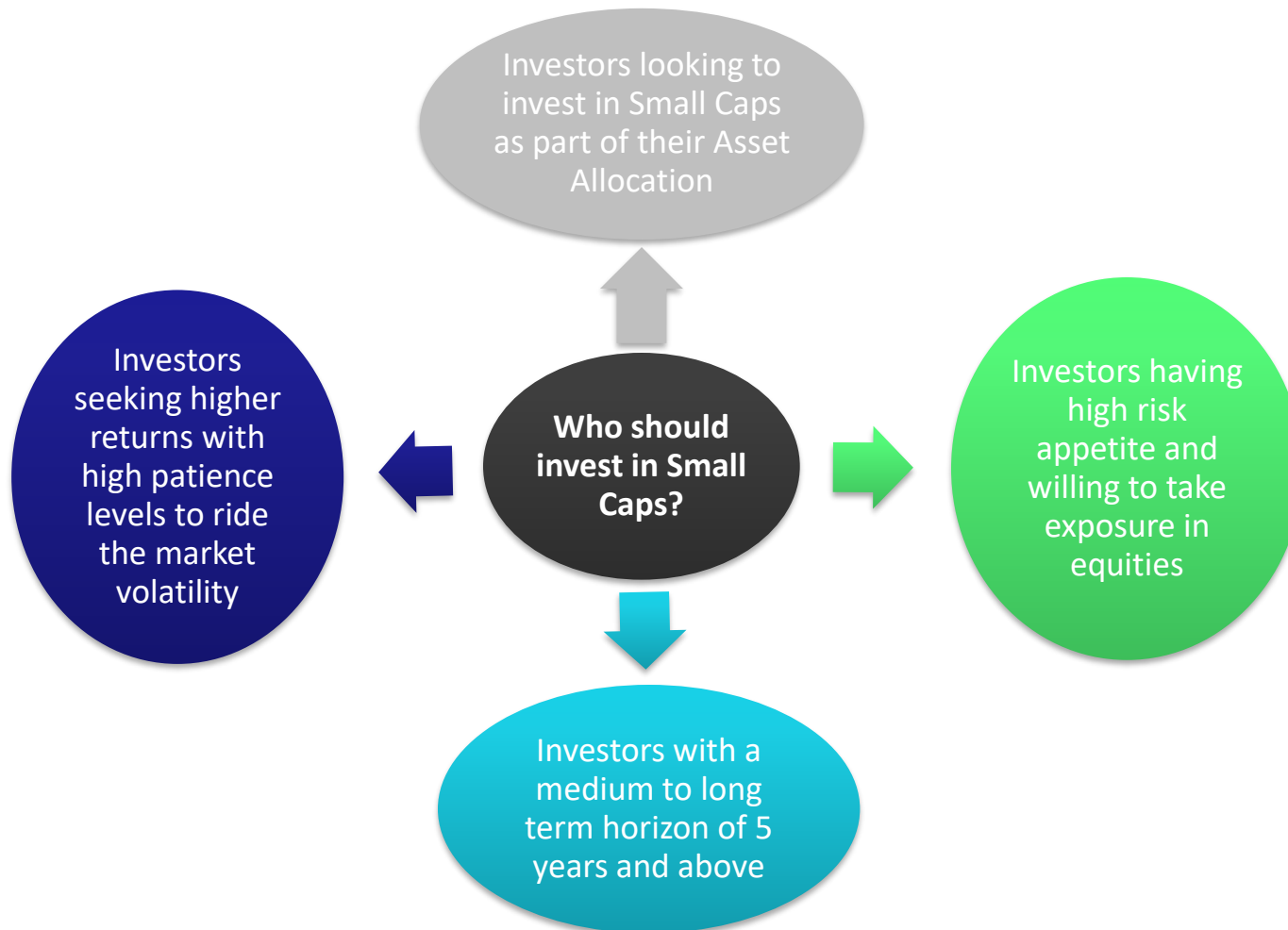
Time is Now to invest in Small Caps!

Small Caps have depicted strong performance in the year following the one which it delivered negative or lower returns

| CY Year | Nifty Smallcap 250 | Nifty Midcap 150 | Nifty 100 |
|---------|--------------------|------------------|-----------|
| 2006 | 31 | 27 | 38 |
| 2007 | 95 | 76 | 58 |
| → 2008 | -69 | -65 | -54 |
| 2009 | 114 | 111 | 83 |
| 2010 | 16 | 18 | 18 |
| → 2011 | -36 | -32 | -26 |
| 2012 | 38 | 44 | 31 |
| → 2013 | -8 | -3 | 6 |
| 2014 | 70 | 60 | 33 |
| 2015 | 10 | 8 | -2 |
| → 2016 | 0.4 | 5 | 4 |
| 2017 | 57 | 54 | 31 |
| → 2018 | -27 | -13 | 1 |

Source: ICRA MFI, CY 2018 as on Dec 31, 2018. Large Cap: Nifty100, Mid Cap: Nifty Midcap 150, Small Cap: Nifty Smallcap 250.

Who should invest in Small Caps Now?



Macro Indicators



| | Current | Quarter Ago | Year Ago |
|-----------------------------|------------------|----------------|----------------|
| Consumer Price Index (CPI) | 2.57% (Feb-19) ↑ | 2.33% (Nov-18) | 4.44% (Feb-18) |
| Wholesale Price Index (WPI) | 2.93% (Feb-19) ↓ | 4.47% (Nov-18) | 2.74% (Feb-18) |
| Industrial Production (IIP) | 1.70% (Jan-19) ↓ | 8.40% (Oct-18) | 7.50% (Jan-18) |
| GDP | 6.60% (Dec-18) ↓ | 7.10% (Sep-18) | 7.70% (Dec-17) |
| Trade Deficit (\$ bn) | 9.60 (Feb-19) ↓ | 16.60 (Nov-18) | 12.00 (Feb-18) |
| Commodity Market | | | |
| Brent Crude (\$/barrel) | 68.39 ↑ | 53.80 | 70.27 |
| Gold (\$/oz) | 1293.00 | 1287.70 | 1358.40 |
| Silver (\$/oz) | 15.11 | 15.63 | 16.22 |
| Currency Market | | | |
| USD/INR | 69.44 ↓ | 69.57 | 65.12 |
| EURO/INR | 77.65 | 79.80 | 80.24 |
| GBP/INR | 90.09 | 88.77 | 91.28 |
| YEN/INR (per 100) | 62.46 | 63.48 | 61.22 |
| Equity Net Flows | | | |
| Mutual Funds & DIs (Rs. Cr) | -6438 (Mar-19) ↓ | 2919 (Dec-18) | 8911 (Mar-18) |
| FIs (Rs. Cr) | 33981 (Mar-19) ↑ | 3143 (Dec-18) | 11654 (Mar-18) |

↑ ↓ signifies positive movement over Q-o-Q ↓ ↑ signifies negative movement over Q-o-Q

Debt Markets - Review

Debt Market Roundup - Key Takeaways



- **Factors which affected Bond Markets:** Expectations of an interest rate reduction, decline in US Treasury yields and the central bank conducted open market bond purchase auctions during the month; helped bond yields.
- Moreover, Government Bond yields fell further after the U.S. Federal Reserve in the monetary policy review kept interest rates on hold and indicated that interest rates are likely to remain unchanged for the remainder of the year. This boosted market sentiment and eased concerns over foreign fund outflow from the Indian economy.
- Additionally, RBI introduced a liquidity infusion measure announcing its intent to conduct a \$5bn as part of the long term Dollar/Rupee swap auction with a three year tenor. Through this, Rs. 34,561 crore was infused into the Indian banking system.
- **Monetary Policy:** The RBI decided to cut rates further by 25 bps, but has continued to maintain its stance at neutral. The central bank also revised the inflation and the GDP forecast downwards.
- **Performance of 10-year G-Sec Yield:** Yield on the new 10-year benchmark paper (7.26% GS 2029) fell 10 bps to close at 7.29% from the previous month's close of 7.39%.
- **Outlook:** In the near term, markets are likely to remain watchful of global events and domestic fiscal stress. The overall growth in the economy and systematic liquidity will be in sharp focus as these factors may influence the stance that MPC adopts in its monetary policy going ahead. On the macro front, oil and rupee movement will be closely tracked.

Debt Roundup



| | 31 Mar'19 | 28 Feb'19 | 31 Mar'18 | M-o-M Change |
|----------------------------------|-----------|-----------|-----------|--------------|
| Interest Rates | | | | |
| Repo rate | 6.25% | 6.25% | 6.00% | 0 bps |
| SLR | 19.25% | 19.25% | 19.50% | 0 bps |
| CD Rates | | | | |
| 3 month | 6.90% | 7.22% | 6.75% | -32 bps |
| 6 month | 7.00% | 7.52% | 7.00% | -52 bps |
| 1 Year | 7.30% | 7.70% | 7.10% | -40 bps |
| CP Rates | | | | |
| 3 month | 7.40% | 7.70% | 7.10% | -30 bps |
| 6 month | 7.70% | 8.30% | 7.40% | -60 bps |
| 1 Year | 7.85% | 8.45% | 7.50% | -60 bps |
| T-Bill/G-sec | | | | |
| 91 Days | 6.14% | 6.40% | 6.14% | -26 bps |
| 364 Days | 6.31% | 6.51% | 6.39% | -20 bps |
| 7.26% GOI 2029 (10 Yr GOI) -New | 7.29% | 7.39% | - | -10 bps |
| 7.17% GOI 2028 (10 Yr GOI) - Old | 7.43% | 7.57% | 7.33% | -14 bps |
| Corporate Bonds (PSU) | | | | |
| 3 Year | 7.40% | 8.02% | 7.53% | -62 bps |
| 5 Year | 7.55% | 8.18% | 7.73% | -63 bps |
| 10 Year | 8.15% | 8.51% | 7.87% | -36 bps |
| International Markets | | | | |
| 10 Year US Treasury Yield | 2.44% | 2.72% | 2.76% | -28 bps |
| 3 Months LIBOR | 2.60% | 2.63% | 2.31% | -3 bps |
| 12 Months LIBOR | 2.71% | 2.87% | 2.66% | -16 bps |

Key Highlights of First Bi-monthly Monetary Policy Statement, 2019-20

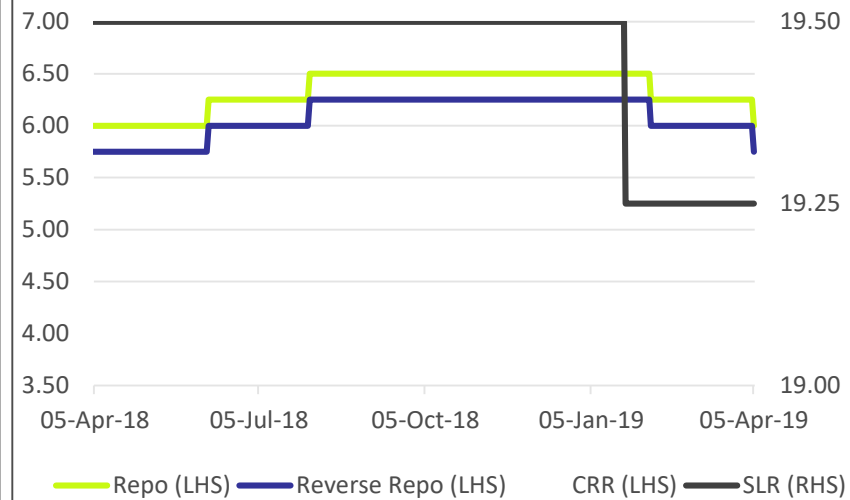


RBI's Stance



Neutral

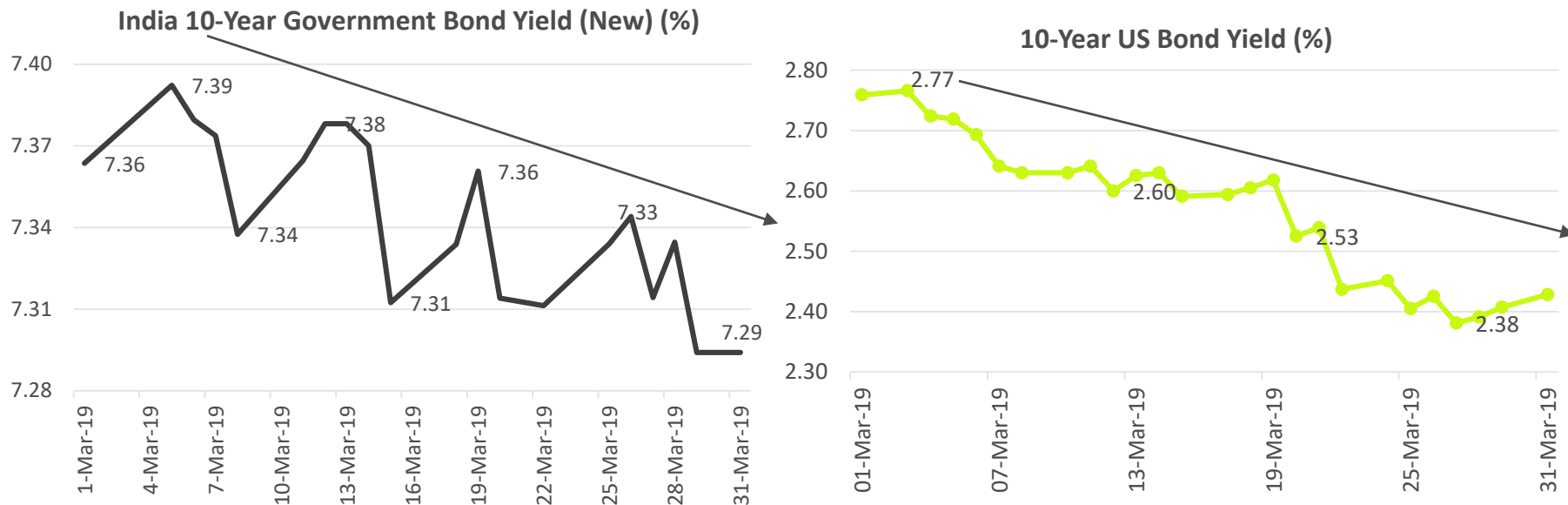
- RBI reduced the Repo Rate by 25 basis points to 6.00%. This is the second rate cut of calendar year 2019 resulting in a cumulative 50bps of cuts till now.
- Five members voted in favour of maintaining the policy stance at “neutral”, while one voted for changing it to “accommodative”.
- Cash Reserve Ratio (CRR) remains unchanged at 4%.
- Statutory Liquidity Ratio (SLR) stands adjusted to 19.25%.



Inflation and Growth projections by the RBI:

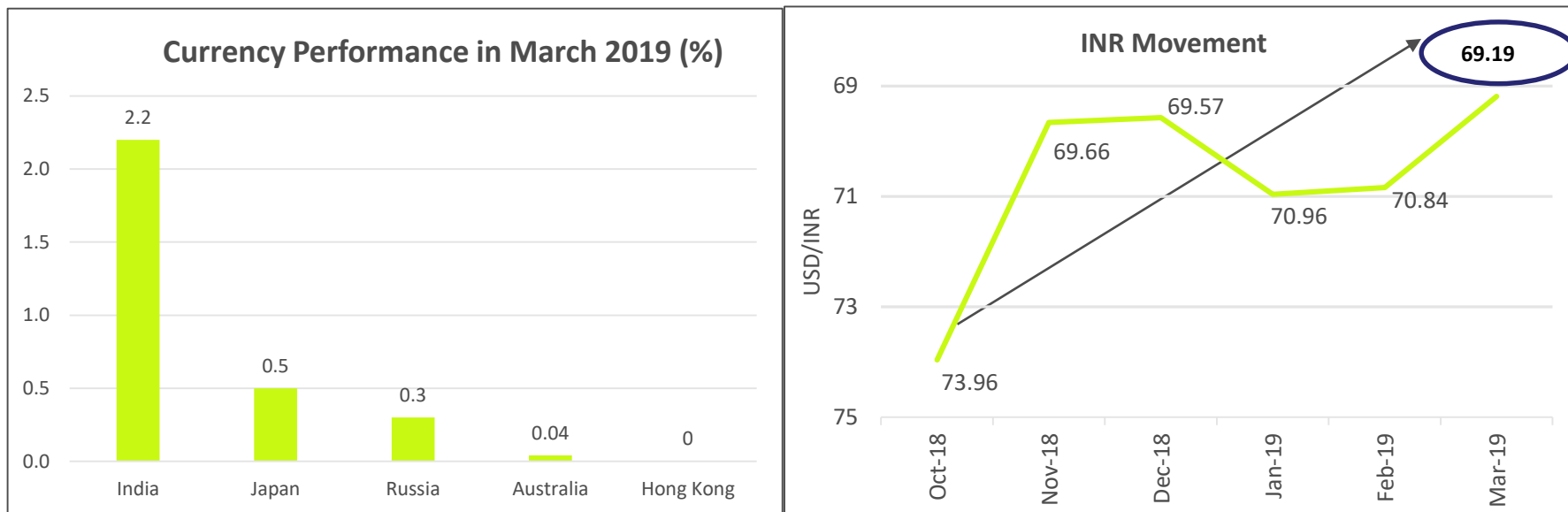
- RBI lowered its inflation projection for 4QFY19 to 2.4% from 2.8% earlier. It also reduced projections for 1HFY20 to 2.9-3.0% from 3.2-3.4% earlier and estimated 2HFY20 inflation to be at 3.5-3.8%.
- Growth projection was reduced to 7.2% from 7.4% earlier while 1HFY20 projections were brought down to 6.8-7.1% from 7.2-7.4% earlier. Projections for 2HFY20 stand at 7.3-7.4%.

Yields Movement Across - India and US



- **10-year India Government Bond Yield:** Expectations of an interest rate reduction, decline in US Treasury yields and the central bank conducted open market bond purchase auctions during the month; helped bond yields. .
- RBI introduced a liquidity infusion measure announcing its intent to conduct a \$5bn as part of the long term Dollar/Rupee swap auction with a three year tenor. Through this, Rs. 34,561 crore was infused into the Indian banking system.
- **U.S. Treasury Yield:** U.S. Treasury yields fell after the Federal Reserve held interest rates steady and suggested it will keep rates the same for the rest of the year. Moreover, slowing European economies and concerns over Brexit also contributed to lower yields.

INR Performance



- INR Currency Performance:** The rupee ended higher against the US dollar and appreciated by 2.2% in the month of March19, with the exchange rate settling at Rs 69.19 per dollar on March 29 as against Rs 70.74 per dollar on February 28. It was the best performing currency amongst Emerging & Developed Markets.
- A slowdown in US GDP for the fourth quarter of 2018 and progress in US - China trade talks also gave the rupee support. Moreover, continued FIIs inflows have also helped rupee to appreciate.
- However, dollar demand from state-owned banks following the central bank's decision to conduct foreign-exchange swaps to infuse rupee liquidity; put the rupee under pressure.

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