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Market Outlook – May 2021

Macro Economic Update

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Inflation:

Consumer Price Index (CPI): The country's retail inflation, measured by the CPI, rose to 5.52% in the month of March, thus being the fourth consecutive month of being below the RBI upper tolerance limit. The cumulative CPI inflation has increased to 6.16% in April-March FY2021 compared with 4.77% in April-March FY2020.

Wholesale price index (WPI): WPI rose to over an 8-year high of 7.39% in March as prices of crude oil, petroleum products and basic metal substantially increased in March 2021 as compared to the corresponding month of last year. The food articles segment witnessed a 3.24% rise in March. In the month prior to that, this was 1.36%.

Deficit:

Fiscal Deficit: India's fiscal deficit for the FY21 was Rs 14.1 lakh crore at the end of February, 76% of the revised target of Rs 18.5 lakh crore for FY21. India's fiscal deficit is projected to overshoot the initial estimates, 3.5% of GDP to 9.5% of GDP as per government estimates.

Trade Deficit: India was a net importer in April with a trade deficit of $15.24 billion, which increased by 120.34% over the trade deficit of $6.92 billion in April 2020 on the back of low base effect. Merchandise exports rose to $30.21 billion for the month from $10.17 billion a year earlier, while imports rose to $45.45 billion from $17.09 billion

IIP, Core Sector and PMI:

Index of Industrial Production (IIP) & Core Sector: In February 2021 IIP contracted by 3.6% compared to an expansion of 5.2% in February 2020. The core sector index, which measures output of eight infrastructure industries, rose to a 32-month high of 6.8% in March 2021.

Manufacturing & Services PMI: India's factory activity (Manufacturing PMI) remained stable in April at 55.5 after it dipped to a 7-month low of 55.4 in March amid rising COVID-19 infections. A gauge of India's services sector fell to the lowest in 3-months to 54.0 in April, but remained in the expansion zone and above the long-run average.

Inflation and Industrial Production Trajectory

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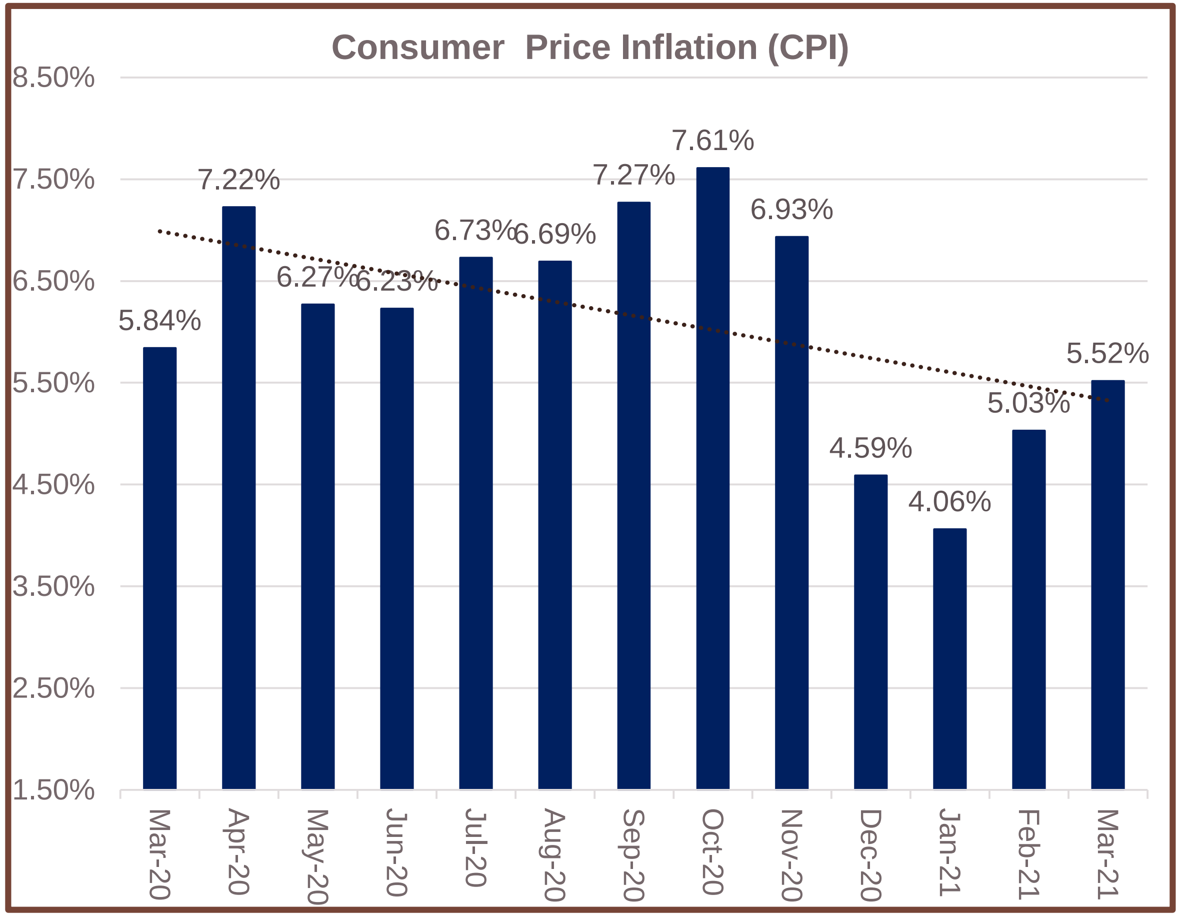
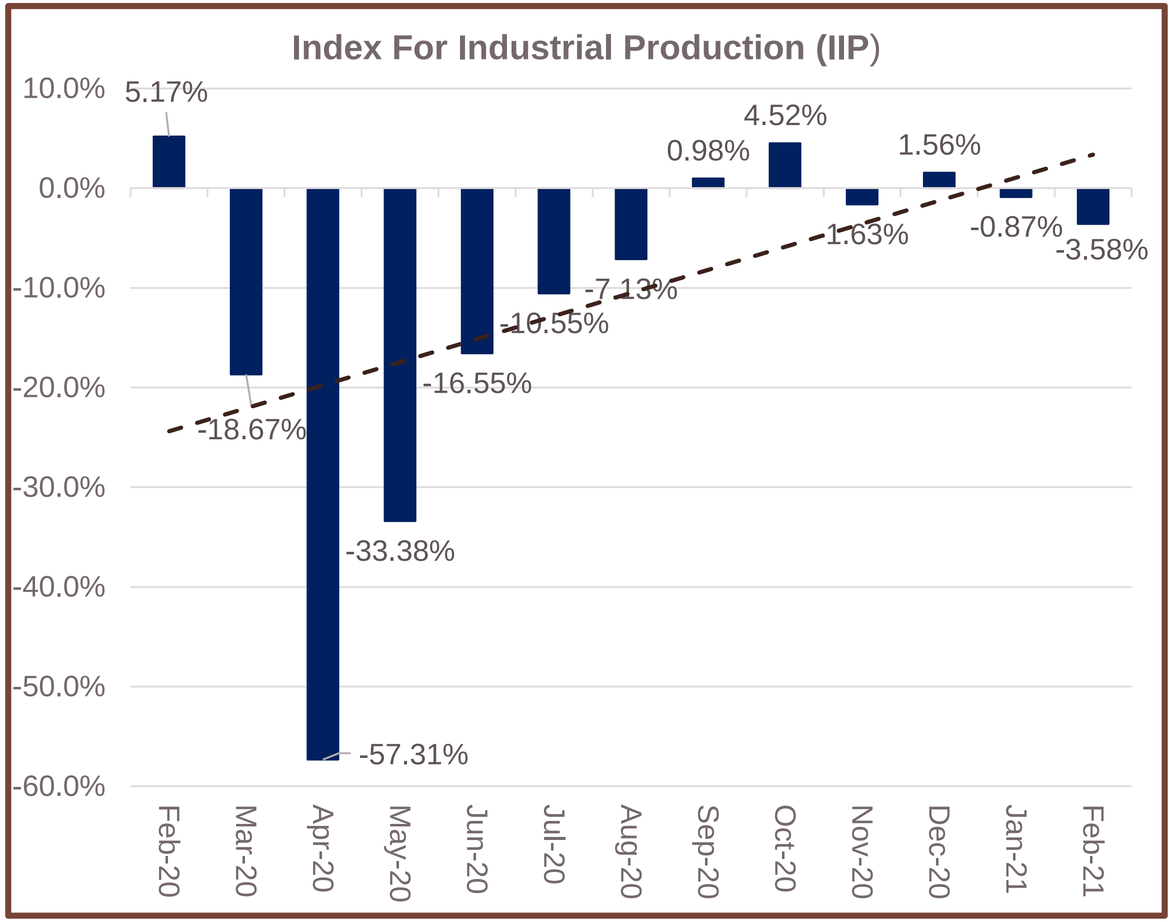
Retail Inflation was below the RBI upper tolerance level for the fourth consecutive month after being above it for eight consecutive months



Industrial Production was in the negative territory for the second consecutive month in Feb'21



Source: DBIE, RBI

Macro Indicators

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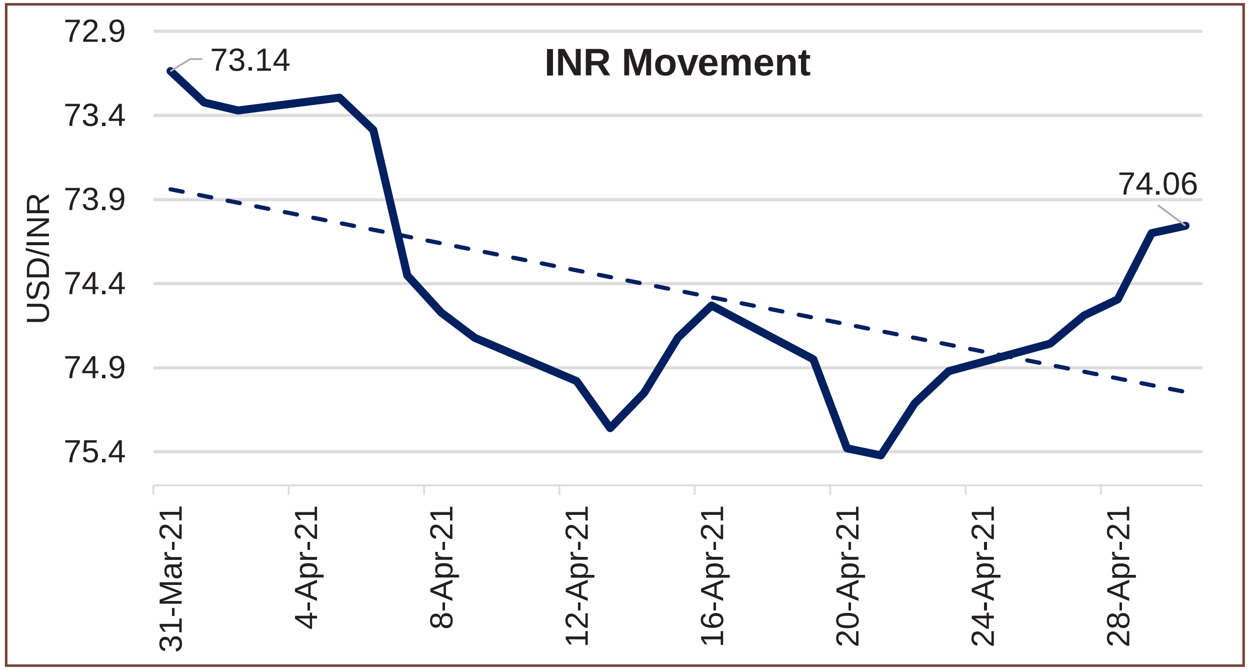
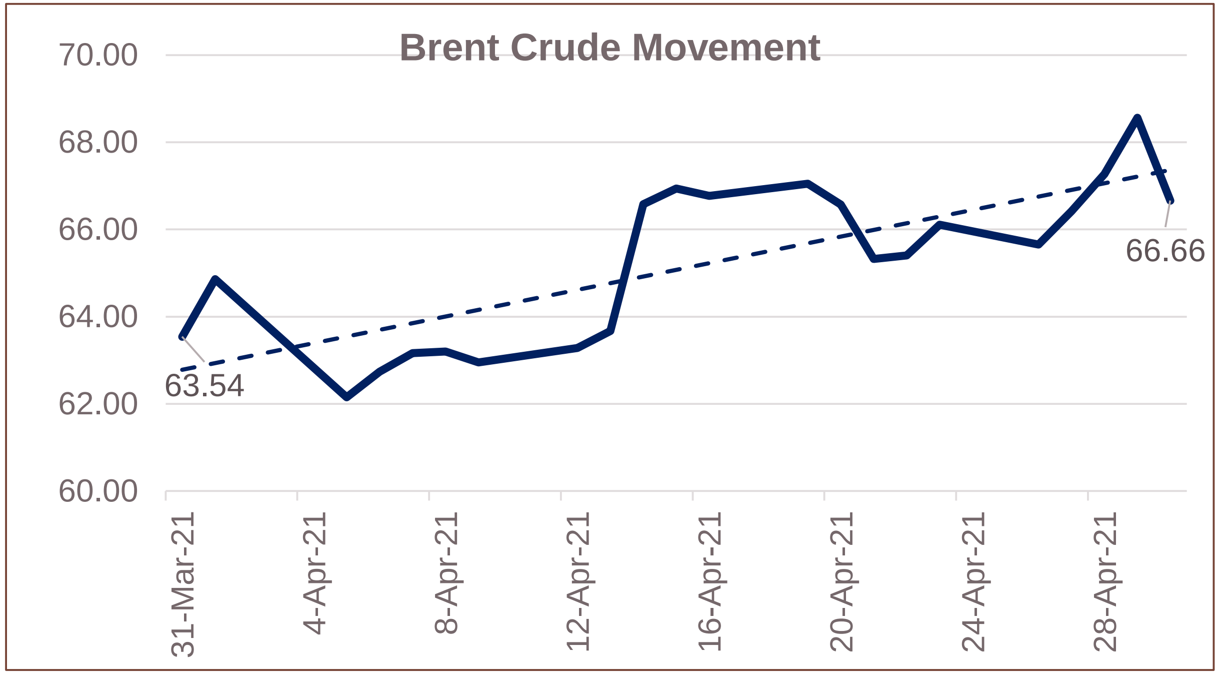
	Current	Month Ago	Quarter Ago	Year Ago
Economic Indicator				
Consumer Price Index (CPI)	5.52% (Mar-21) ↑	5.03% (Feb-21)	4.59% (Dec-20)	5.84% (Mar-20)
Wholesale Price Index (WPI)	7.39% (Mar-21) ↑	4.17% (Feb-21)	1.95% (Dec-20)	0.42% (Mar-20)
Industrial Production (IIP)	-3.58% (Feb-21) ↓	-0.87% (Jan-21)	-1.63% (Nov-20)	5.17% (Feb-20)
GDP	0.4% (Dec-20) ↑	NA	-7.3% (Sep-20)	4.1% (Dec-19)
Trade Deficit ($ bn)	15.24 (Apr-21) ↑	14.10 (Feb-21)	14.54 (Jan-21)	6.92 (Apr-20)
Commodity Market				
Brent Crude ($/barrel)	66.66 (30-Apr-21) ↑	63.54 (31-Mar-21)	55.88 (29-Jan-21)	25.27 (30-Apr-20)
Gold ($/oz)	1,768.60 (30-Apr-21) ↓	1,713.80 (31-Mar-21)	1,850.30 (29-Jan-21)	1,704.90 (30-Apr-20)
Silver ($/oz)	25.92 (30-Apr-21) ↓	24.53 (31-Mar-21)	28.82 (31-Jan-21)	15.27 (30-Apr-20)
Currency Market				
USD/INR	74.06 (30-Apr-21) ↑	73.14 (31-Mar-21)	72.88 (29-Jan-20)	75.08 (30-Apr-20)

Source: Currency & Commodity – Investing.com, Economic Indicators – DBIE, RBI & News Articles

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

INR and Brent Crude Performance





INR Performance: After a volatile month the rupee depreciated against the greenback to close the month at 74.06 in Apr'21 from 73.14 in Mar'21. The rupee initially depreciated against the U.S. dollar, on the back of **RBI's quantitative easing announcement** and greenback demand from importers & short-covering. Later during the month the rupee rose against the greenback following **gains in the domestic equity market**. However the gains were capped by the **continuous increase in coronavirus cases** in India deepened uncertainty of a delay in economic recovery.

Brent Crude: Brent crude oil prices rose by ~5.0% in April from a $63.54 per barrel to $66.66 per barrel. Global crude oil prices rose initially as **IEA and OPEC upgraded forecasts for oil demand as major economies** continue recovery from the pandemic. Later during the month it rose further as OPEC+, stuck to its plans for a gradual easing of oil production curbs from May to Jul of 2021. However, concerns over the impact of **rising COVID-19 infection cases** in Brazil, India and Japan capped the gains.

Source: Investing.com

Equity Market - Review

Equity Market Roundup - Key Takeaways

Performance: Indian equity markets ended the **volatile month a tad in the red** with the Sensex and Nifty both losing 1.47% and 0.41% respectively.

Domestic factors that played out for the Indian markets:

- Investor sentiments were weighed down by another record number of new COVID-19 infections and daily deaths also hitting their highest each coming day. Thus raised concerns that the government may go for stricter lockdowns to curb the second wave of corona virus infection.
- Nonetheless, the fall was cushioned by **RBI Governor's decision to keep rates unchanged** in the first bi-monthly monetary policy meeting of FY22 held in the beginning of the month along with holding the GDP growth rate steady at 10.5% for new financial year.
- Buying interest found additional support as **International Monetary Fund (IMF) boosted India's economic growth forecast** for the current fiscal year by one percentage point to 12.5%.
- Reports of **government moving to fast-track approvals for foreign COVID-19 vaccines** muffled the fall.
- **Upbeat earning numbers** for the quarter ended March 2021 boosted market sentiments after a major private sector bank reported strong earning numbers.
- Market sentiments were dampened as various **brokerage houses and agencies downgraded India's GDP growth projections** for the current fiscal year in the later half of the month.

Global factors that shaped the graph of the Indian markets:

- Positive global cues of the U.S. Federal Reserve keeping interest rates unchanged in its monetary policy review and re-affirming its accommodative policy to support the economic recovery cushioned the fall in the market.

Outlook: With the **second wave** of the virus on its full throttle, **restrictions, lockdowns and night curfew** being the order of the day in most of the states in India, **vaccine shortage** looming on the governments head; the vacation season has kicked off to gloomy start and it has dampened investor sentiments. Even though the severity of **second wave seems intense, the pandemic appears manageable** v/s. the first wave due to availability of vaccines in the first place. Furthermore, as current **vaccination** drive and approvals progress, **the supply side is expected to improve in the coming months**. Besides, the **RBI has once again risen up to the occasion** and announced Resolution Framework 2.0 and various other measures to bring about stability to a rather uncertain situation. While near term **volatility may be high**, **markets may consolidate** before taking further direction based on **economic recovery indicators, bond yields, FII, DII and FPI flows and Monetary and Fiscal policy.**

Equity Dashboard – April 2021

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Index	Closing Value	1-Mth Return (%)	YTD Return (%)	1 Yr. Return (%)	Current Value - Trailing		
					P/E	P/B	Dividend Yield
S&P BSE Sensex	48,782	-1.47	2.16	44.68	32.10	3.25	0.82
Nifty 50	14,631	-0.41	4.64	48.39	32.21	4.19	1.00
Nifty 100	14,791	-0.11	4.97	47.80	33.47	4.26	1.02
Nifty 200	7,684	0.16	6.25	51.11	34.38	4.03	1.01
Nifty 500	12,364	0.41	7.35	54.31	35.37	3.98	0.98
Nifty Midcap 100	24,196	2.12	16.09	79.20	42.40	2.92	0.96
Nifty Smallcap 100	8,565	5.57	20.85	110.03	64.61	3.47	0.63

Data as on 30 Apr'21; Source: NSE and BSE

- The Indian Equity markets closed the month on a mixed note, while the broader markets clocked in gains, **the key market indices – Sensex (-1.47%) and Nifty (-0.41%) closed in the red**, meaning that the fall was not broad based. The movement of the market were governed by the following factors:
  - Domestic Factors – Market participants continued to maintain cautious stance with the COVID-19 situation in the country getting grimmer day by day.
  - As the states announced, restrictions, lockdown and curfews which lead to slowing down of economic activity several agencies and brokerage houses cut their GDP forecast for FY22 which further dampened the market sentiments.
  - Global cues - Positive global cues supported the market after the U.S. Federal Reserve kept interest rates unchanged in its monetary policy review and re-affirmed its accommodative policy to support the economic recovery.
- **For the month while FII were net sellers, DII were net buyers.** For the full year and YTD the FII were net buyers, while the DII were net sellers.

Index*	1-Mth Return (%)	YTD Return (%)	1 Yr. Return (%)
Metal	24.19	53.64	164.18
Health Care	10.33	8.53	53.47
Telecom	3.52	5.77	18.32
Oil & Gas	1.18	6.43	24.28
Energy	0.68	4.62	36.20
PSU	0.42	16.44	40.68
Power	0.24	20.32	66.46
Bankex	-0.65	3.95	50.88
IT	-0.89	8.49	84.80
Consumer Durables	-1.53	6.35	57.49
Auto	-2.63	4.11	62.31
FMCG	-2.85	-0.80	16.14
Capital Goods	-4.00	8.04	66.18
Realty	-7.57	-0.40	70.18

*S&P BSE Sectoral Indices . Source: BSE

Equity Flow (Rs. Cr.)	1-Mth	YTD	1 Yr.
FII	-12,039	40,231	194,546
DII	11,360	-11,764	-120.912

Source: Moneycontrol

Category Average Performances – April 2021

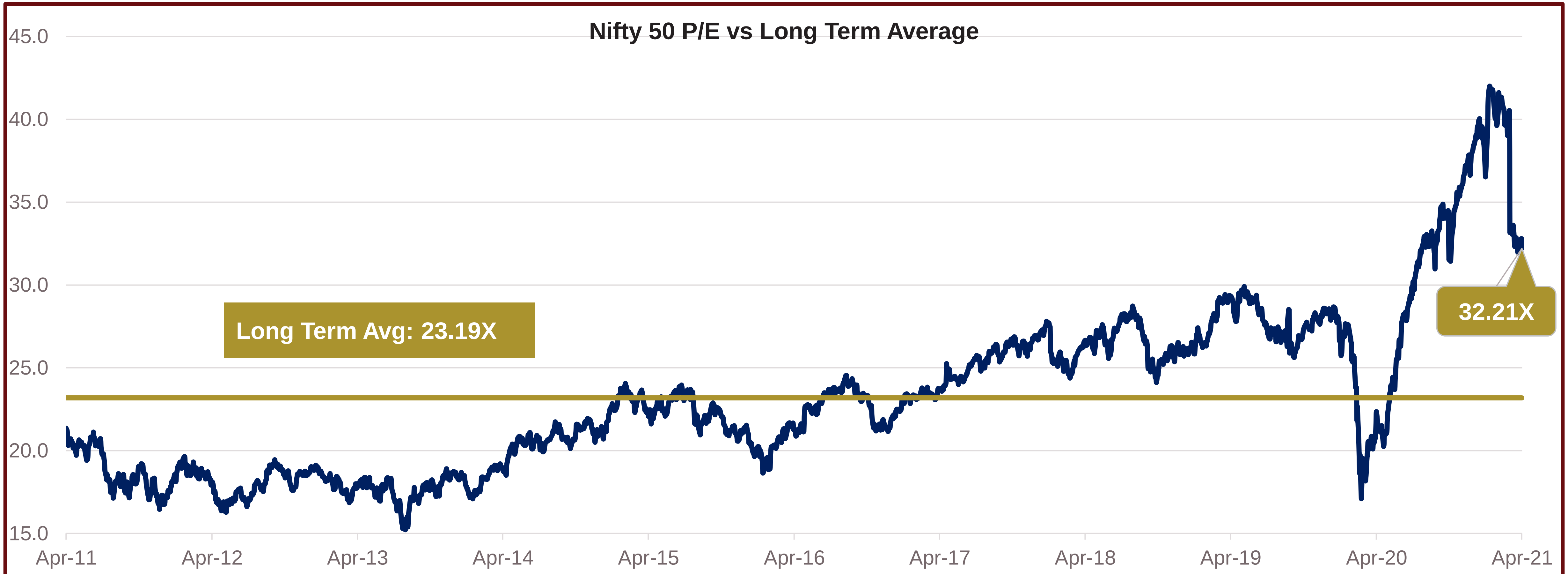
- **During the month** under consideration all the categories recorded marginal positive returns with the small cap outsmarting the rest and the exception of large cap which was marginally in the red. Among the sectoral funds, while FMCG, Financial Services and Infrastructure delivered negative returns, Healthcare was the clear winner.
- **For the full year** all the categories were in the green registering a double digit return. Small Cap was the best performing category. Among the sector based and thematic funds while Technology was the best performing sector followed by Infrastructure, Healthcare, Consumption and Financial Services.
- **On a 3 year CAGR** basis most of the categories delivered single digit return with the exception of Multi Cap which registered gains in the early double digit. Among the sector and theme based funds Technology and Healthcare were the top performers.
- **With respect to the 5 year CAGR returns** most the categories have early double digit return with the exception of Technology which clocked in gains of over 20%.

Category	Absolute Returns (%)				CAGR (%)		
	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Large Cap	-0.1	7.0	24.6	43.4	12.2	9.5	12.4
Large & Mid Cap	1.0	11.0	30.5	54.2	15.6	8.9	13.8
Multi Cap	1.9	13.3	34.4	57.3	16.5	10.0	13.8
Flexi Cap	0.5	8.9	27.4	48.9	14.0	9.8	13.5
Mid Cap	1.4	14.0	35.1	67.3	20.0	9.4	14.7
Small Cap	4.4	19.1	43.1	91.4	23.4	8.2	15.2
Focused	0.4	8.9	27.8	48.6	14.0	9.5	13.9
ELSS	0.5	9.3	28.1	51.4	14.0	8.5	13.5
Contra	0.0	9.4	33.6	62.0	15.5	9.8	14.7
Dividend Yield	1.4	10.8	30.0	55.7	14.4	7.1	13.1
Value	1.0	11.1	32.4	59.1	12.5	6.0	12.5
Sectoral / Thematic							
Consumption	0.4	7.1	27.3	50.0	16.0	9.1	15.3
Infrastructure	-0.1	16.2	43.3	64.1	12.0	3.8	11.1
Financial Services	-0.8	7.9	33.7	49.2	7.2	6.9	13.9
FMCG	-2.6	2.3	17.3	23.4	6.0	5.5	11.5
Healthcare	8.9	11.5	20.1	51.2	34.7	21.5	11.8
Technology	1.4	9.7	30.3	91.9	31.1	23.8	20.5

Source: Morningstar Direct

Valuations on the Trailing P/E Metrix

Nifty 12-month trailing P/E of 33.21x is above its historical long term average of 23.19x



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For Client Circulation.

Source: NSE India

Valuations on the Trailing P/BV Metrix

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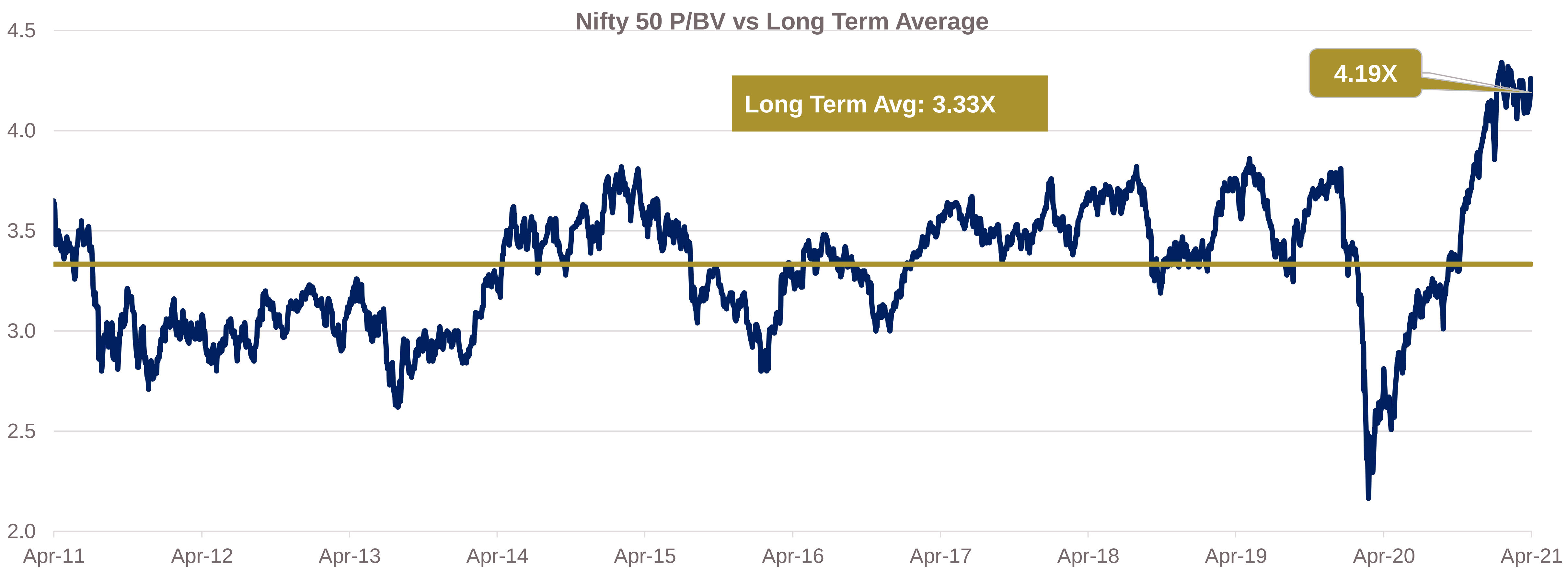
At 4.19x, the Nifty Trailing P/B is above the historical long term average of 3.33x.



Source: NSE India

Valuations on a Trailing Dividend Yield perspective

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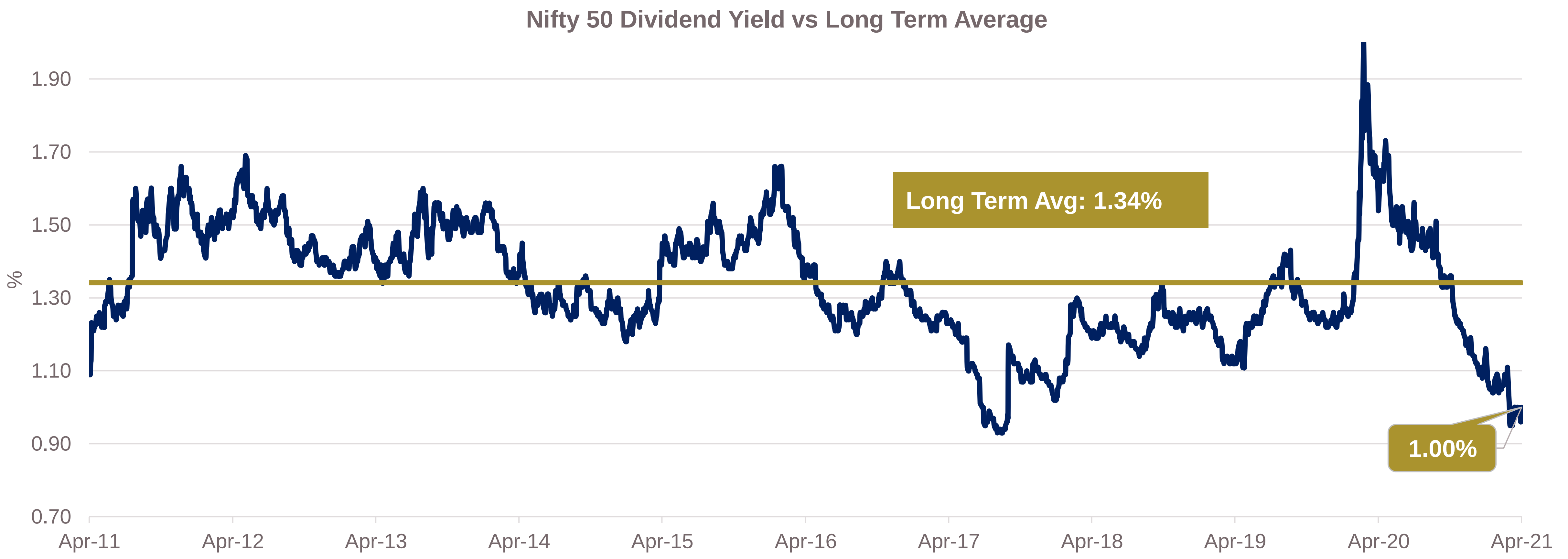
At 1.00%, the Nifty Trailing Dividend Yield is below the historical long term average of 1.34%.



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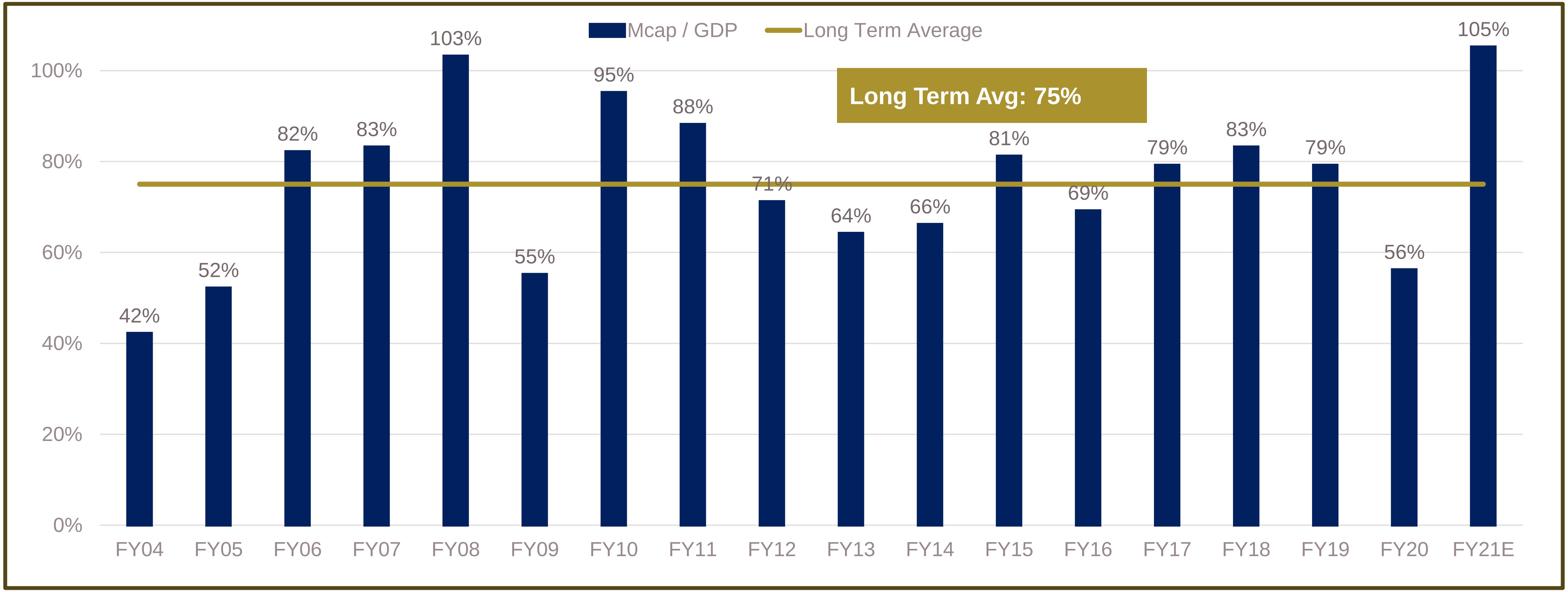
For Client Circulation.

Source: NSE India

Valuations on a MCap / GDP perspective

On Market Capitalisation to GDP parameter the market is trading above the historical long term average



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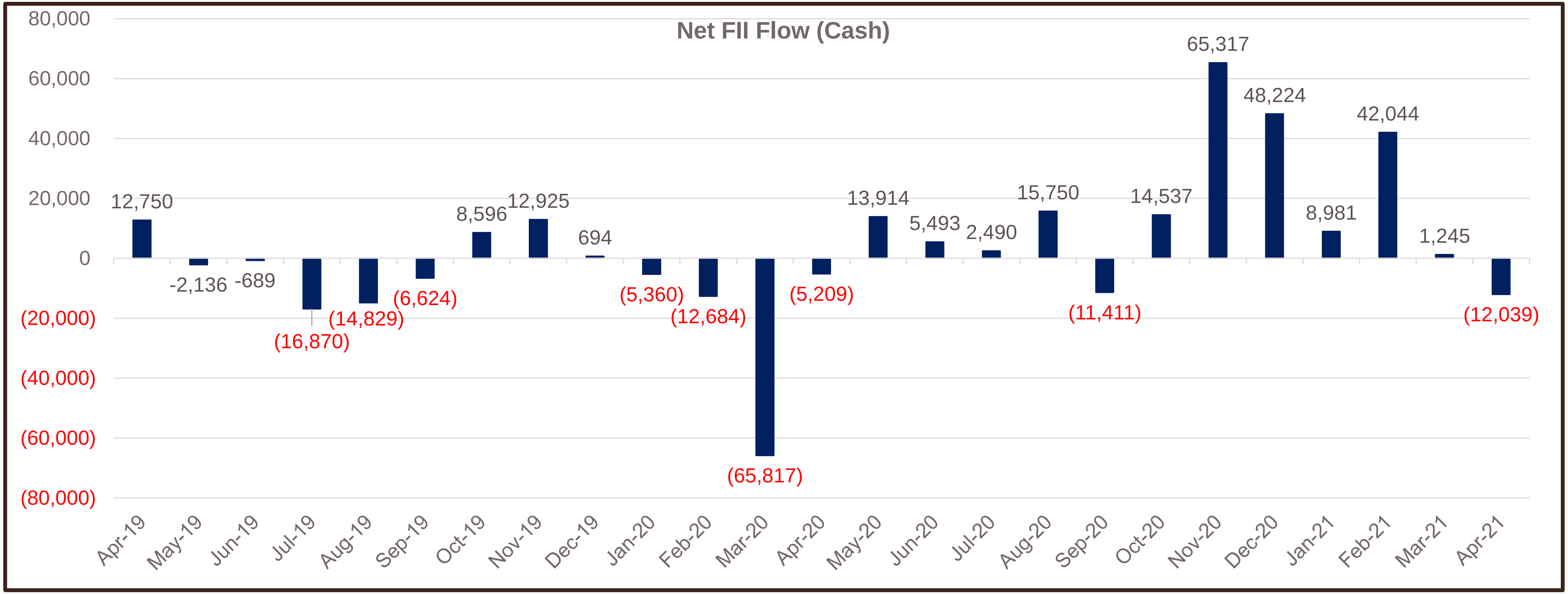
Source: Kotak AMC

FII Flow into Equity

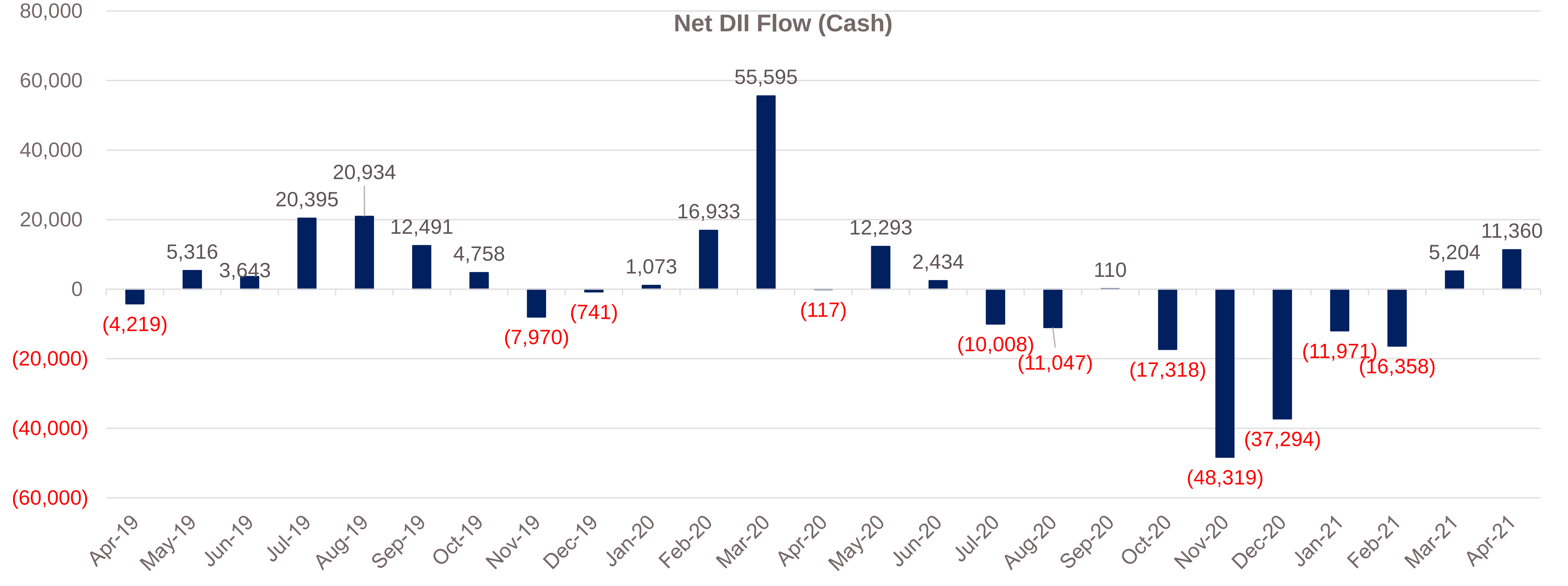
FII registered an outflow to the tune of Rs. 12,039 cr in April '21 after sixth consecutive months of positive flow



Source: Moneycontrol

DII Flow into Equity

After being net sellers for five consecutive months; March and April witnessed a positive flow



Source: Moneycontrol

Debt Market - Review

Debt Market Roundup - Key Takeaways

- The month has **witnessed softening of yields mainly in the longer end while the shorter end witnessed hardening on the back of Special OMO announced by RBI**. The India 10-Year Government Bond yields closed the month lower by 15 bps at 6.03% in Apr'21.
- Bond yields plunged as a surge in coronavirus cases **increased expectations that the Reserve Bank of India's (RBI) monetary policy would likely remain accommodative for extended period of time**. Sentiment turned further bullish after the RBI on its first monetary policy meeting of FY22 **announced Rs.1 lakh crore worth of purchases of government securities till Jun 2021 end (G-SAP 1.0)**. Bond yields fell after the **Indian government indicated that it is not in favour of a nationwide lockdown as India** witnessed unprecedented surge in daily COVID-19 infection cases.
- After hitting a 16-month low of 4.06% in January 2021 **CPI inflation spiked up once a**gain to 5.52% in March 2021 nonetheless remaining below the RBI upper tolerance limit for the fourth consecutive month.
- **Core inflation exhibited sticky behaviour and inched up to 5.72% from 5.59% in February 2021**, signalling an improvement in demand and presence of some pricing power in the economy.
- **Index for Industrial production witnessed contraction** to the extent of 3.6% in February as against a contraction of 0.9% in January.

Outlook:

- With the **lead indicators loosing momentum** as the second wave of COVID has taken full momentum and with over 20 states imposing complete lockdown; RBI has on its part in an unscheduled statement did "**Whatever it takes**" by announcing Resolution Framework 2.0 for individual, small businesses and MSMEs and Term liquidity facility of Rs. 50,000 cr to ease access to emergency health services. With CRR rollback has been implemented; what remains to be seen with the only tool of OMOs / Operation twist how long will it be able keep liquidity ultra easy and interest rates low **–"As long as necessary".**
- In the near-term trend in debt market would be guided by **market support measures that the RBI announces from time to time**. However, the broader directional trend would mainly depend on how the **growth-Inflation dynamic shapes up**.
- Going ahead there may be **lack of appetite for taking duration risk** when **interest rates have likely bottomed out, liquidity conditions are normalizing, and fiscal deficit numbers stand elevated.**
- There being **limited scope of rate cuts** which was the major driver for returns in the past couple of years, it's important to **rationalize return expectations going forward**.

Debt Dashboard – April 2021

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	Latest (30 Apr'21)	One Month Ago (31 Mar'21)	One Quarter Ago (31 Jan'21)	Half Year Ago (31 Oct'20)	One Year Ago (30 Apr'20)	M-o-M Change (bps)
Interest Rates						
Repo rate	4.00%	4.00%	4.00%	4.00%	4.00%	0
SLR	18.00%	18.00%	18.00%	18.00%	18.00%	0
CD Rates						
3 month	3.38%	3.28%	3.48%	3.20%	4.40%	10
6 month	3.73%	3.48%	3.73%	3.43%	5.25%	25
1 Year	4.13%	3.95%	4.03%	3.80%	5.60%	18
T-Bill/G-sec						
91 Days	3.31%	3.30%	3.34%	3.19%	3.63%	1
364 Days	3.68%	3.77%	3.65%	3.45%	3.59%	-9
India 10 Year G-Sec Yield	6.03%	6.18%	5.95%	5.88%	6.11%	-15
AAA Corp. Bonds (PSU)						
1 Year	4.19%	4.02%	4.14%	3.85%	5.95%	17
3 Year	4.66%	5.35%	4.82%	4.62%	6.20%	-69
5 Year	5.77%	6.16%	5.54%	5.48%	6.35%	-39
AAA Corp. Bonds (NBFC)						
1 Year	4.39%	4.37%	4.39%	4.07%	6.71%	2
3 Year	5.05%	5.66%	4.97%	4.93%	6.95%	-61
5 Year	5.97%	6.51%	5.96%	5.92%	7.27%	-54
International Markets						
10 Year US Treasury Yield	1.63%	1.74%	1.07%	0.87%	0.65%	-12

- The **money market instruments witnessed a sharp rise in the yields** as RBI announced **special OMO** - simultaneous purchase and sale of government securities.
- Both **U.S. Treasury Yields** and **India 10 year Gsec cooled down** backed by the respective **central banks dovish comments.**
- With respect to the **yields in long term AAA Corp. Bond - PSU & NBFC Papers; while the shorter end witnessed a rise the longer end fell sharply on the back of Special OMO.**
- In line with market expectations the RBI kept the **policy rates and the reserve ratio unchanged** in the April MPC meet.

Source: IDFC AMC, G Sec – Investing.com

Debt Category Average Performances – April 2021

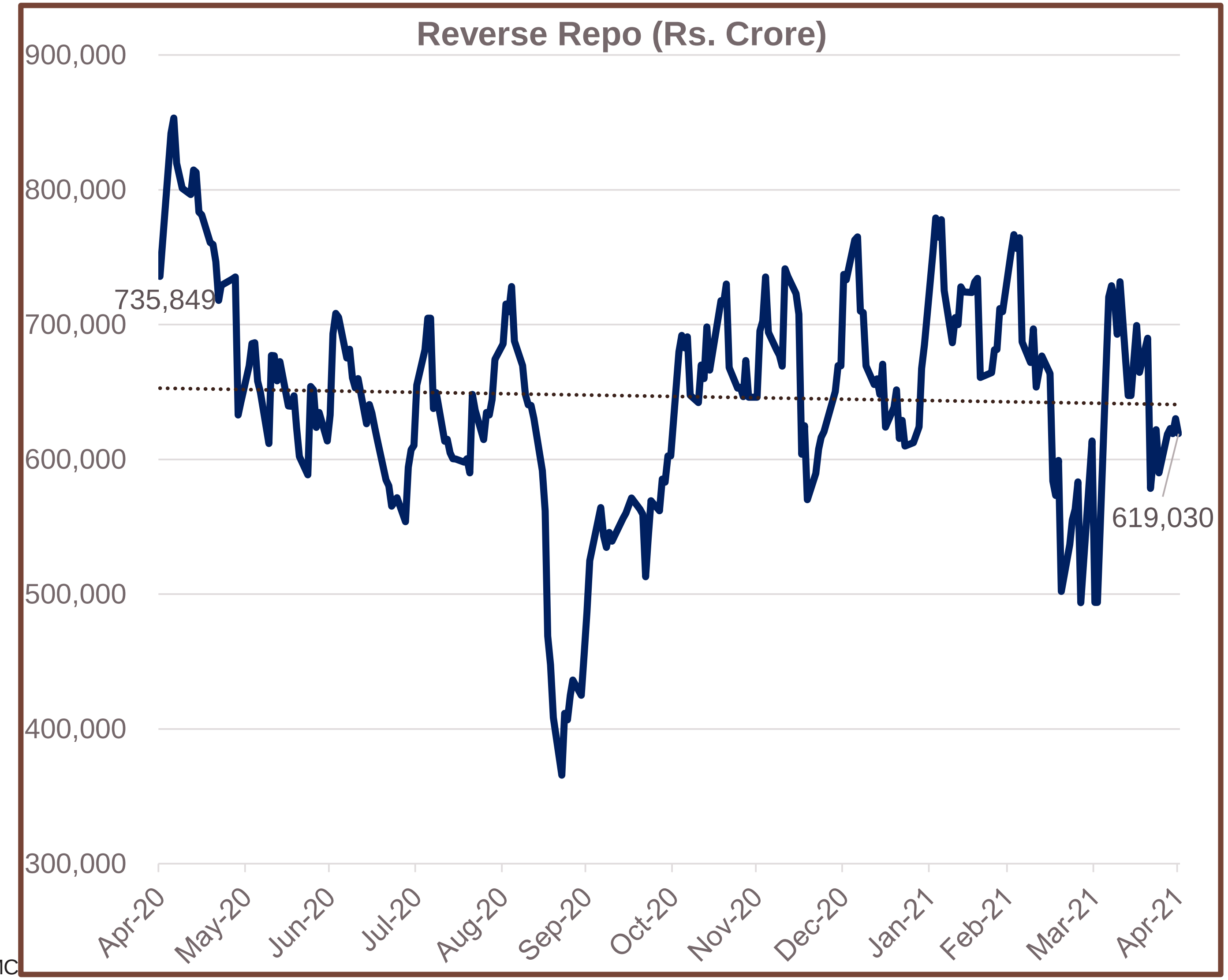
- **During the month** under consideration all the three broad categories – Money Market, Accrual and Duration were in the green on the back of dip in the yields witnessed in the most of the categories. With respect to the **3 months and 6 months trailing returns** most of the categories gave positive returns with the exception of few patches of red here and there in the accrual & duration category.
- **For the full year** all the categories were in the green with the exception of Credit Risk funds where there were some credit events which led to the categories reporting negative category average returns.
- **On a 2 year CAGR** basis none of the categories have delivered a double digit growth with the exception of Long duration Funds & Gilt which reported early double digit growth.
- **With respect to the 3 and 5 year CAGR returns** most the categories reported Mid and late single returns with the exception of credit risk which underperformed.

Money Market	Absolute Returns				CAGR		
Category	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Overnight	0.2	0.7	1.5	3.0	3.9	4.6	5.2
Liquid	0.2	0.6	1.2	2.6	3.7	4.5	5.8
Ultra Short Duration	0.3	0.9	1.1	3.9	5.8	6.0	6.4
Low Duration	0.4	1.1	2.0	7.2	3.3	4.6	5.6
Floating Rate	0.5	1.0	2.4	7.8	7.6	7.5	7.5
Money Market	0.4	1.1	1.8	4.7	5.8	6.1	6.2
Accural	**Absolute Returns**				**CAGR**		
Category	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Short Duration	0.7	0.9	1.8	7.8	6.3	6.5	6.7
Medium Duration	0.7	1.1	0.2	3.8	5.1	5.4	6.3
Banking & PSU Debt Fund	0.6	0.9	1.9	7.8	8.9	8.4	7.9
Corporate Bond Fund	0.6	0.9	2.0	7.2	7.9	7.6	7.5
Credit Risk	0.7	0.0	-1.9	-3.2	0.3	1.5	3.7
Duration	**Absolute Returns**				**CAGR**		
Category	1 M	3 M	6 M	1 Y	2 Y	3 Y	5 Y
Medium To Long Duration	0.8	0.4	-1.3	4.0	8.1	7.6	7.1
Long Duration Fund	0.8	-0.5	1.0	5.6	11.1	9.7	8.7
Dynamic	0.7	0.6	0.9	5.5	7.8	7.6	7.3
Gilt	0.9	0.2	1.1	5.4	10.1	9.5	8.4

Source: Morningstar Direct

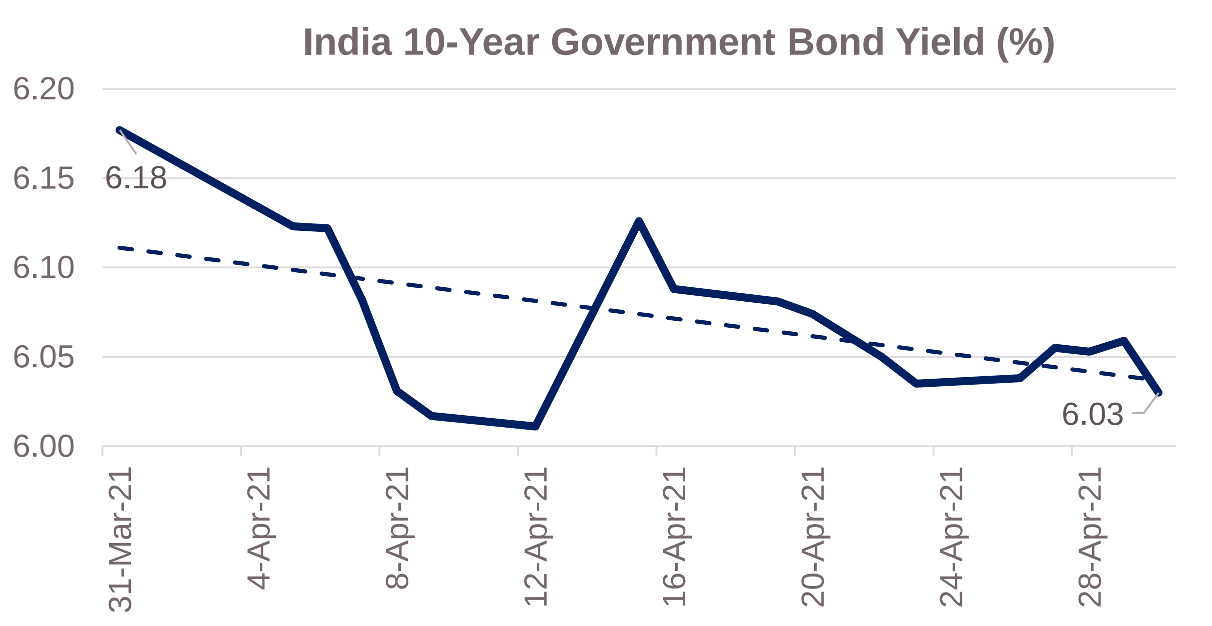
Money parked in Reverse Repo window

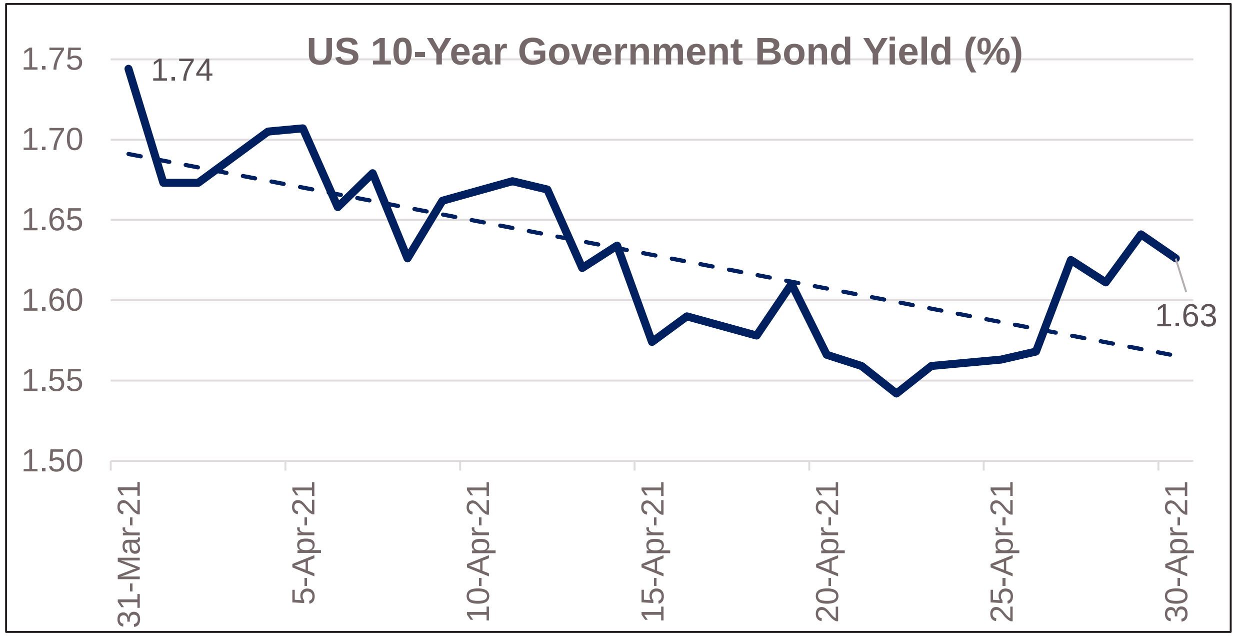
On persistent efforts by RBI to keep **liquidity ultra easy** and **accommodative policy for a long tenure**, a couple of months since November 2020 witnessed extreme **short-term banks, corporate and government borrowing rates remaining below its policy benchmark rates**. This gave RBI legroom for liquidity management and normalization by conducting **a 14- day variable rate reverse repo auction and CRR the rollback of CRR in a phased manner.** During the month under review the **banks on an average are parking Rs. 5.48 lakh crore to the reverse repo window** as against Rs. 6.28 lakh crore in March.



Source: IDFC AMC

Yields Movement Across - India and U.S.





- **10-year India Government Bond Yield:** The India 10-Year Government Bond yields closed the month lower by 15 bps at 6.03% in Apr'21. Bond yields plunged as a **surge in coronavirus cases increased expectations that the Reserve Bank of India's (RBI) monetary policy would likely remain accommodative** for extended period of time. Sentiment turned further bullish after the RBI on its first monetary policy meeting of FY22 announced Rs.1 lakh crore worth of **purchases of government securities** till Jun 2021 end. Bond yields fell after the **Indian government** indicated that it is **not in favour of a nationwide lockdown** as India witnessed unprecedented surge in daily COVID-19 infection cases.
- **U.S. Treasury Yield:** After a volatile roller coaster month U.S. Treasury yield closed lower by 9 bps at 1.63% in April'21. The prices rose on the back of **dovish comments from U.S. Fed Chairman**, on possible safe-haven appeal amid increased U.S.-Russia tensions and on news that the **U.S. President will propose a tax hike for high earners**. However, a batch of largely **upbeat U.S. economic data**, including retail sales that surged by much more than expected in Mar 2021 capped the gains.

Source: Investing.com

Key Highlights – RBI Announcement

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Key Highlights

- The **RBI will deploy all resources at its disposal** to counter the impact of the virus.
- **2nd G-SAP** to be conducted on 20 May 2021 of Rs. 35,000 cr.
- **Term liquidity facility of Rs. 50,000 cr** to ease access to **emergency health services**.
- **Resolution Framework 2.0** for individual, small businesses, MSMEs
- "**Foreign exchange reserves** were at US$ 588 billion on April 30, 2021. This gives us the confidence to deal with global spill overs."
- "**Committed to go unconventional** and devise new responses as and when the situation demands."

Summary

- The Governor highlighted that though **global economies are showing signs of recovery** but the outlook for global growth is still uncertain and activity remains uneven across countries and sectors. The **CPI inflation** also remains benign across the major economies and financial markets have also **regained momentum in April.**
- Domestically the **high frequency indicators are emitting mixed signals** but RBI doesn't expect any major deviations from the projections for the economy made in April MPC.
- With **sufficient liquidity in the system and comfortable foreign exchange reserves** RBI is now focussing on channelizing its liquidity operations to support growth which is evident in the steps taken by RBI for additional liquidity for healthcare services / small finance banks / opening of second window for restructuring.
- All these measures and the tone of the RBI should support both the equity and debt markets going ahead. Bond markets reacted positively to RBIs announcements with the **10 year Gsec yields falling below 6% for the first time since December 2020.**

Investing Outlook

- Despite no indications of rate hikes domestically in near term we continue to maintain our stance of investing in shorter end of the curve through MF categories like **Low Duration / Floating Rate Funds**.
- Good quality **Corporate Fixed Deposits** also appear to be an attractive option for **1-2 years horizon**.
- For **longer term investments Short Term Funds / Corporate Bond Funds** continue to be our preferred categories.

Thank You!

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