Equity Market Review

L&T Financial Services
Mutual Fund

January, 2019

Markets ended the month of Jan in a mixed note as crude made recovery amid supply cuts and rupee depreciated. The S&P BSE Sensex and the broader Nifty50 index ended with (-0.3%) and (+0.5%) returns, respectively. Broader markets underperformed the benchmark indices with BSE Midcap and Smallcap indices falling between 5-6%.

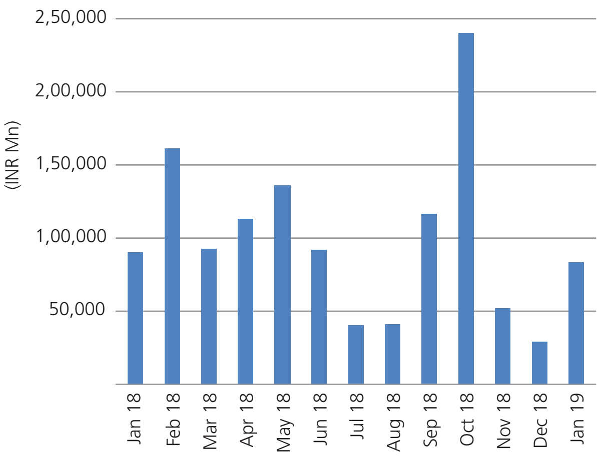
Worldwide, all the global indices ended on a positive note as worries over trade war subsided, which also eased global growth concerns and crude rallied on the back of cuts. Hang Seng, Dow Jones, Euro Stoxx, Nikkei and FTSE100 gained between 4-8%.

On the sectoral front, BSE IT index and Bankex gained between 1-8%. However, Auto, Oil & Gas, Consumer Staples, Power, Metal and Capital Goods slipped between 1-11%.

Institutional Activity

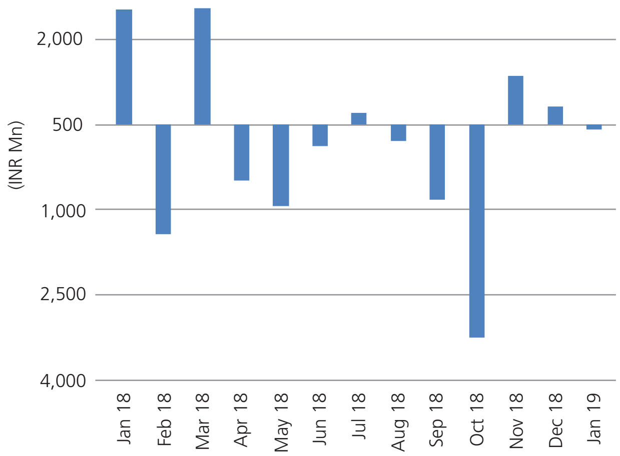
FII turned sellers after two months with outflows of $460 million. Domestic investors continued to be buyers of higher quantum compared to previous month with inflows of $300 million. Domestic Mutual funds buying was strong with net inflows of $1.2 billion while insurance companies were sellers to the quantum of $880 million.

Inflows by MF in Equity (INR Mn) - Net



Source: CMIE, Edelweiss Securities

Inflows by FII in Equity (USD Mn)



Source: CMIE, Edelweiss Securities

Macro-economic Developments

IIP for the month of November dropped to a 17 month low of 0.5% which was significantly below estimates. Manufacturing growth contracted by 0.4% while capital goods were also down by 3.4%. Positive growth was seen only in 10 out of 23 industry groups in the manufacturing sector.

CPI continued to be soft with December number coming at an 18 month low of 2.2% on the back of fall in fuel (4.5%) and Transport (4.3%). Food price continued to witness deflationary trends. Core inflation was stable at 5.7% as health and education inflation rose further. Trade deficit for the month of December narrowed to 10 month low of $13.1 billion on the back of fall in crude and gold imports.

Export growth has remained stagnant, staying weak across all major categories as the short period of currency depreciation does not seem to have impacted export growth. With inflation remaining benign and MPC scheduled to meet for its next policy meet on February 7, the market is expecting RBI to change policy stance and possibly cut rates in the backdrop of inflation data.

House View

Nifty has started CY19 on a weak footing (-0.3%) after a muted (+3%) CY18. Indian macros are getting better with crude oil softening from recent highs and currency has also stabilized as a result. Q3FY19 earnings season has started on a strong note with 70% of Nifty companies reporting aggregate profit growth of 9%. Earnings growth so far has been driven by revenue growth, but margins should start recovering too given the recent downtrends in inputs costs.

The key component that was missing for four years in an otherwise solid and strong India story was earnings growth which has started to show early sign of recovery with Q3FY19 earnings season. The pre-election budget offered several goodies to the bottom of the pyramid, but the underlying fiscal math appears optimistic. Income support scheme for farmers and proposed measure in income tax rebate should help low-ticket consumption items. A visible policy support for the property sector, although small, is a welcome move and can bring forward the expected sector revival. Equity markets will witness several critical events in CY19 including national elections whose outcome is still uncertain, global growth concerns and impact of US-China trade war on global markets. India's macros are dependent on crude hence it is also a variable to watch out for.

We expect the economy to recover as GST related disruption seems to be behind us and consumption revives on back of MSP hikes, rural wage growth and implementation of pay commission. We expect earnings revival to be further supported by stable currency and resolution of NPA in banking system. We see a need for stronger corporate governance standards in view of the recent spate of allegations of impropriety. Recent correction provides attractive entry points, as we are positive on long term India story and continue to invest in companies with strong and able management & earnings visibility.

Source: MFI, Bloomberg, MOSPI, Internal