

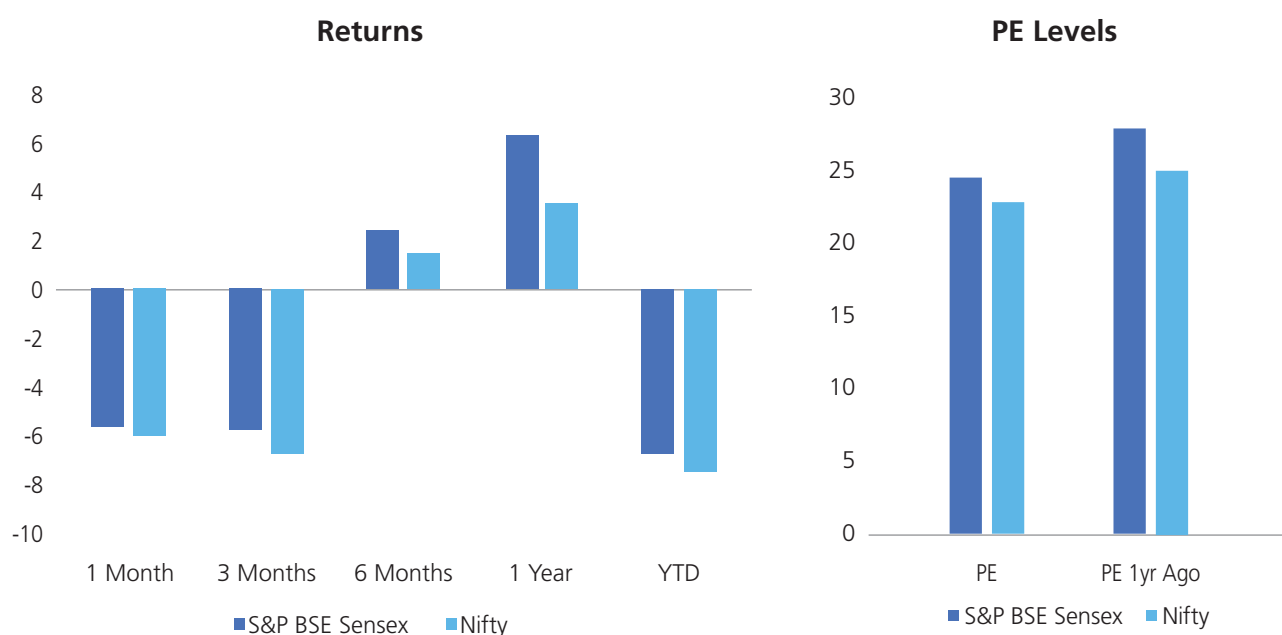
February, 2020

Indian equity markets pared losses post the market sell-off on February 1, 2020 but were not insulated from the global market correction in the second half given increasing concerns from COVID-19, both through weaker exports and imports.

Year-to-date, India is an outperformer versus Emerging Market (EM). Towards the end of February, when markets around the world were falling sharply, India exhibited its low beta characteristic, outperforming its peer group and global equities. Nifty50 and S&P BSE Sensex ended the month of Jan with -6.4% and -6% returns, respectively.

Indian domestic market underperformed the peer group MSCI Emerging Market (-5.3%) albeit still finishing as the 9th best performing market in EM. MSCI AWI Index ended with (-7.7%) returns.

Among broader markets, Midcap index outperformed largecap index by 40 bps while the Smallcap indices underperformed largecap index by 60 bps. BSE Midcap and BSE Smallcap indices ended the month of February with -5.6% and -6.5% returns, respectively.



## Global Markets

Global equities witnessed a sharp sell-off in the second half of the month post rising cases of COVID-19 across countries and subsequent impact on global growth. The World Health Organisation (WHO) on February 28 raised its assessment of the global COVID-19 risk from high to very high, which is the most serious assessment in its four-stage alert system.

Worldwide, all the major indices closed in red. Hang Seng was the outperformer with (-0.7%) returns, followed by Euro Stoxx (-8.6%), Nikkei (-8.9%), and FTSE 100 (-9.7%). Dow Jones was worst performer with (-10.1%) returns.



## Sector Performance

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The wide spread of coronavirus across the globe and lowering of the GDP forecast by Moody's remained the key concern. Healthcare was the best performing sector with (-3.4%) returns outperforming Sensex by (2.5%). Bank (-5.3%), IT (-5.6%), FMCG (-5.8%) outperformed the Sensex. Energy (-9.40%), Power (-9.6%), Capital Goods (-11.8%) underperformed the Sensex. Metal, Auto and Realty were the worst performing sectors with (-13.2%), (-14.3%) and (-15.9%) returns, respectively.

## Institutional Activity

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FII recorded net inflows of \$877 mn in February vs \$2 bn last month, taking YTD inflows to \$17.1 bn. February is the 6th consecutive month of FII inflows in Indian Equities. DIIs continued as net buyers with inflows of \$2.4 bn in Feb vs \$316 mn in January, taking YTD tally to inflows of \$8.7 bn.

Within DIIs, both Mutual Funds and Insurance Funds were net equity buyers at \$663 mn and \$640 mn, respectively. YTD, Mutual Funds were net equity buyers at \$8.3 bn while Insurance Funds remain net equity sellers at \$1.3 bn.

## Macro-economic Developments

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On the economy front, headline CPI rose to 7.6% in Jan vs. 7.35% in Dec on the back of high food inflation (13.6% YoY). This was the highest print in 6 years. Core inflation also firmed up in Jan by 0.7% MoM, aided by gold prices and hike in mobile tariff hikes. Jan WPI inflation continued to accelerate higher for 3rd straight month to 9 months high of 3.1%, as against 2.6% in Dec.

Composite PMI for Jan at 56.3 improved sequentially, led by manufacturing which improved 2.6 pts MoM to 55.3, while services gained 2.2 pts MoM to 55.5.

Dec IIP declined 0.3% YoY after 1.8% gains in Nov. On the use-based front, consumer durables grew 1.5% MoM while non-durables production collapsed 4% MoM respectively.

India's monthly trade deficit at \$15.2bn increased in Jan vs \$11.3 bn in Dec. Fiscal deficit for Apr-Jan 2020 came at Rs 9.9 tn or 128.5% of the revised FY20 deficit (Rs 7.7 tn). India's FX reserves are at an all-time peak of US\$476 bn as of 21st Feb.

In its last MPC meetings on February 6, the RBI kept the policy rates on hold in line with consensus expectations, while maintaining its accommodative stance. RBI has also announced measures to boost monetary transmission.

India's Q3FY20 GDP growth at 4.7% YoY was the lowest since Q1FY14. FY20 GDP growth is estimated at 5% YoY, despite incorporating some depressive impact from COVID-19 which is offset by the revised lower base.

Oil prices declined further by 11% MoM in February to \$50/bbl over concerns of potential demand shock after COVID-19 outbreak. Lower oil prices augur well for Indian macroeconomic outlook.



## Market Outlook

Indian equities market remained volatile as country continued its struggle against domestic slowdown exacerbated by headwinds to global growth due to risks presented by evolving coronavirus situation. However, **Indian equities market outlook remained robust over the medium to long term, as the impact of COVID-19 will be short lived and the focus will be back to fundamentals sooner than later.**

Improvement in recent activity data like Railway traffic, electricity and PMI are key positives. Composite PMI for January rose sequentially +2.5 points MoM to 56.3, a 7-year high. Core GVA (GDP ex agriculture and government), proxy of the private sector business cycle improved much more sharply from 1.6% QoQ in 3Q19 to 4.4% in 4Q19.

Along with these positive indicators, **reforms like improving ease of doing business, lowering of corporate taxes, mega push towards infra through NIP and steps taken in the Union Budget to improve the investment climate will increase the attractiveness of India as an investment destination in the medium to long term, barring the near-term volatilities.** Lower oil prices, recovery in rural income led by good Rabi season will augur well for the economy.

**Black swan event like SARS in 2003 had provided an opportunity to invest in equity markets as NIFTY had rallied 281% over the next 3 years, post 18% correction due to outbreak of SARS.** Likely, COVID-19 may present a similar opportunity to investors. **We continue to maintain our positive outlook on high quality companies having better capital allocation and producing sustained and predictable cash flows over the long time period.**

Source: BSE, NSE, MFIE CRA

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