Equity Market Review

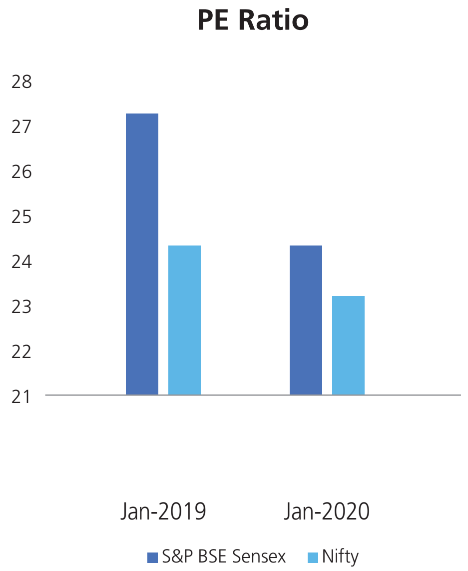
L&T Financial Services
Mutual Fund

January, 2020

Indian equity market remained resilient despite the Coronavirus outbreak leading to a global sell-off. A 15% fall in oil prices in January and high Budget expectations likely drove India's relative outperformance to Emerging Markets (EMs). All eyes were on the Union Budget, with the hope of reviving consumption along with increased capital investment through infrastructure creation.

Union Budget was presented on Feb 1, 2020 and the focus was on attracting more foreign capital into the country via both the equity and debt markets, and reviving growth gradually. Growth assumptions are well anchored, with nominal GDP forecast to grow by 10%. Fiscal consolidation takes a breather, given the growth imperative. Nifty 50 and S&P BSE Sensex ended the month with -1.7% and -1.3% returns, respectively.

Indian domestic market (S&P BSE Sensex) was down by 1.3% but outperformed peer group MSCI Emerging Market (-4.7%) and MSCI APxJ (-3.7%). India's performance rank in EM stood at 7th (among 26 EMs), an improvement from 24th position in December. MSCI AWI Index ended with (-0.7%) returns. Mid and small cap indices outperformed large cap index by 4-8%. BSE Midcap and BSE Smallcap indices ended with 3.3% and 7.1% returns, respectively.



Global Markets

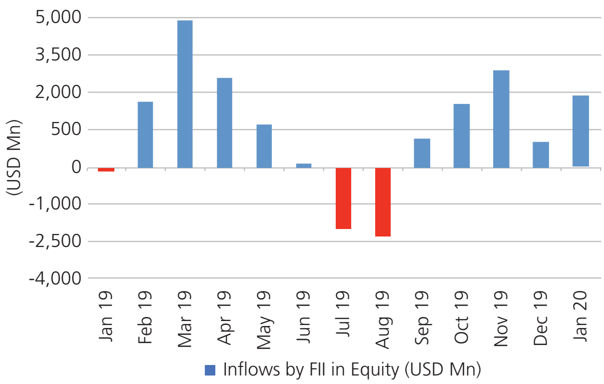
Global equities witnessed a firm start to the year continuing the strong momentum from December quarter. Rising geopolitical tensions between US and Iran were overshadowed by positive news on US-China trade talks with the signing of phase-one trade deal. However, gains in the first half were pared in the second half on concerns about the impact of the Coronavirus on global growth.

Worldwide, major indices closed in red. Dow Jones was the outperformer with (-1%) returns, followed by Nikkei (-1.9%), Euro Stoxx (-2.8%) and FTSE 100 (-3.4%). Hang Seng was the worst performer with (-6.7%) returns.

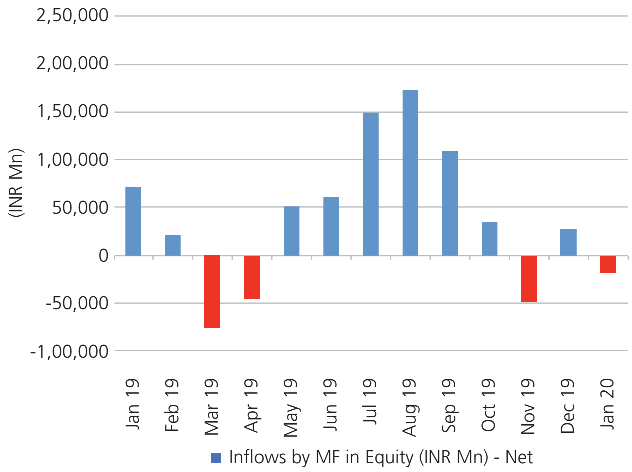
Sector Performance

Positive sentiment in the Indian equities continued with high expectation on Budget while weak global cues led by Coronavirus outbreak in China impacted sectors like Energy and Metal. Realty was the best performing sector with 10.8% returns, outperforming S&P BSE Sensex by 12.1%. Healthcare (3.9%), Capital Goods (3.1%), IT (2.6%), FMCG (2.1%) outperformed S&P BSE Sensex. Bank (-3.80%), Auto (-1.8%), Power (-1.4) underperformed S&P BSE Sensex. Energy and Metal were the worst performing sectors with (-5.6%) and (-9%) returns, respectively.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



Institutional Activity

FII recorded net inflows of $2 bn in Jan vs $862 mn last month taking YTD inflows to $16.2 bn. January is the 5th consecutive month of FII inflows in Indian Equities. DIIs turned net buyers with inflows of $316 mn in Jan vs -$756 mn in December taking YTD tally to inflows of $6.3 bn.

Mutual funds were net equity buyers at $214 mn while insurance funds were net equity sellers of $475 mn in January. YTD, mutual funds were net equity buyers at $7.6 bn while insurance funds remained net equity sellers at $1.9 bn.

Macro-economic Developments

On the economy front, headline CPI rose to 7.35% in December vs. 5.54% in November on the back of high food inflation (12% YoY). This has been the highest print in more than 5 years. Core inflation remained relatively muted and rose 0.5% MoM, largely led by hike in telecom tariff after years of price cuts. Dec WPI inflation rose to 2.59% as against 0.58% in Nov.

Composite PMI for December at 53.7 improved sequentially, led by manufacturing which improved 1.5 pts MoM while services gained 0.6 pts MoM to 53.3.

Nov IIP rose1.8% YoY after 3 consecutive months of declining prints. On the use-based front, both consumer durables and non-durables production saw sequential increase by 10.7% and 3.3% MoM respectively.

India's monthly trade deficit at $11.3bn decreased in Dec vs $12.1 bn in Nov. Fiscal deficit for Apr-Dec 2020 came at Rs 9.3 tn or 121.5% of the revised FY20 deficit (Rs 7.7 tn). India's FX reserves are at an all-time peak of US$ 467 bn, as of 24th January.

Oil prices declined 15.2% MoM in Jan to $56/bbl over concerns on potential demand shock, after Coronavirus outbreak. Lower oil prices augur well for Indian macroeconomic outlook.

Market Outlook

Indian equities market outlook remained robust despite concerns on global growth following Coronavirus outbreak. This is on the back of positive flow of recent activity data – IP, railway traffic, electricity and auto sales. Further, manufacturing PMI jumped to an 8-year high of 55.3 in Jan. Union Budget, presented on 1st Feb provides a more transparent set of fiscal accounts, focuses on improving quality of expenditure and raising resources through asset sales.

In order to improve the investment climate, Union Budget had certain initiatives like abolishing the Dividend Distribution Tax (DDT) and easing investment norms for sovereign wealth funds in the infrastructure sector which will attract FII flows to Indian markets.

In addition to this, Indian government has taken various measures like improving ease of doing business, lowering of corporate taxes and mega push towards infra through National Infrastructure Pipeline (NIP) in order to increase the attractiveness of India as an investment destination. Lower oil prices, recovery in rural income led by good Rabi season and increased spending on infrastructure augur well for the economy.

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.

Union Budget FY21 – Attempt To Support Investment Growth

Focus of the Union Budget is on attracting foreign capital into the country via both the equity and debt markets and reviving growth gradually. Through the Budget, government has tried to support the investment cycle through higher capex, a 13% increase in goverment budgeted expenditure.

Further, there are initiatives announced to improve the investment climate:
(1) Abolishing the Dividend Distribution Tax (DDT)
(2) Easing Investment norms for sovereign wealth funds in the Infrastructure sector
(3) Divestment receipts – budgeting for an all-time high at INR 2,100 bn

Equity market reaction on the day was underwhelming on account of modest growth targeted in the budget and no measures on Long-Term Capital Gains Tax (LTCG). But the big picture read is that the Budget has tried to support the investment cycle by improving the quality of expenditure, with focus on increasing resources through asset sales.

Overall, the key themes from the Budget were:

(1) Managing growth and fiscal prudence with slippage under permissible limits

(2) Budget to support investment growth

(3) Raising resources through asset sales. Overall, the Budget measures support investment over consumption and as such are in line with earlier government measures, such as reduction in corporate taxes

Source: BSE, NSE, MFIE CRA