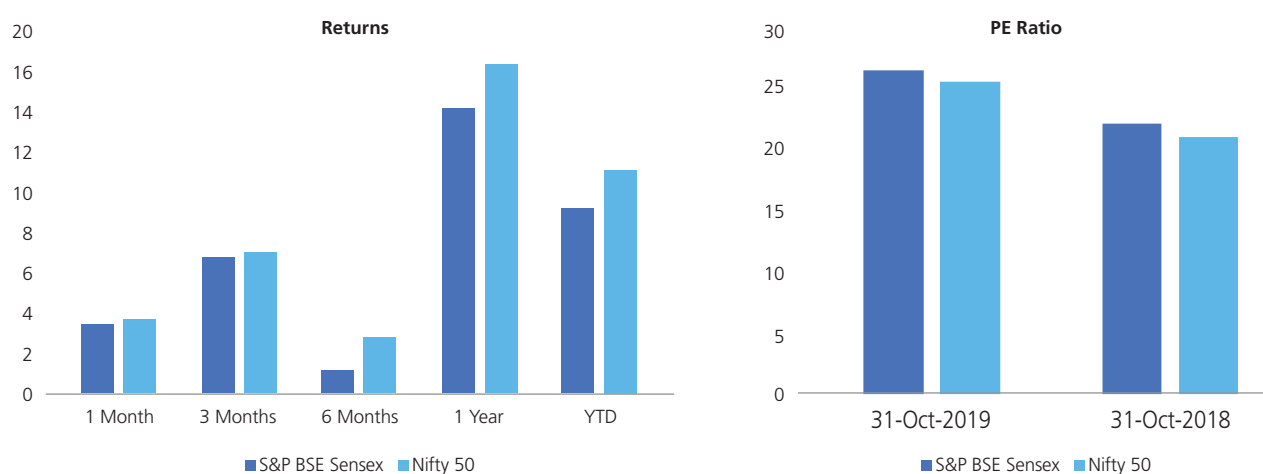


October, 2019

Indian equity market started the month on a weaker note led by concerns around weak macroeconomic data. However, sentiments improved in the later part of month on the back of global risk on rally, better than expected second quarter corporate earnings (albeit off beaten down expectations) and press reports suggesting Government could consider reducing/doing away with long-term capital gains tax, dividend distribution tax and securities transaction tax to boost equity investments.

Nifty and Sensex ended with 3.5% and 3.8% returns, respectively. BSE Midcap index outperformed whereas the BSE Smallcap index underperformed its larger peers. BSE Midcap and Smallcap indices ended with 5.4% and 2.9% returns, respectively. MSCI Emerging market outperformed the Indian domestic market with 4.1% returns. MSCI AWI Index ended with 1.9% returns.



## Global Indices

Global equities rallied on the back of de-escalation of geopolitical risks, as the US and China signaled a likely "phase one" deal on trade and related matters. Better than expected US GDP growth data and monetary easing by the Fed (25 bps cut in policy rates) also aided the sentiment. Worldwide, Nikkei was the top performer with 5.4% returns, followed by Hang Seng, Euro Stoxx and Dow Jones, all gaining between 0.5-3%. FTSE was the worst performer, down over 2%.

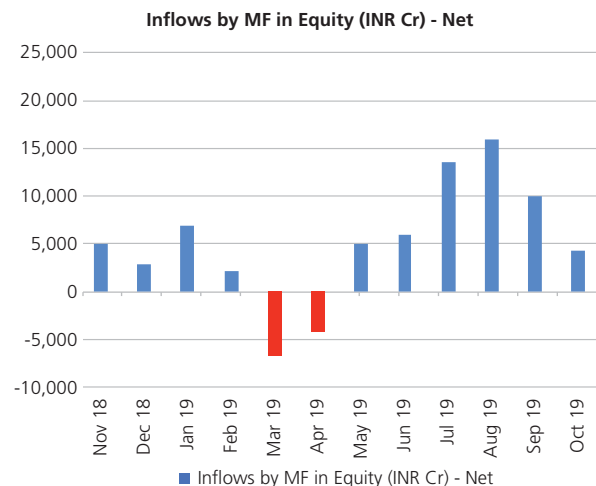
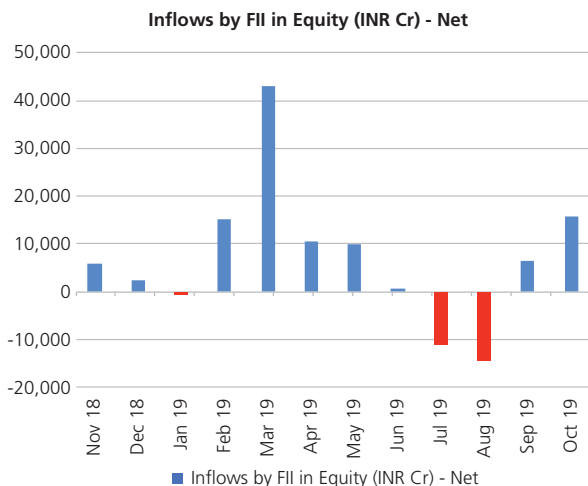
## Sector Performance

Improved sentiment in Indian equities resulted in majority of the sectors ending positive. Auto was the best performing sector with 13% returns outperforming Sensex by 9.2%. Energy (7.5%), Healthcare (5.9%), Realty (4.3%), FMCG (4.1%) outperformed Sensex. Bank (3.1%), Power (2.7%), Metal (2.4%), Capital Goods (0.7%) underperformed Sensex. IT was the worst performing sector, down 1.8%.



## Institutional Activity

FII remained net buyers of \$1.8 bn in Indian equities vs \$955 mn last month taking YTD inflows to \$9.9 bn. DIs continue to remain positive with net inflows of \$750 mn in Sep taking YTD tally to inflows of \$7.3 bn. Mutual funds and insurance funds bought \$725 mn and \$24 mn in Oct respectively. YTD, mutual funds were net equity buyers at \$8 bn while insurance funds remain net equity sellers at \$652 mn.



## Macro-economic Overview

On the economy front, headline CPI rose to 4% in Sep vs. 3.2% last month. Increase was primarily led by vegetable prices which were impacted by heavy rains and is likely to reverse in the coming months.

Core inflation slowed down to 4% and converged with headline numbers. WPI inflation for Sep at 0.3% was the lowest print in the last 39 months. Headline CPI inflation will average below 4% over H1CY20 given growth slowdown and softness in vegetable prices.

Composite PMI for Sep shrunk to 19 months low and fell into contraction phase at 49.8. Decline in PMI was led by services which declined 3.7 pts to 48.7 while manufacturing PMI was flat at 51.4. Aug IIP declined 1.1% YoY and printed a 7+ year low. On the investment front, primary goods (+1.1% YoY) and intermediate goods (+7.0% YoY) were up while infrastructure goods (-4.5% YoY) and capital goods declined (-21.0% YoY) in August.

India's monthly trade deficit at \$10.9 bn narrowed sharply in September (-6.6% YoY) while Imports were down 13.8% YoY in September. Gold imports declined 50.8% YoY (vs. 62.5% YoY decline last month). Imports ex Oil and Gold declined -8.9% YoY (vs -9.3% decline last month), the 11th consecutive month of YoY decline.

RBI has cut policy rates by a cumulative 135 bps since Feb of this year. Central bank also sharply reduced its FY20 GDP growth forecasts from 6.9% to 6.1%. RBI will likely maintain accommodative stance as inflation is expected to be within the target range. Thus, there is expectation of another rate cut in the Dec policy review.



## Market Outlook

Indian markets are upbeat on reports of better-than-expected festive sales and slightly better-than-expected Q2FY20 results as well as progress on the trade disputes between US and China and a 25-bps rate cut by the US Fed. Also, lower crude price augurs well for the economy. However, continued economic slowdown as manifested in the recent GDP print and output of eight core industries points toward a challenging grind ahead for the long-awaited recovery in earnings. GST revenue collection remains weak amid concerns over the debt levels of states.

Management commentary in Q2FY20 has been positive indicating towards gradual recovery. Over the last few years, government has done multiple structural reforms including the recent cut in corporate taxes. Also, government efforts towards increasing private participation by divesting government controlled companies are welcome steps. These structural reforms in investment and lower role of government in the economy are imperative to put India on the path of higher and sustainable growth.

***We expect recovery in rural income led by expectation of better Rabi season (improved reservoir levels) and increase in MSP prices for Rabi crops.*** After sharp underperformance of mid and small caps over the last one year, we have seen improvement in mid and small caps companies in October. ***We maintain our positive view on high quality companies producing sustained and predictable cash flows.***

**Source:** BSE, NSE, MFIE CRA

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