

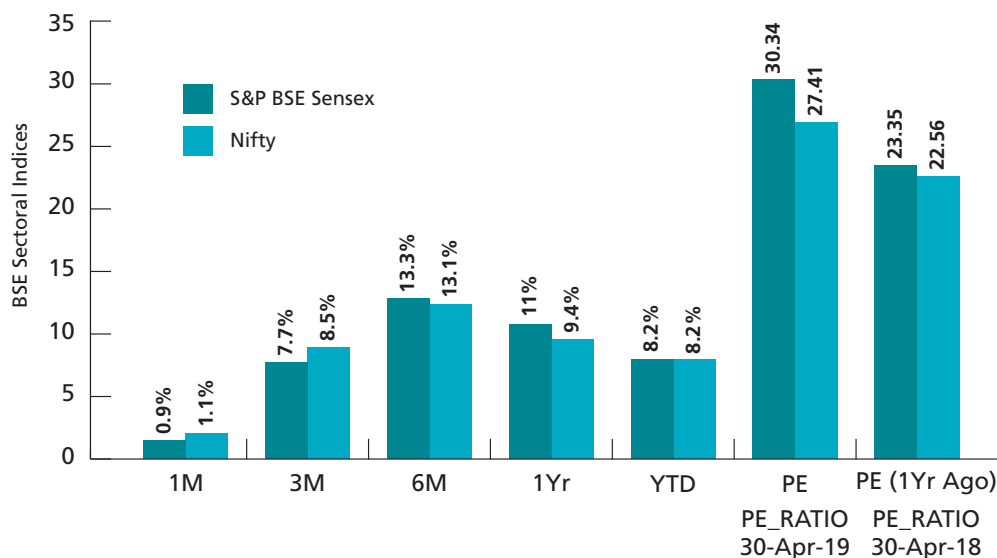
April, 2019

Indian equity markets were volatile in the month of April as rising crude prices weighed on investors sentiment. The market is also closely watching the outcome of ongoing general elections; hence, the volatility. Nifty and Sensex ended the month of April with a rise of 1% each. BSE Midcap and BSE Smallcap indices underperformed its larger peers. BSE Midcap and Smallcap indices slipped between 3-4%.

Global equities continued its upward journey as they had a V-shaped recovery in YTD CY19 as it pared all losses of the previous quarter. The key driver was robust Chinese data, solid Q1CY19 US GDP growth and optimism about the resolution of trade. Nikkei was the top performer, gaining over 5%. Euro Stoxx, Dow Jones and Hang Seng rose between 2-5%. FTSE 100 was the worst performer, dipping by 2%.

## Sector Performance

BSE IT index gained over 6% followed by Metal and Oil & Gas, both rising by 1% each. On the losing side, BSE Realty and Power indices dipped by over 3%.



## Macro-economic Developments

IIP for the month of February 2019, saw significant stagnation, coming in at 20-month low of 0.1% vs 1.7% in January. The drag was led by contraction in manufacturing sector (-0.3%) YoY while capital goods output also declined by 8.8% YoY. In terms of industries 13 of 23 industry groups recorded negative YoY growth in February.

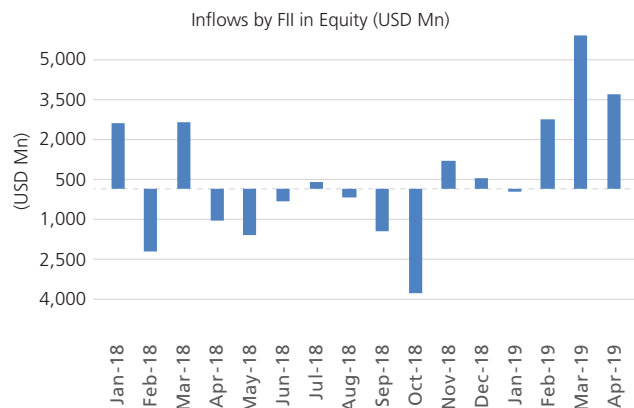
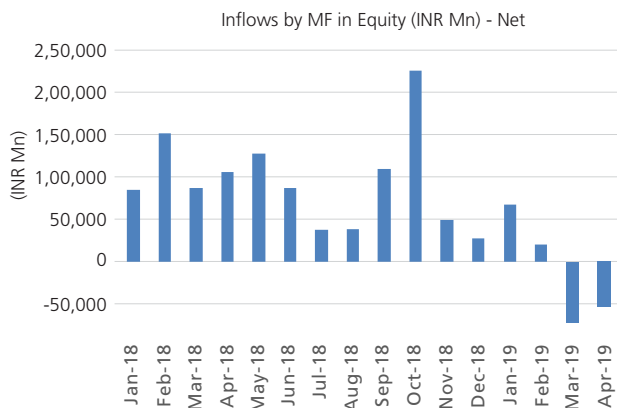
CPI continued its upward journey in the month of March with a print of 2.9% which was slightly higher than RBI quarterly forecasts. Rising food and fuel prices also resulted in spike of Mar WPI to 3.2% vs 2.9% in the previous month. Food inflation trajectory continued with March print coming in at 5.7% vs 4.3% in February. Fuel and power cost also continued to witness significant bump over last month with 5.4% print.

Trade deficit for the month of March rose to \$10.9 bn with the annual FY19 deficit coming at six year high of \$183.5 bn. Exports were up 11% YoY and imports were up +1.4% YoY in March. RBI in its MPC cut policy rates by 25 bps which was in line with estimates.



## Institutional Activity

FII continued its buying momentum in April with inflows of \$1.7 bn, taking YTD total to \$9.9 bn. Domestic investors continued to be sellers for third consecutive month with \$600 mn outflows taking its YTD tally to \$2.4 bn outflows. Domestic Mutual funds for the second straight month were sellers to the tune of \$820 mn while insurance companies turned buyers for the first time this year with inflows of \$220 mn.



## Outlook

After a strong end to previous financial year, Nifty started FY20 on a softer note. **Outcome of General Election will be one of the key events to watch out for in the coming month followed by quarterly earnings for FY19.** Post the election outcome, the focus of Indian markets will move back to earnings and macro data. India's macroeconomic position could come under some pressure if crude continues to remain at elevated levels, given the strong linkage of the Indian economy to crude oil prices through CAD/BoP/currency and inflation/interest rate.

**Valuations of Indian equities are near long term average,** as for now the market has confidence about high-teens earnings growth for the Indian market in FY2020, macroeconomic conditions improving and posing limited threats to India's economic and earnings growth. Inflation risks could also rise from potential El Nino effects, with early forecasts of below normal monsoon which could also impact rural growth.

With our expectation of increased volatility and earnings recovery, we feel stock picking will be more important in this challenging environment; hence **we continue to prefer strong and able managements with earnings visibility.**

Source: BSE, Bloomberg, Internal

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