

December, 2019

Indian equity markets had a volatile month, declining in the first half as the RBI surprised negatively by keeping policy rates on hold and sharply reducing FY20 GDP forecast by 110 bps to 5%. Moreover, OPEC+ announced oil production cuts leading to sharp surge in crude prices. However, Indian equities pared losses in second half of the month on the back of positive global developments. Nifty and Sensex ended the month of Dec with 0.9% and 1.1% returns, respectively.

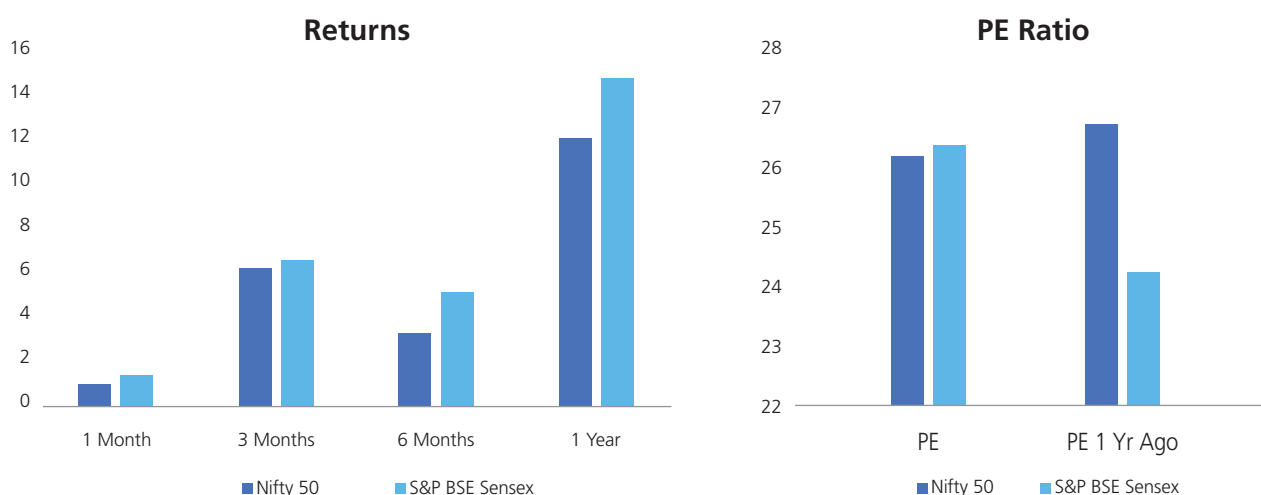
Global equity markets continued the strong momentum witnessed over Oct-Nov and performed well in Dec— particularly in second half on the back of positive news on the trade deal between US and China, finalization of US trade deals with Mexico and Canada and the decisive outcome in UK elections. Worldwide, Hang Seng was the out-performer with 7% returns, followed by FTSE, Dow Jones and Nikkei, all rising between 2-3%. Euro Stoxx was the worst performer with 1.1% returns.

MSCI emerging market outperformed the Indian domestic market with 7.2% returns. MSCI India was among the worst-performing EMs during the month. MSCI AWI Index ended with 2.6% returns. BSE Mid-cap underperformed whereas BSE Small-cap index was largely in-line with its larger peers. BSE Mid-cap and BSE Small-cap indices ended with -0.8% and 1% returns, respectively.

CY2019 Snapshot

Stock markets brushed off concerns on tepid macros in calendar year 2019 to clock record highs, albeit with participation limited to a group of index heavyweights. Trade war concerns, tax proposals for India Inc. and foreign portfolio investors (FPIs), the overall slowdown in the economy, rate cuts by the Reserve Bank of India were some of the key factors that guided markets through 2019.

The benchmark S&P BSE Sensex advanced 14.6% in CY19, while the Nifty50 and Nifty Bank indices added 12.2% and 18.5%, respectively. However, the BSE Mid-cap and Small-cap indices have slipped 3% and 8%, respectively, thus giving a negative return for the second year in a row.



Sector Performance

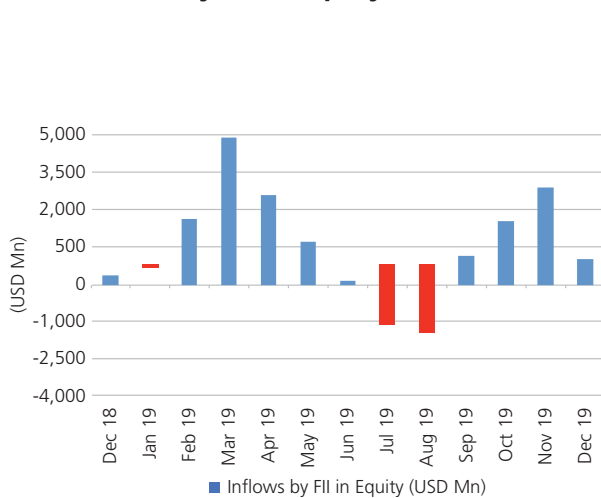
Improved sentiment in Indian equities resulted in majority of sectors ending the month of December in green. Metal was the best performing sector with 6.6% returns outperforming Sensex by 5.5%. Realty (5.3%), IT (4.0%), Auto (2.1%), Bank (1.3%) outperformed Sensex. Power (0.1%), Healthcare (-1.3%), Capital Goods (-2.5%) underperformed Sensex. Energy and FMCG were the worst performing sectors with -2.7% returns, respectively.

Institutional Activity

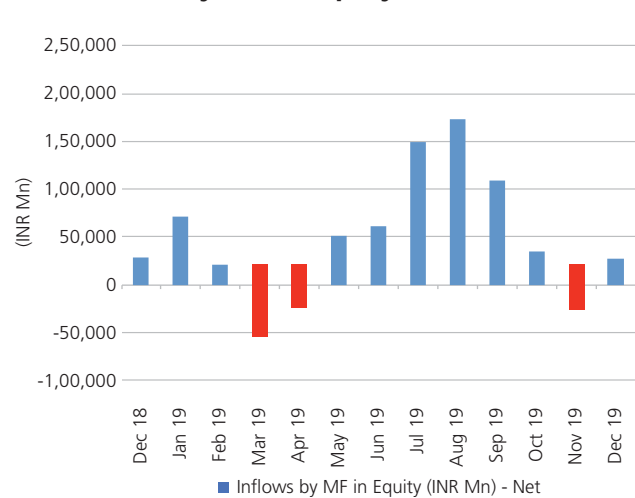
FII recorded net inflows of \$862 mn in Dec vs \$3.1 bn last month taking YTD inflows to \$14.2 bn. DII continue to remain sellers with net outflows of -\$104 mn in Dec vs -\$1.1 bn in Nov taking YTD tally to inflows of \$6 bn.

Mutual funds were net equity buyers at \$386 mn while insurance funds were net equity sellers of \$490 mn in Dec. YTD, mutual funds were net equity buyers at \$7.4 bn while insurance funds remain net equity sellers at \$1.4 bn.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



Macro-economic Developments

On the economy front, headline CPI rose to 5.5% in Nov vs. 4.6% in Oct on the back of high food inflation (10% YoY). Within the food basket, vegetable prices surged 6.7% MoM in Nov, likely reflecting crop damages on account of seasonal rains. Core inflation rose 0.5% MoM and came at 3.8% YoY. Headline CPI inflation is likely to remain elevated in the near term on account of higher food prices. November WPI inflation rose to 0.58% vs 0.16% in Oct, owing to adverse base effects.

Composite PMI for November at 52.7 improved after two consecutive months of contraction. Improvement in PMI was led by services which gained 3.5 pts while manufacturing PMI rebounded 0.6 pts from its two-year lows to 51.2. Oct IIP declined 3.8% YoY vs -4.3% in Sep. On the investment front, intermediate goods (+22% YoY) were up while primary goods (-6.0% YoY), infrastructure goods (-9.2% YoY) and capital goods (-21.9% YoY) declined in Oct.

India's monthly trade deficit at \$12.1 bn increased in November vs \$11 bn in Oct. In a surprise move, MPC members unanimously kept the policy rates unchanged but maintained accommodative stance on future rate cuts. RBI has cut policy rates by a cumulative 135 bps since Feb of 2019.



Market Outlook

Indian equity markets remained upbeat on better global outlook and higher flows towards emerging markets led by positive global developments like trade deal between US and China, finalization of US trade deals with Mexico and Canada. Continued economic slowdown as reflected in the recent GDP print and output of eight core industries reflect a challenging grind ahead for the long-awaited recovery in earnings.

However, there are positive developments like improvement in GST collection in Dec, renewed push by government towards infrastructure investments which augurs well for the economy. ***FM announced National Infrastructure Pipeline (NIP) over FY20-25, nearly doubling the spending over FY14-19. This will augur well for the infrastructure sector and for the overall economy as infra spending has a higher multiplier effect on GDP growth.*** Over the last few years, government has done multiple structural reforms including the recent cut in corporate taxes. ***These structural reforms along with mega push towards infra spending are likely to give a big boost to the Indian economy.***

We expect recovery in rural income led by expectation of better Rabi season (improved reservoir levels) and increased spending on infrastructure. After sharp underperformance of mid, small caps and value stocks over the last one year, we are witnessing increased interest in the quality mid, small cap and value stocks. ***We continue to maintain our positive outlook on high quality companies having better capital allocation and producing sustained and predictable cash flows.***

Source: BSE, NSE, MFIE CRA

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