Equity Market Review

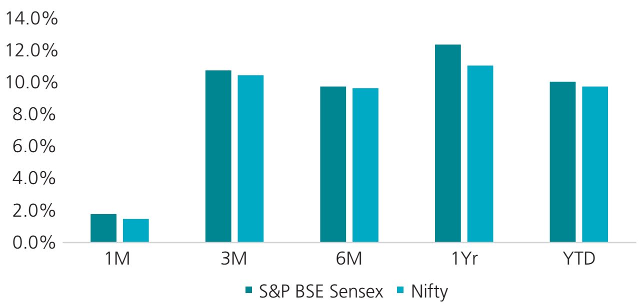
L&T Financial Services
Mutual Fund

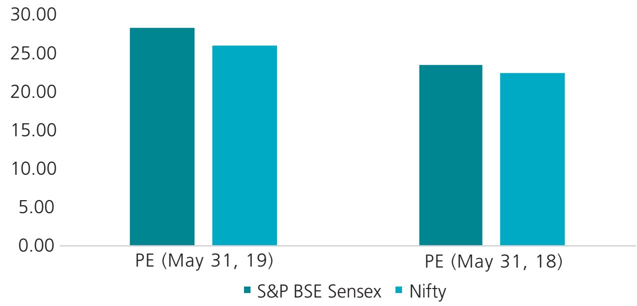
May, 2019

Indian markets were volatile in the month of May as sentiment remained fragile led by Lok Sabha polling and results along with trade tensions between US-China weighed down markets. However, a strong mandate to the incumbent government cheered the markets. Nifty and Sensex ended with (+1.5%) and (+1.7%) returns, respectively. During the month, Sensex and Nifty hit the all-time high of 40,312 mark and 12,103 levels, respectively.

Global equities witnessed a selloff on the back of weak macroeconomic data and trade disputes. The US-China trade tensions re-escalated in May, with trade negotiations breaking down and tariffs raised by both sides. Worldwide, Hang Seng was the worst performer, down over 9% followed by Nikkei and Dow Jones, all falling by 7%.

MSCI Emerging market underperformed Indian domestic market with (-7.5%) returns. MSCI AWI Index ended with (-6.1%) returns. BSE Mid cap and BSE Small cap indices performed in line with its larger peers. BSE Mid cap and BSE Small cap indices ended with (+1.4%) and (+1.7%) returns, respectively.



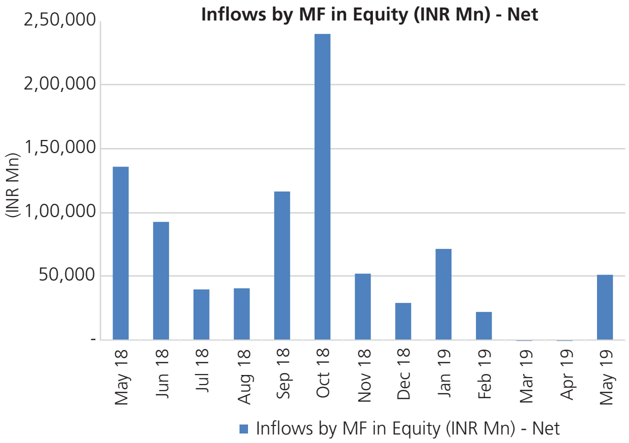


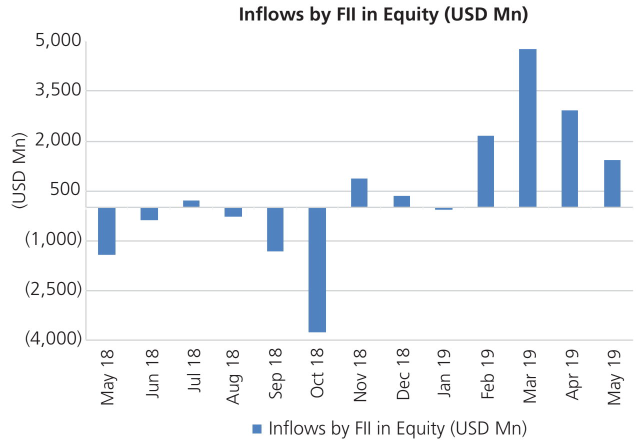
Sector Performance

Indian markets witnessed heightened volatility in May as equal number of sectors traded with positive and negative bias. Capital goods was top performing sector, gaining by 10.6%. Real Estate, Banking, Oil & Gas and Power outperformed Nifty, all surging between 2-10%. Healthcare was the worst performing sector, down by over 7%.

Institutional Activity

FII continued with its buying momentum in May with inflows of $1.2 bn, taking YTD total to $11 bn. Domestic investors turned buyers with inflows of $705 mn after three months of selling. Domestic mutual funds turned buyers with inflows of $735 mn after two months of selling. Insurance companies were sellers to the extent of $30 mn in month of May. YTD, DII outflows were at $1.7 bn. Mutual Funds are equity buyers at $305 mn while insurance funds were net equity sellers at $2 bn.





Macro-Economic Developments

IIP for the month of March slowed to 21-month low as growth in industrial activity contracted by 0.1% on continued slowdown in manufacturing sector. In terms of industries 12 of 23 industry groups recorded contraction as capital goods production growth dipped 8.7% while both consumer durables (-5.1%) and non-durables (+0.3%) showed tepid performance. Consumer electronics was the only segment which witnessed strong growth of 10.6%. GDP growth for 4Q stood at 5.8% which was lower than street estimates, taking annual number for FY19 to 6.8% (vs 7.2% in FY18).

CPI for the month of April stabilized to 2.9% as weakness in core inflation was squared off by rising food prices. Core inflation was at 18 month low as economic activity remained subdued and food inflation rose by 6.6%. WPI inflation slipped to 3.1% on back of cheaper fuel prices and manufactured items. Trade deficit for the month of April widened to 5 month high of $15.3Bn on back of a sharp decline in export growth and rising oil import bill. Weaker exports resulted in non-oil trade deficit rising to 5 month high on back of weak global trade, while domestic slowdown also impacted imports.

Outlook

India markets cheered the strong mandate to the incumbent BJP led NDA government. The market has high hopes of reforms from newly elected NDA government along with fiscal stimulus from RBI. Crude has a strong linkage to India's macroeconomic position, hence, the softness in month of May (-16.4%) bodes well for the economy. Soft crude prices would keep CAD/BOP/currency and inflation under check. While earnings are set to recover in FY20 continuation of domestic economic slowdown could derail things. A full blown economic war between China and USA could worsen global economic conditions and sentiments.

Despite index valuations at a high, we believe that there are relevant opportunities available across various segments of the market. Investors with long-term horizon should continue to remain invested. Historically, within the equity universe, mid-cap and small cap have generated wealth over longer period, albeit with higher volatility. We expect earnings recovery in FY20 so stock picking will be more important in this challenging environment; hence we continue to remain invested with strong and able managements.

Source: BSE, Bloomberg, Internal