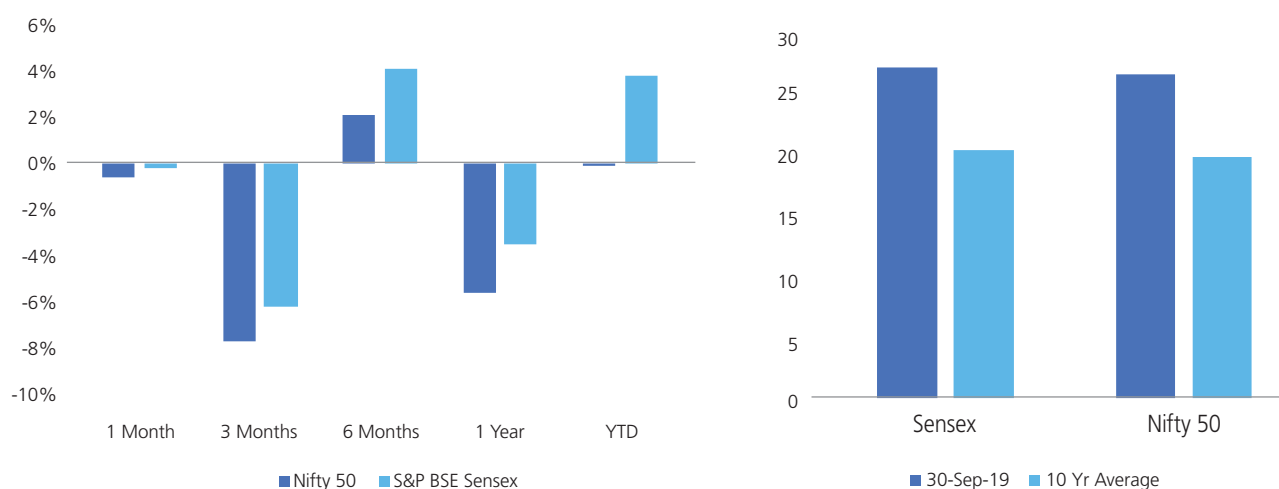


September, 2019

Indian markets saw improved sentiment and registered highest single-day gain in almost a decade led by Finance Ministry's historic decision to slash the corporate tax rate to 22% from 30% (excluding surcharge and cess). Impact of corporate tax reforms resulted in positive FPI's flows (~\$1 bn) in Indian markets after a sharp sell-off seen in August. Both FIIS and DIIs were net buyers during the month. Nifty and Sensex ended the month of September with 4.1% and 3.6% returns, respectively.

MSCI Emerging market underperformed the Indian domestic market with returns of 1.7%. MSCI AWI Index ended with 2% returns. BSE Midcap and BSE Smallcap indices outperformed its larger peers after lagging in August and YTD FY20. BSE Midcap and BSE Smallcap indices ended the month of September with 4.7% and 5.1% gains, respectively.



Global Markets

Global equities also gained 1.9% in September and reversed some of the August losses. However, macro-economic data saw deterioration in Eurozone and Japan. Geopolitical risks escalated post drone attacks on oil facilities in Saudi Arabia. US-China trade disputes continued to weigh on the markets as next high-level talks are expected to hold in Oct.

Worldwide, Nikkei was the top performer with 5.1% returns, followed by Euro Stoxx, FTSE 100 and Dow Jones, all surging between 2-4%. Hang Seng was the worst performer with 1.4% returns.

Sector Performance

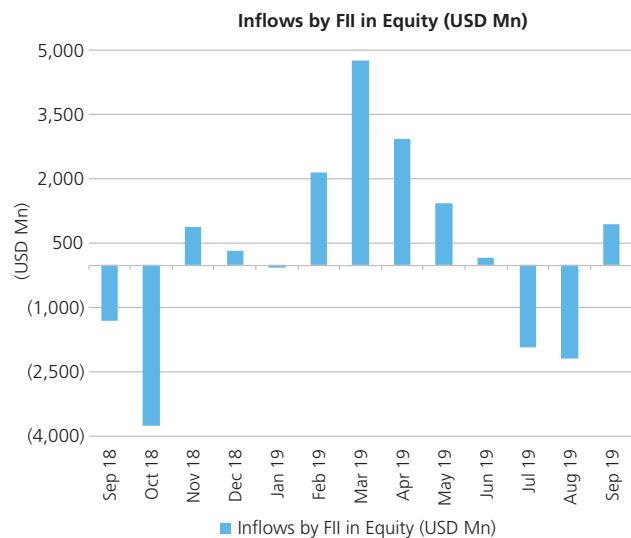
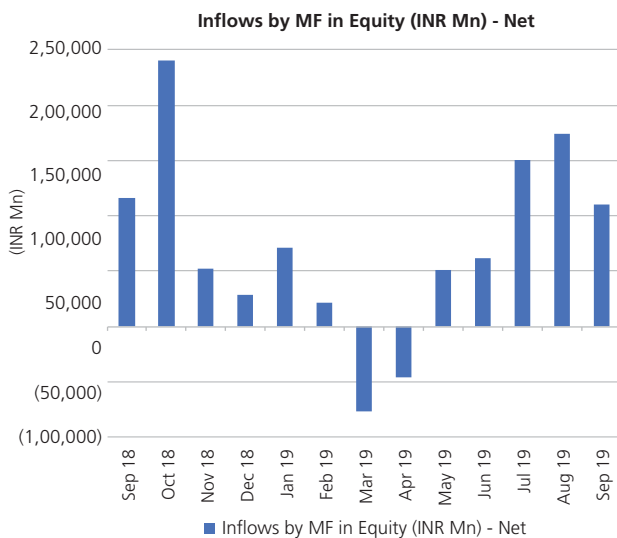
Indian markets witnessed FIIs and DIIs to turn net buyers resulting in to majority of sectors ending the month in green. Sectors benefiting most by tax cuts outperformed the Nifty. Energy was the best performing sectors with 7.8% returns. Infrastructure (+6.9%), Auto (+6.9%), FMCG (+6.4%) and Bank (+6.1%) outperformed Nifty. Infotech (-2.9%), Realty (-3.2%) and Pharma (-6.5%) underperformed Nifty.



Institutional Activity

FII's turned positive with inflows of \$1 bn in Sep vs. net outflows of \$2.2 bn in Aug and \$1.9 bn in July. Sentiment improved meaningfully post tax cut announcement in the latter part of the month. YTD, FIIs are net buyers of Indian Equities at \$8.2 bn.

DII's continue to remain positive with net inflows of \$1.7 bn in Sep taking YTD tally to inflows of \$6.5 bn. Mutual funds and insurance funds bought \$1.4 bn and \$262 mn in September, respectively.



Macro-economic Overview

On the economy front, headline CPI remained flat at 3.2% in Aug with core inflation at 4.6% and food inflation accelerating to 3%. WPI inflation for Aug came at 1.1% in-line with last month, lowest in 2 years. Given growth slowdown and good monsoon, inflation is expected to remain comfortably below 4% in FY20.

Composite PMI for Aug came at 52.6, lower than July print of 53.9. July IIP accelerated to 4.3% vs 1.2% in June owing to both favorable momentum and base effect. Manufacturing led with growth of 4.2% while electricity disappointed with just 4.8%. Intermediate goods grew double digits while weak auto sales weighted on consumer durables.

August trade deficit at \$13.5 bn was flat (MoM). Imports fell by 13.5% whereas exports by 6%. Shipment of gems and Jewellery, engineering goods, petroleum products recorded negative growth.

RBI Monetary Policy Committee (MPC) in its Sept meeting lowered rates by 25 bps and maintained accommodative stance as inflation is expected to be within the target range. Thus, there is expectation of another rate cut in the December policy review. MPC lowered its GDP growth projection for FY20 to 6.1%.

Monsoon ends with 10% above long period average improving kharif prospects and higher water reservoir level augurs well for coming Rabi season. In response to economic slowdown, finance minister announced historic tax reform but results are expected to be seen over the medium term.



Market Outlook

In its September policy review, RBI revised the GDP growth for FY20 from 6.9% to 6.1% on account of weak domestic demand conditions and soft exports prospects due to slowing global growth and trade tensions. But, India's macros have remained robust reflected by outperformance of INR within emerging market currencies, higher FX reserves at \$428.6 bn, current account deficit at 2% of GDP in Q1FY20 supported by lower crude prices.

India's economy is highly sensitive to crude prices and bearish outlook on crude is a big positive. Cumulative rainfall as of end-Sep is 10% above normal augurs well for the rural demand. The decision to slash corporate tax rates is structurally positive but its growth impact would be lagged. With increased competitiveness of India among emerging countries on account of tax reform, India is likely to be the major beneficiary of US-China trade war.

We view structural reforms in investment and lower role of government in the economy through divestments as imperative to put India on the path of higher and sustainable GDP growth. In our view, the sharp underperformance of mid and small caps versus the large caps does provide opportunity to invest in companies with earnings visibility and high earnings quality.

Source: BSE, NSE, MFIE CRA

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