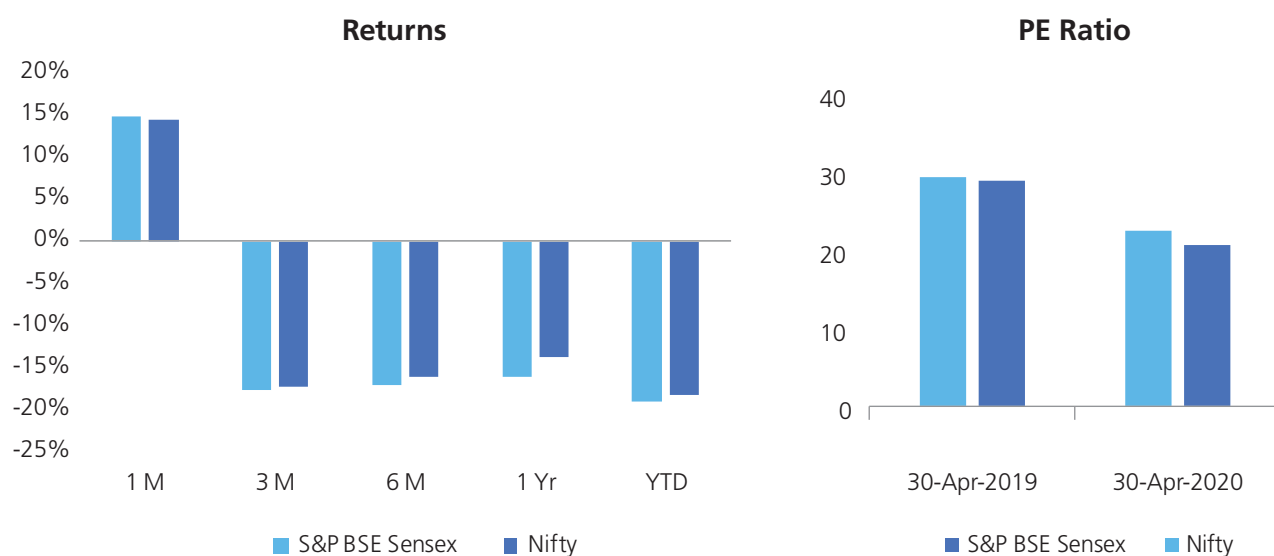


April, 2020

Indian equity markets witnessed a sharp rebound in April, 2020 from four-year lows witnessed in March. The Reserve Bank of India (RBI) announced a slew of measures in mid-April to counter the ensuing economic downturn from COVID-19, with the Governor reinforcing the notion that the RBI will do “whatever it takes”.

The RBI reduced the reverse repo rate by another 25 bps (after the 90 bps in end March) to 3.75% to further incentivize banks to lend. The government has extended the nationwide lockdown for a third time up to May 17, albeit with certain relaxations. Nifty 50 and S&P BSE Sensex ended the month of April with 14.7% and 14.4% returns, respectively.

Indian domestic market (Sensex) outperformed peer group MSCI Emerging market (9%). MSCI AWI Index ended with 10.2% gains. Midcap index underperformed the large cap index by 80 bps while the small cap index outperformed the large cap index by 110 bps. BSE Midcap and Small cap indices ended with 13.7% and 15.5% returns, respectively.



Global Markets

Global equities witnessed a sharp recovery, as central banks further expanded stimulus plans coupled with flattening of COVID-19 infection curves across countries. Market sentiment was further buoyed by Gilead’s announcement of positive data from phase-3 trials for antiviral drug.

Worldwide, all major indices closed in green. Dow Jones was the out performer with 11.1% returns, followed by Nikkei (6.7%), Euro Stoxx (5.1%), and Hong Kong (4.4%). FTSE 100 was worst performer with 4% returns.

Sector Performance

Indian equity markets registered gains tracking the rally in global equities. Healthcare was the best performing sector with a gain of 26.2%, outperforming the Sensex by 11.8%. Auto (24.2%), Oil and Gas (20.4%) and Metal (18.1%) sectors outperformed the Sensex.

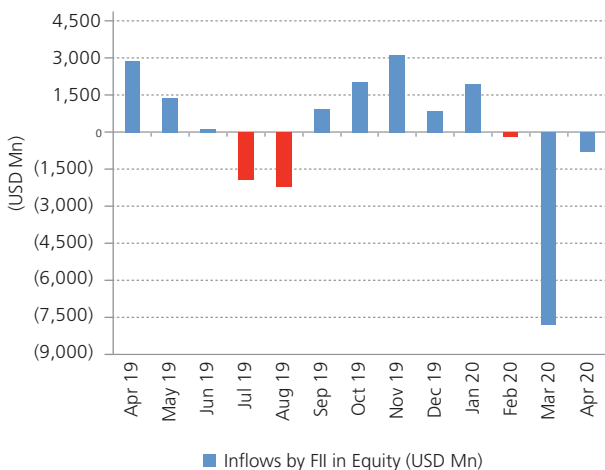
Banks (12.1%), Tech (11.7%), Capital Goods (11%), IT (10.8%) and Power (8.2%) sectors underperformed the Sensex. Realty, Consumer Durables and FMCG were the worst performing sector with 7.1%, 6% and 5% returns, respectively.

Institutional Activity

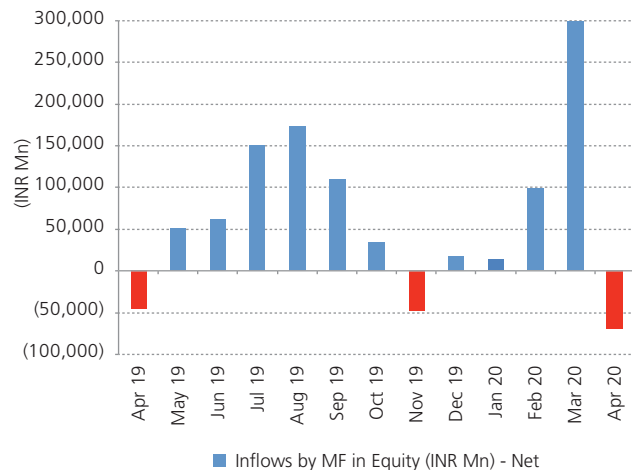
FII recorded net outflows of \$400 million in April vs outflows of \$8.4 Bn in March (largest monthly outflow ever) taking FY21 outflows to \$400 million. After 6 months of consecutive inflows, March and April witnessed net outflows.

DII were also net equity sellers at US\$107 million in April, after record inflows of \$7.5 billion in March, taking FY21 tally of outflows to \$107 million. Within DIIs, Mutual Funds were net equity sellers at \$726 million while insurance funds were net equity buyers of \$531 million in April.

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 eased to 5.9% in Mar vs. 6.6% in Feb. Decline was underpinned by food inflation which declined to 8.8% YoY in March. April's headline inflation will see a jump as food prices have been on uptrend since the beginning of lockdown. WPI inflation for March at 1% YoY was lower than Feb (2.3%) and Jan (3.5%).

Composite PMI for Mar declined by 7pt to 50.6, led by Services, which declined by 8.2pt (MoM) and fell into contraction at 49.3, down from a seven-year high of 57.5 in Feb'20. Services PMI declined at



the second fastest pace in March (vs. a decline of 11pt during the Global Financial Crisis (GFC) in Nov '08 and a 7.8pt decline, post-demonetization). The decline in Manufacturing PMI was modest by 2.7pt to 51.8 in March. The April survey will likely decline further to reflect the full impact of the lockdown. Feb IIP surprised positively at +4.5% YoY. Except IP-Capital Goods (-9.7% YoY), all other industry sub-indices recorded growth: Intermediate goods (+22.4% YoY), Primary goods (+7.4% YoY), and Infrastructure goods (+0.1% YoY)

India's monthly trade deficit at \$9.8bn decreased marginally in Mar. India's FX reserves declined from an all-time peak of \$487.2 bn on 6th Mar to \$479.6 bn on 17th Apr. INR appreciated by 0.7% and ended the month at 75.10 in Apr.

RBI continued to take steps to ease financial conditions and preserve stability in April with following measures:

1. The RBI further reduced reverse repo rates by 25 bps to 3.75%, bringing the effective policy rate cut to 115bps
2. Targeted Long Term Repos (TLTRO-2) to the tune of Rs. 500 bn restricted for investment into NBFC papers that meet certain conditions
3. Special Refinancing facilities of Rs. 500 bn to institutions such the NABARD, SIDBI and NHB to enable them to meet sectoral credit needs
4. A reduction in the Liquidity Coverage Ratio (LCR) from 100% to 80%
5. In response to mutual fund redemption pressures (after closure of several schemes of a debt mutual fund), the RBI announced a Rs.500 billion Special Liquidity Facility for Mutual Funds (SLF-MF), under which banks can avail of funds under 90-days Repo to provide liquidity to the MFs

Benchmark 10-year treasury yields averaged at 6.28% in April (3bps lower vs. March avg.). However, yields rose to 6.5% during the first half of the month before easing gradually to 6.1%. Global yields have eased meaningfully, as central banks globally have cut policy rates aggressively and have announced large QE programs to counter the negative impact on global growth from the COVID-19 outbreak. US 10Y yields are at 0.61% (-6 bps in 1M, -179 bps over the last 1 year).

Brent oil price gained 10% MoM in April to end the month at US\$23.7/bbl, following a 57% MoM decline in March. The May WTI futures contract fell below zero for the first time ever.

Outlook

Indian equity markets witnessed a sharp rebound from four-year lows in March, tracking the rally in global equities on growing narrative around economies coming out of lockdown. To curtail the spread of COVID-19, the government has extended the nationwide lockdown for a third time up to May 17, 2020, albeit with certain relaxations depending on containment zones. The conservative approach by government has worked in its favour, as the measured fatality rate in India is relatively low (3.1%) compared to global averages (6.9%). That said, even as testing continues to ramp up, 550 tests per million remains low by global standards. Going ahead, focus will be more on the measures to relax the lockdown restriction, without any alarming increase in cases.



COVID-19 has wider implications on economies and businesses across the globe. However, the impact will vary depending on the sectors, as companies operating in the value chain of essential products are less impacted and will see faster recovery. There are near term challenges, but the Indian market outlook continues to remain robust over the medium to long term, as focus will be back to fundamentals sooner than later.

India's growth story is backed by multiple structural reforms, led by stable government, higher demographic dividend, improving ease of doing business and low inflation, which has got further tailwinds in the form of lower crude oil prices. Indian Government is actively focusing on 'Make in India' as many global companies are in process to re-structure their supply chain to reduce the geographical risk of high dependency on China.

FY21 will be a year of two halves, given the COVID-19 disruptions in the first 3 months and expected gradual recovery in the remaining months of the fiscal year. ***We believe, companies with core competitive advantage, strong balance sheet and ability to sustainably generate cash flows will not only survive through this crisis but will emerge much stronger, post COVID-19.***

Source: Bloomberg, MSCI

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