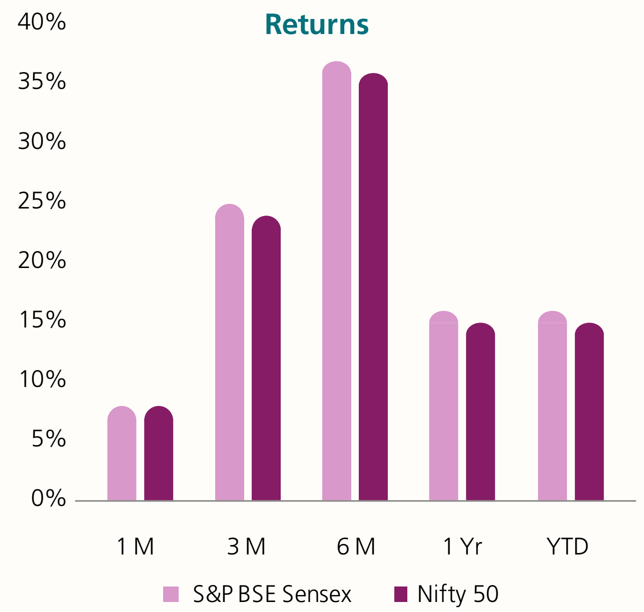
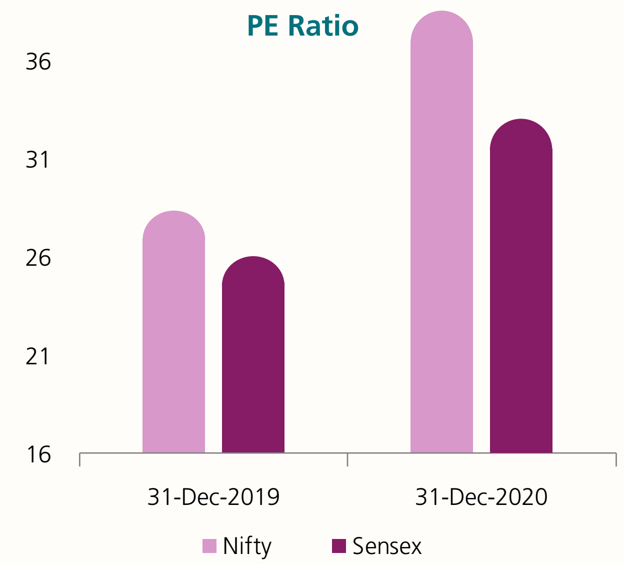
Indian equities outperformed the Emerging Markets (EM) in December after underperforming in the previous two months. Domestically, the focus was on the sustainability of recovery trends in the economy post the festive season. COVID-19 cases in India continue to decline from their peak in mid-September.

MSCI India (US$) rose 10.2% in December but underperformed peers MSCI APxJ (6.5%) and MSCI EM (7.2%). For CY20, MSCI India (14.1%) is underperforming peers, MSCI EM (15.8%) and MSCI APxJ (19.8%). Nifty50 and S&P BSE Sensex ended the month of December with 7.8% and 8.2% returns, respectively.

Indian domestic market was up led by higher global liquidity, decline in COVID-19 daily cases and sustainability of recovery trends. Among broader markets, the Midcap index underperformed the Largecap index by 210 bps while the Smallcap index underperformed the largecap index by 90 bps BSE Midcap and BSE Smallcap indices ended the month of December with 6.1% and 7.2% returns, respectively.





GLOBAL MARKETS

Global equities continued to trade higher and recorded gains of 4.5% (US$) for MSCI ACWI in December after recording their best ever monthly performance in November of 12.2%. European equities (SXXP +4.8%) continued their outperformance relative to their US peers (SPX +3.7%) in Dec. Despite increasing COVID-19 cases and local lockdowns in much of the US and EU, risk assets continued to rally with some short-lived concerns on a new COVID-19 strain first found in the UK which is 70% more transmissible than the previous strain. Rollout of COVID-19 vaccine programs began in several countries in December.

December also saw removal of some downside risks as a Brexit deal was reached and a US fiscal stimulus package was passed. Worldwide, major indices saw positive trends. Nikkei was the out-performer with 3.8% returns, followed by Hang Seng (3.4%), Dow Jones (3.3%), and FTSE100 (3.1%). Euro Stoxx was the worst performer with (1.7%) returns.

SECTOR PERFORMANCE

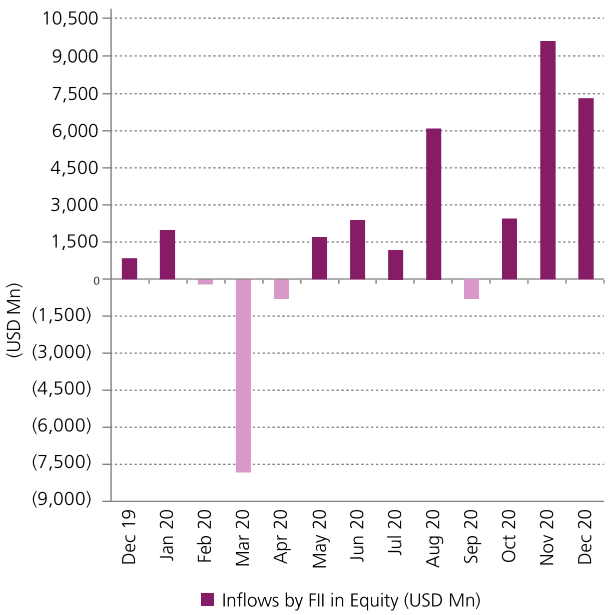
Indian equity markets outperformed the MSCI Emerging Market Index. All eleven sectoral indices delivered positive returns in December. Realty was the best performing sector with 20.2% returns outperforming Sensex by 12%. Metal (13.5%), Consumer Durables (12.4%), IT (12.1%), Capital Goods (10.1%) outperformed the Sensex. FMCG (7.5%), Healthcare (6.7%), Oil & Gas (1.8%), Banks (5.9%) and Auto (3.4%) underperformed the Sensex. Power was the worst performing sectors with 3.1% returns.

INSTITUTIONAL ACTIVITY

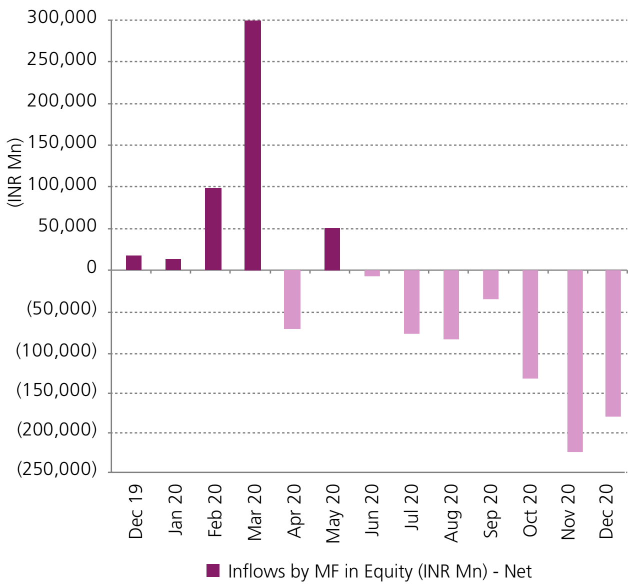
FIIs recorded monthly inflows of US$7.2 bn into Indian equities in the month of December vs. inflows of $9.6 bn in Nov'20 taking FY21 net inflows to $30 bn. DIIs remained net equity sellers with outflows of US$5.1 bn in December vs. outflow of US$6.5 bn in November taking FY21 tally of outflows to $15.1 Bn.

Within DIIs, both Insurance funds and mutual funds were net sellers in Dec. Mutual funds were net equity sellers at $2.6 Bn while insurance funds sold $1.1 Bn of equities in Dec. Mutual fund and insurance fund flow data is as of 17th Dec.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

RBI kept policy rates on hold and maintained its accommodative stance in its last MPC meeting on 04 Dec. RBI revised its FY21 GDP growth upwards from -9.5% to -7.5%. Inflation was also revised upwards with the MPC now expecting 4QCY20 inflation to average 6.8% and 1QCY21 inflation to average 5.8% which is on average 130 bps higher from the last policy.

Headline CPI for Oct at 6.9% was below than the market expectations largely led by food inflation (9.4% in Nov vs. 11% in Oct). The core-core inflation remained elevated at 5.6% YoY in Nov.

Composite PMI declined modestly by 1.7pt MoM to 56.3 in Nov, following a 3.4pt MoM gain in Oct. The decline in November was led by manufacturing which declined 2.5pt MoM to 56.3. Services PMI declined 0.5pt MoM to 53.7. New exports orders were largely flat but continue to show a huge divergence between manufacturing (54.8) and services (35.7).

Oct IP gained by 3.6% YoY vs. 0.5% gain in Sep and came significantly ahead of the cons forecast. October production benefited from both a) the pent-up demand as the economy was unlocking and b) inventory accumulation ahead of the festive season in November. Consumer goods production has now crossed pre-pandemic levels for both durables and non-durables and is now 3% higher than pre-pandemic levels. In contrast, capital goods are still 7% below the pre pandemic levels.

India's monthly merchandise trade balance at US$9.87bn in Nov widened from US$8.7bn in Oct. Merchandise exports were down 8.7% YoY in Nov (vs. 5.1% gain in Oct) and imports were down 13.3% YoY in Nov (vs 11.5% decline in Oct). Imports ex Oil and Gold declined 1.7% YoY (vs. 5.2% decline in Oct), the 22nd consecutive month of YoY declines. India's FX reserves are close to their all-time peak at $581.1 Bn as of 18th Dec. INR gained 1.3% and ended month at 73.07/$ in Dec as USD declined sharply with the DXY down 2.1%.

Benchmark 10-year treasury yields averaged at 5.87% in Dec (1bps lower vs. Nov avg.). US 10Y yields are at 0.91% (-100bps over the last 1 year). Brent oil price gained 8.5% MoM in Nov to end the month at US$51.2/bbl following a 27.9% MoM gain in Nov. For CY20, oil prices declined 23% YoY on year-end values.

Fiscal deficit for Apr-Nov came at INR 10.8tn or 135% of the budgeted FY21 deficit (INR 8.0tn). This compares to 115% reached during the same time frame in FY20. GST collections in Dec came in at Rs1.15tn (+11.6% YoY) and was the 3rd consecutive month with collections of more than Rs1tn.

OUTLOOK

MSCI India ended 2020 as the 4th best Emerging Market (EM). Despite the volatility, MSCI India delivered positive returns in 8 out of 12 months with 7 consecutive months of positive returns. In 2020, we witnessed growth stocks underperformed value by 11% and mid-cap and small-cap indices outperformed the Sensex with small caps seeing significant outperformance. Market breadth improved further as all BSE 200 stocks are trading above their respective 200-day moving averages. Year-to-date, India's performance ranks 4th in EM, but underperformed EM by 170 bps. The underperformance is expected to decline given the gradual reopening of the economy. COVID-19 cases in India continue to decline from their peak in mid-Sep even as EU and US are witnessing increase in COVID-19 cases with new COVID-19 strain found in UK. The economy is responding positively to the sustainability of the recovery seen post reopening.

Most high frequency indicators continue to show improvement in economy recovery month on month. Urban indicators continue to show an encouraging trend helped by realty and flights data. Daily average e-waybills increased in December after falling in November. Electricity consumption continues to remain higher than year ago levels. Railway freight volume, Petro products consumption continued to increase mom. India's mobility levels recovery has improved compared to a group of select countries on account of lockdowns in Europe and US.

GST collections in December were INR 1.15 Trn, 11.6% YoY, 3rd consecutive months of more than INR 1 Trn collection. The sustained GST collection and several other data points show the economy moving close to normal across most segments.

As expected, India has reduced its underperformance among EM led by sustained recovery seen in major economic activity indicators. There has been a "V-shaped" recovery since Jun'20. Rural India continues to show growth momentum. Formalization of the economy and reforms taken by govt will continue to support the growth seen over medium to long term. We are going to witness emergence of India as strong manufacturing destination under the broader theme of Atmanirbhar Bharat and Make in India. This is supported by improved technical capabilities of domestic firms, ease of doing business and Production Linked Incentive Schemes. Overall, the robust economic recovery is expected to remain sustainable led by various medium to long term reforms undertaken.

Source: Bloomberg, MSCI