EQUITY MARKET REVIEW

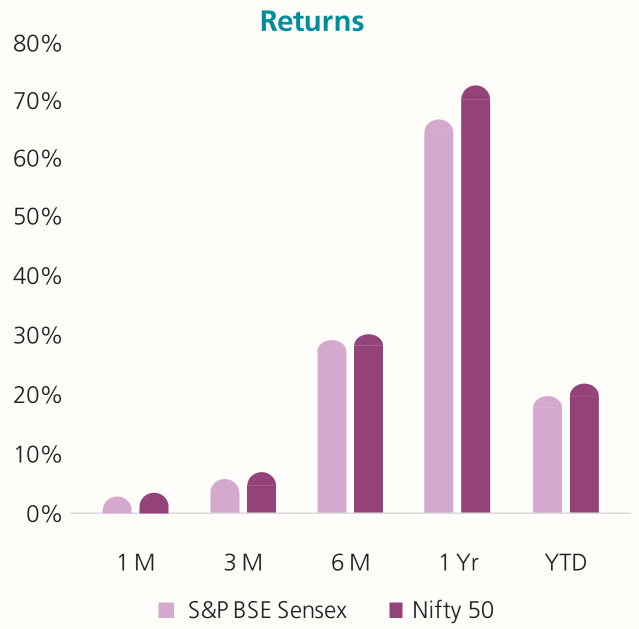
MARCH, 2021

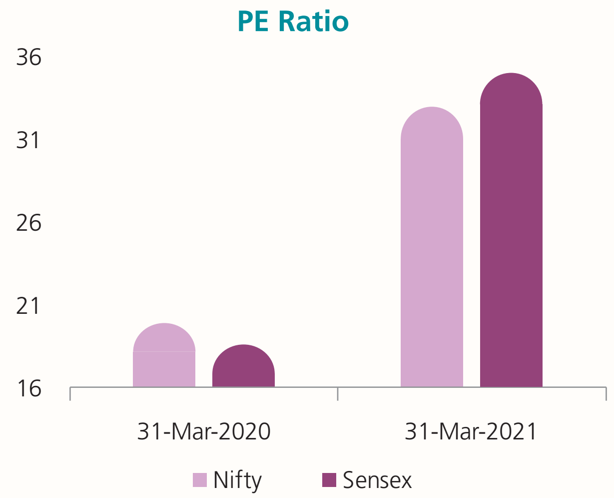
L&T Financial Services
Mutual Fund

Indian equities continued to outperform the Emerging Markets (EMs) beating concerns over increasing COVID-19 cases and building inflationary pressure. Markets started on an upward trend led by supportive global cues. However, performance was choppy later as markets traded in line with global markets on worries over increasing bond yields.

MSCI India (USD) rose 2.2% in March and significantly outperformed peers MSCI APxJ (-2.3%) and MSCI EM (-1.7%). Nifty50 and S&P BSE Sensex ended the month of March with 1.1% and 0.8% returns, respectively. Midcaps and Smallcaps outperformed the Largecaps by 0.2% and 1.6%, respectively in March.

Among broader markets, the Midcap index outperformed the Largecap index by 20 bps while the Smallcap index outperformed the Largecap index by 160 bps. BSE Midcap and BSE Smallcap indices ended the month of March with 1.0% and 2.5% returns, respectively.





Past performance may or may not be sustained in the future.

GLOBAL MARKETS

Global equities traded higher but exhibited divergent regional trends. EM equities underperformed (MXEF - 1.7%) as the resurgence of a virus outbreak and rising US yields wore down risk appetite.

In the developed space, European equities (SXXP +6.1%) outperformed relative to their US peers (SPX +4.2%). Bond yields continued to advance higher on accelerating growth/inflation expectations and positive economic data, despite downside surprise on US core inflation.

Worldwide, major indices saw positive trends except for Hang Seng. Euro Stoxx was the outperformer with 7.8% returns, followed by Dow Jones (+6.6%) and FTSE (+3.6%). Nikkei and Hang Seng were the worst performers with +0.7% and -2.1% respective returns.

SECTOR PERFORMANCE

Indian equity markets outperformed MSCI Emerging Market Index. IT, FMCG and Metals outperformed while Realty and Oil & Gas were notable laggards in March.

IT was the best performing sector with 8.7% returns outperforming Sensex by 7.8%. FMCG (7.6%), Metal (4.6%), Consumer Durables (3.4%), Power (2.3%) and Healthcare (2.3%) outperformed the Sensex.

Capital Goods (-2.0%), Auto (-3%), and Bank (-3.7%) underperformed Sensex. Realty and Oil & Gas were the worst performing sectors with (-4.2%) and (-4.7%) returns, respectively.

INSTITUTIONAL ACTIVITY

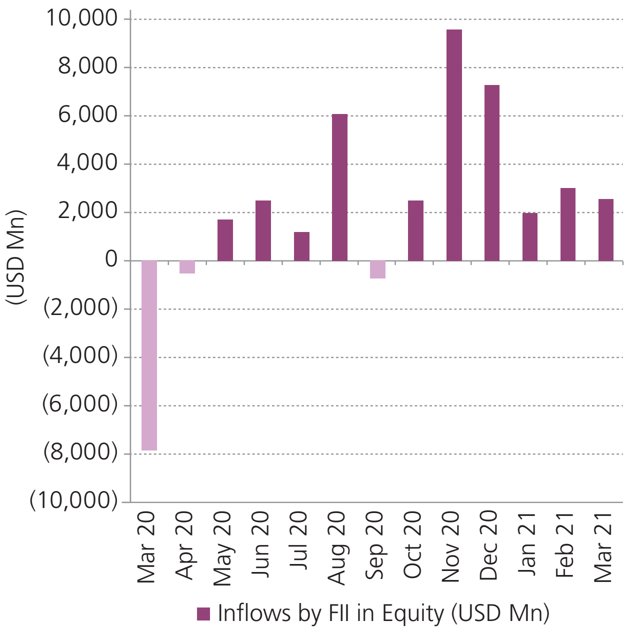
FIIs recorded monthly inflows of US$2.6 bn into Indian equities in the month of March vs. inflows of $3.0 bn in February taking FY21 net inflows to $37.8 bn. This is the 6th consecutive month of inflows.

DIIs turned net equity buyers in March post a five-month consecutive outflows streak with inflows of US$756 mn in March vs. outflow of US$986 mn in February taking the FY21 tally of outflows to $18.2 bn.

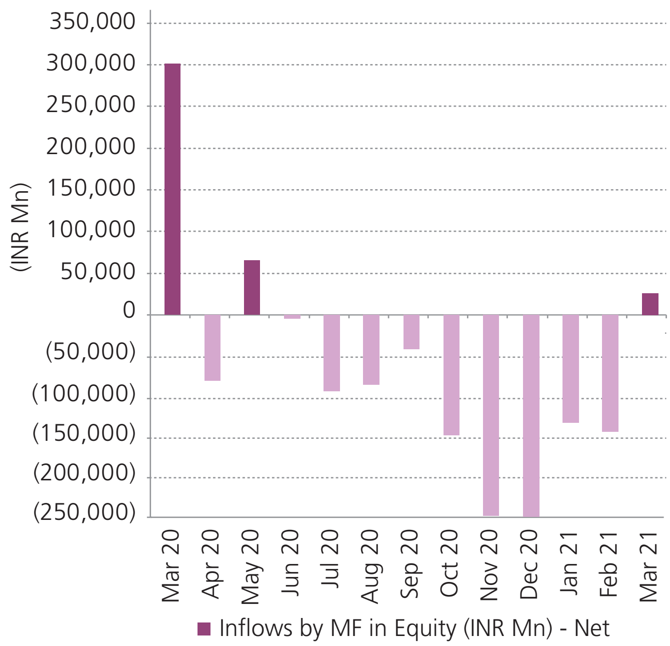
Within DIIs, both Mutual funds and insurance funds were net sellers. Mutual funds were net equity sellers at $17 mn while insurance funds sold $331 mn of equities in March.

Mutual fund and insurance fund flow data is as of March 16, 2021.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

Headline CPI for February at 5% was in-line but the composition is becoming uncomfortable from a policy perspective, with easing in food inflation being offset by firmer core inflation. Food prices rose 0.1% MoM in Feb on the back of contraction last month. Core-Core momentum (core inflation-ex-gasoline and diesel) remained sticky and elevated at 0.5% MoM both in January and February.

Composite PMI increased for a second straight month, rising by 1.5 pt MoM to 57.3 in Feb. The increase was led primarily by a sharp rise in services (+2.5 pts), which printed at 55.3, the highest in a year. The manufacturing index retreated gradually (-0.2 pts), but off a high base and still printed at 57.5. With the link between mobility (activity) and virus proliferation breaking down as consumers continue to normalize, services activity is mean-reverting. Forward-looking new orders also remained strong across both manufacturing and services.

IIP printed below expectations coming at -1.6% YoY for Jan. While it was a downside surprise, sequentially IP still rose 0.7% MoM on the back of the upwardly revised 2.1% increase last month. In level terms, industrial production continued to inch up and was 97% of its pre-pandemic level in January compared to 96% in December. Production for consumer durables (99%) is close to pre-pandemic level and non-durables (93%) has fallen behind pre-pandemic levels.

The trade deficit narrowed to US$12.6 bn in February, from US$14.5 bn last month. While domestic demand continues to firm, external demand appears to be consolidating after a sharp run-up. India's FX reserves are close to their all-time peak at $582 bn as of March 19, 2021. FX reserves have decreased by US$1.6 bn in the last 4 weeks. INR gained 0.5% and ended the month at 73.11/$ in March.

Benchmark 10-year treasury yields averaged at 6.19% in Mar (11 bps higher vs. Feb avg.). US 10Y yields are at 1.74% (34 bps MoM, +107 bps YoY). Brent oil price fell 3.1 % MoM in Mar after a remarkable 17.5% MoM gain in February.

Fiscal deficit for Apr-Feb came at INR 14.1 tn or 76% of the budgeted FY21 deficit (INR 18.5 tn). This compares to 111% reached during the same time frame in FY20.

OUTLOOK

MSCI India outperformed MSCI EM by 3.9 ppts and ranked 10 performance-wise in the EM cohort. This was on the back of a strong performance seen in the previous month. India's performance rank in EM stood at 10th (among 27 EMs) vs. 6th in February. The BSE Sensex continued to underperform the broader market in March, while the MSCI India Growth index underperformed the Standard and Value indices for the 4th month in a row.

The daily number of new cases (7DMA) has increased from 11k in mid-February to 62k now. The first wave peaked at 93k in mid-September. The positivity rate (new cases per 100 tests) has more than tripled over the last 6 weeks from 1.6% in mid-February to 5.9% now. Up to now, there does not appear to be a material impact on national mobility and activity. Ramping up the vaccination drive could effectively break the link between mobility/activity and the proliferation of COVID-19 cases.

Improvement in economic activity is reflected in GST collections as March witnessed all-time high GST revenue at Rs 1.24 tn mark. This was the 6th consecutive month with collections of more than Rs 1 tn. The sustained GST collection and several other data points show the economy moving close to normal across most segments. Other high-frequency data points for March also reflect sustained growth in YoY terms, indicating a favorable growth outlook in the near terms. E-way bill for March has achieved a new milestone of 7.12 cr. This is the highest number of e-way bills generated in any month during last three years journey of E-way bill system.

Overall, the recent surge in COVID-19 cases are less likely to impact the growth momentum, which should strengthen further, supported by normalization of economic activity, helped by the pickup in the vaccination drive. Apart from a boost from normalization in activity levels, the policy mix (monetary/fiscal) is supportive of growth, which, coupled with a positive outlook for global growth, bodes well for growth recovery to broaden and continue. Overall, we are at the cusp of the economic recovery cycle given the government efforts towards capex targeted through both Budget 2021 and PLI schemes rolled out for 13 sectors.

Source: Bloomberg, MSCI