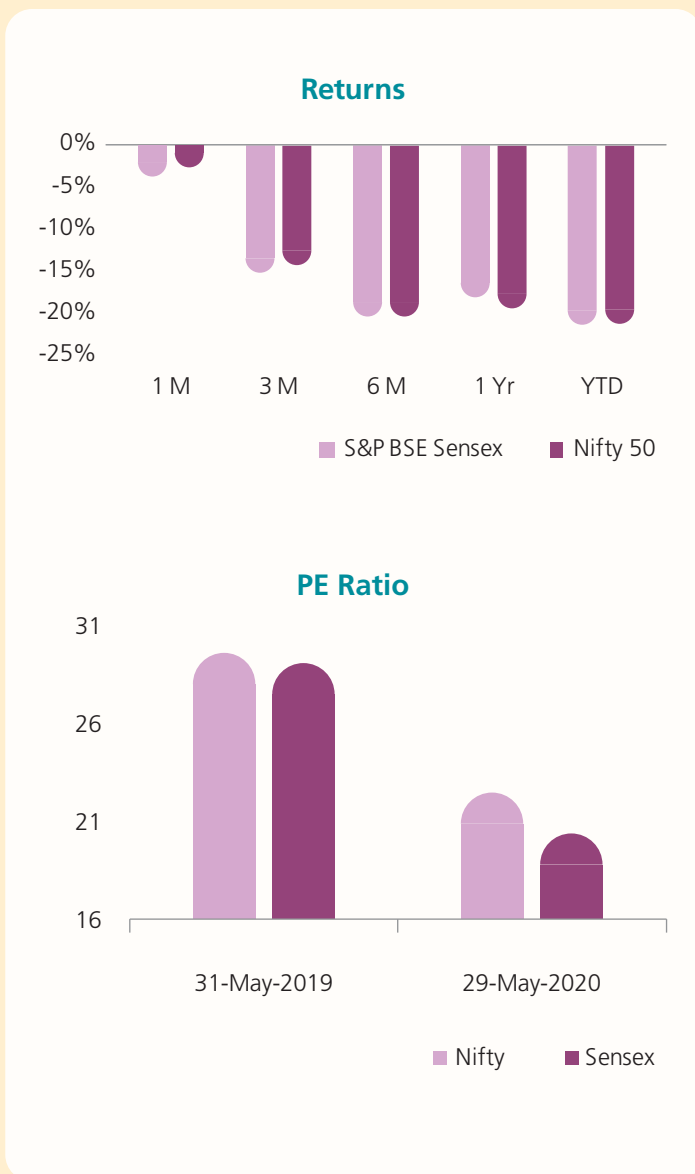




Indian equity markets underperformed peer group MSCI EM and MSCI APXJ, despite Finance Minister announcing a special economic package of Rs. 21 trillion (10.1% of GDP) including liquidity injected by the RBI and credit guarantees. However, the details of the stimulus package announced by the Finance Minister fell short of market expectations. The overall fiscal impact is expected to be modest in the range of 1-1.2% of GDP.

The RBI cut the repo rate by 40 bps to 4%, the lowest since 2000, and the reverse repo rate to 3.35%. Real GDP growth at 3.1% in 4QFY20 surprised to the upside. Full-year FY20 GDP growth came at an 11-year low of 4.2% (YoY). Nifty 50 and S&P BSE Sensex ended the month of May with -2.8% and -3.8% returns, respectively.

Indian domestic market (Sensex) that slipped by 3.8% outperformed peer group MSCI Emerging market (+0.6%). MSCI AWI Index ended with +4% returns. Midcap index outperformed the large cap index by 240 bps while the small cap indices outperformed the large cap index by 200 bps. BSE Midcap and BSE Smallcap indices ended the month of May with -1.4% and -1.9% returns, respectively.



## GLOBAL MARKETS

Global equities continued the strong positive momentum with MSCI AC World index up by 4.2% in May, after posting the highest monthly gain in April (+10.6%) since Global Financial Crisis (GFC). Global equity markets continued to move higher as countries begin to ease lockdown restrictions, positive developments were witnessed in drug/vaccine development for COVID-19 and there was a general slowdown in the global infection growth.

Worldwide, all the major indices barring Hang Seng closed in green. Nikkei was the out performer with 8.3% returns, followed by Dow Jones (4.3%), Euro Stoxx (4.2%), and FTSE100 (3%). Hang Seng was the worst performer, down by -6.8%.

## SECTOR PERFORMANCE



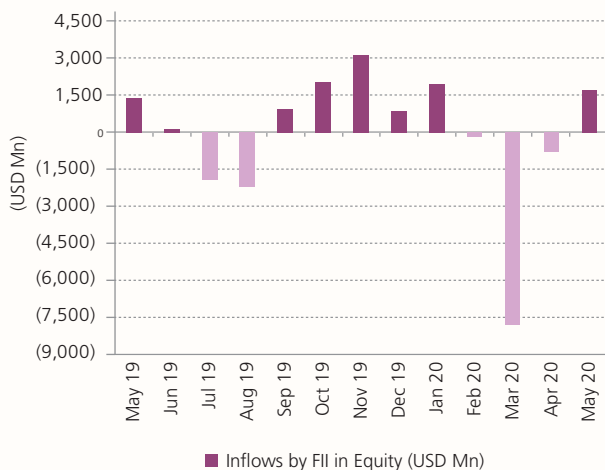
Indian equity markets underperformed peer group and major global indices. Auto was the best performing sector with 5.6% returns, outperforming S&P BSE Sensex by 9.4%. Healthcare (2%), FMCG (1.2%), Capital Goods (1.2%), Tech (1%), Metal (0.9%), Power (-0.6%), IT (-1.2%), Oil & Gas (-1.9%) and Realty (-2.7%) outperformed the S&P BSE Sensex. Banks and Consumer Durables underperformed the Sensex and were the worst performing sector with -10.5%, and -7.6% returns, respectively.

## INSTITUTIONAL ACTIVITY

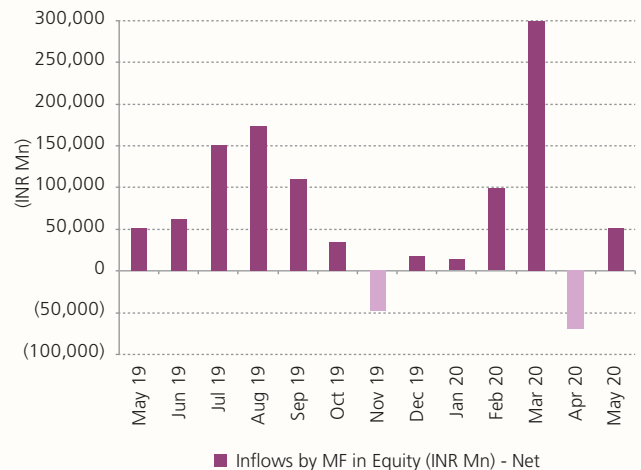
FII recorded net inflows of \$1.9 billion in May vs. outflows of \$0.9 billion in April, 2020, taking FY21 net inflows to \$1 billion. After 2 months of consecutive outflows, May month witnessed net FII inflows.

DII were also net equity buyers of US\$1.5 billion in May vs. outflows of \$0.1 billion in April, taking FY21 tally of inflows to \$1.4 billion. Within DIIs, Mutual funds were net equity buyers at \$374 million and insurance funds were also net equity buyers of \$661 million in April.

**Inflows by FII in Equity (USD Mn) - Net**



**Inflows by MF in Equity (INR Mn) - Net**



## MACRO-ECONOMIC DEVELOPMENTS

Headline CPI for April could not be released as nationwide lockdown affected collection of price data.

India reported weakest PMI among all the countries for which the survey was conducted in April. Composite PMI for April fell to its all-time low of 7.2. Manufacturing PMI fell to its all-time low of 27.4, lower than 44.4 (December 2008) seen during GFC. Forward looking components also declined sharply, with new orders declining to 10.2 (46.9

in March). The services PMI came in at an all-time low of 5.4 vs 49.3 in March. This compared to the previous lows of 40.3 in February 2009, reached during the GFC.

Mar IIP contracted sequentially by 19.1%, translating into a YoY contraction of 16.5%. Plunge in March IIP was across the board and across all sub-indices – Consumer Durables (-30.3%), Non-Durables (-17.3%) and Capital Goods (-29.3%), on month-on-month basis.

India's monthly trade deficit for April came at \$6.8bn, declined by \$3 billion (MoM). India's FX reserves reached an all-time peak of \$490 billion, as of May 22, 2020. INR depreciated by 0.7% and ended month at 75.62/\$ in May, despite the decline in DXY.

RBI cut policy rates by 40 bps on May 22, taking the repo rate to 4% and the reverse repo rate to 3.35%, 2 weeks before the scheduled policy review. The MPC noted that "the macroeconomic impact of the pandemic is turning out to be more severe than initially anticipated, and various sectors of the economy are experiencing acute stress." With the lockdown progressively extended, the RBI extended the moratorium on repayments by borrowers, which was initially for three months by another three months to August 31, 2020.

Benchmark 10-year treasury yields averaged at 5.87% in May (40bps lower vs. April avg.). 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 0.65% (-147bps over the last 1 year).

Brent oil price gained 55% (MoM) in May, to end the month at US\$36.6/bbl, following a 10% (MoM) gain in April.

## OUTLOOK

Indian equity markets underperformed major global indices upon disappointment on the fiscal stimulus provided by the government. India entered the list of top 10 countries hit by coronavirus, as confirmed cases rose 5.5x (MoM) to 191k but death rates still remained much lower than global average. To curtail the spread of COVID-19, the government has extended the lockdown up to June 30, but restricted it only to containment zones. However, there is a phased reopening of activities in areas outside the containment zones, starting with the opening of restaurants and malls from June 8 (Phase-1), followed by the opening of educational institutions in Phase-2 (to be decided in July) and other activities in Phase-3 (timelines yet to be decided).

COVID-19 has wider implications on economies and businesses across the globe. Economic activity has already begun to recover gradually in May, but the speed and magnitude of recovery will depend on the following factors:

- (1) Extent of risk aversion in household behavior, post the lockdown
- (2) More importantly whether initial COVID-19 shock amplifies through credit and labor markets. There are near term challenges, but the broader market outlook continues to remain robust over the medium to long term, as focus will be back to fundamentals sooner than later, with opening of economic activity.

**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. ***We believe sectors like Pharma, Chemicals and Electronic manufacturing will be the biggest and early beneficiary of this re-alignment of supply chain and focus on Make in India.***

***We believe FY21 will be a year of two halves, given the COVID-19 disruptions in the first 3-5 months and expected gradual recovery in the remaining months of the fiscal year. Companies having core competitive advantage, strong balance sheet and ability to sustainably generate cash flows will not only survive through this crisis but will emerge further even stronger with higher market share, post COVID-19.***

**Source:** Bloomberg, MSCI

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**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**