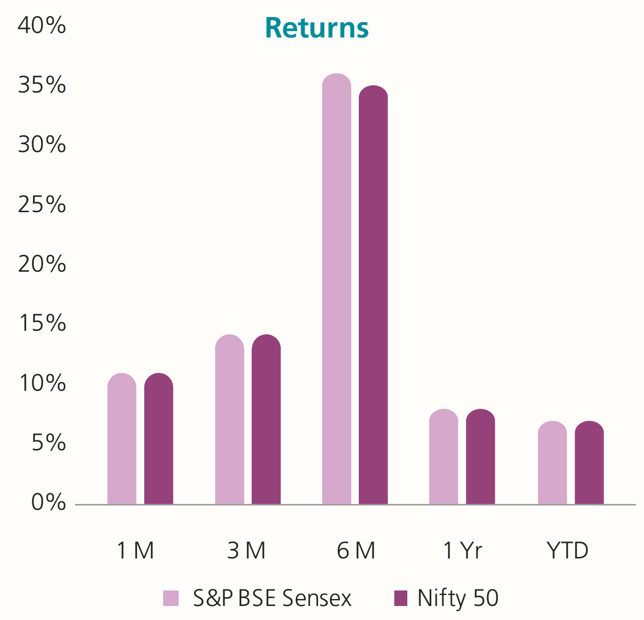
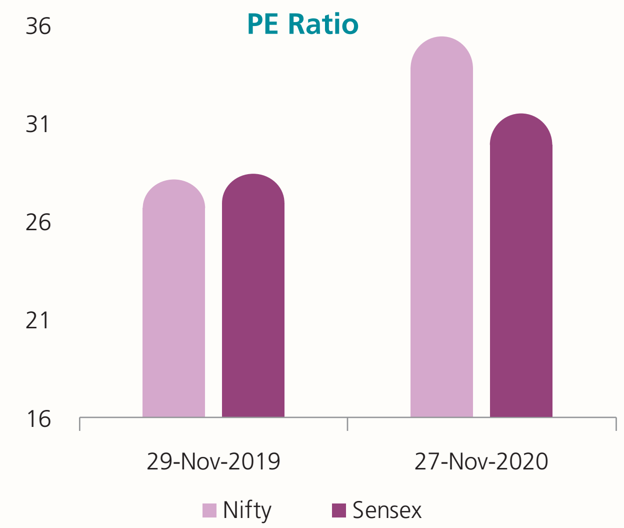
In line with global equities, Indian equities also saw a sharp rally in November. Domestically, the focus was on 2QFY21 earnings and a gradual reopening of the economy. COVID-19 cases in India continue to decline from their peak in mid-September. Q2FY21 earnings surprised positively led by Financials and Resources companies. Increased passive flows as a result of the Semi-Annual Index review by MSCI and increased FPI limits contributed to the rally.

MSCI India (US$) rose 8.5% in November but underperformed peers MSCI APxJ (9.0%) and MSCI EM (9.2%). YTD, MSCI India (3.6%) is underperforming peers, MSCI EM (8.1%) and MSCI APxJ (12.5%). Nifty50 and S&P BSE Sensex ended the month of November with 11.4% returns, respectively.

Indian domestic market was up led by higher global liquidity and positive earnings surprise. Among broader markets, the Midcap index outperformed the Largecap index by 200 bps while the smallcap index outperformed the Largecap index by 190 bps. BSE Midcap and BSE Smallcap indices ended the month of November with 13.5% and 13.3% returns, respectively.





GLOBAL MARKETS

Global equities recorded their best month ever in Nov with MSCI ACWI up 12.2% (US$) after two consecutive months of declines. European equities (SXXP +17%) outperformed their US counterparts (SPX +11%) in November. The VIX index declined 46% MoM to end the month at 21.

Despite increasing COVID-19 cases and local lockdowns in much of the US and the EU, risk assets saw a remarkable rally aided by positive news flow around highly effective potential vaccines and a stock market favorable US election result.

Worldwide, major indices saw positive trends. Euro Stoxx was an outperformer with 18.1% returns, followed by Nikkei (15.0%), FTSE100 (12.4%), and Dow Jones (11.8%). Hang Seng was the worst performer with (9.3%) returns.

SECTOR PERFORMANCE

Indian equity markets underperformed MSCI Emerging Market Index. Seven out of eleven sectors delivered positive returns in November. Metal was the best performing sector with 24.5% returns outperforming Sensex by 13.1%. Banks (23.7%), Capital Goods (20.2%), Power (15.6%), Auto (14.9%), Realty (14.3%) and Consumer Durables (12.3%) outperformed Sensex. Oil & Gas (9.3%), FMCG (7.4%) and Healthcare (5.5%) underperformed the Sensex. IT was the worst performing sector, down by 8.7%.

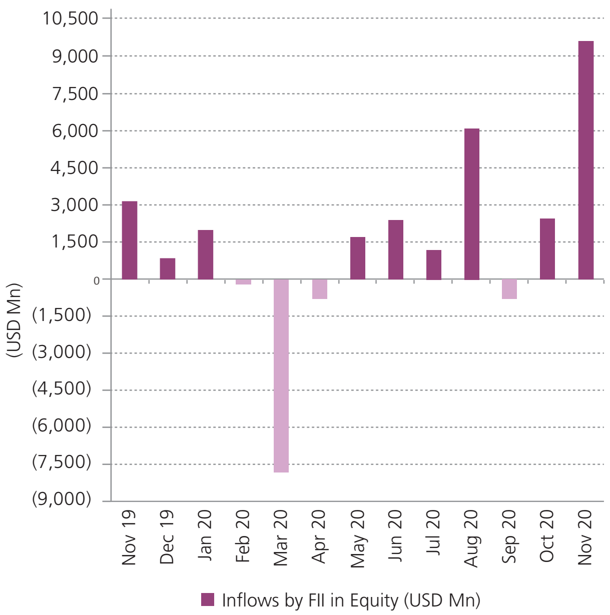
INSTITUTIONAL ACTIVITY

FIIs recorded their highest-ever monthly inflows of US$8.3bn into Indian equities in the month of November vs. inflows of $2.5 bn in October 2020 taking FY21 net inflows to $21.5 bn. DIIs remained net equity sellers with outflows of US$6.5 bn in November vs. outflow of US$2.4 bn in October taking the FY21 tally of outflows to $10 bn.

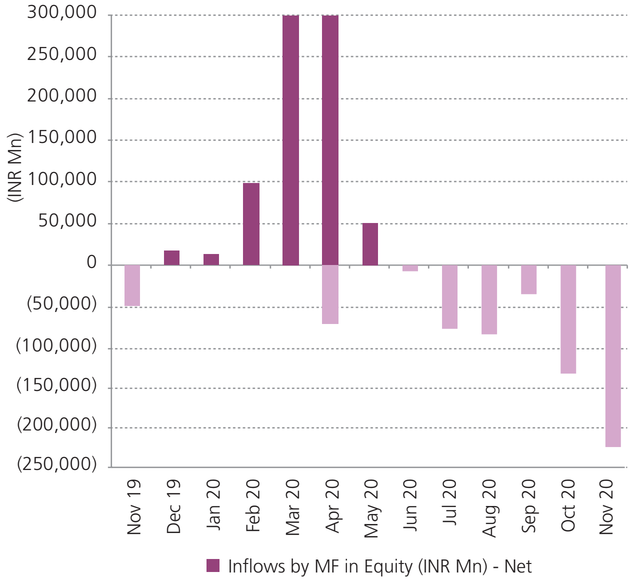
Within DIIs, both Insurance funds and mutual funds were net sellers in November. Mutual funds were net equity sellers at $3.0 bn while insurance funds sold $1.7 bn of equities in November.

Mutual fund and insurance fund flow data is as of 23rd Nov.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

The Q2FY21 GDP contraction of 7.5% YoY (vs. 23.9% contraction in Q1FY21) came better than the consensus estimate (-8.2%). The contraction in private consumption narrowed from 27% YoY to 11% YoY in Q2FY21, reflecting the unlocking of the economy. Government consumption declined 22% YoY in Q2FY21 following 16% YoY growth in 1QFY21.

Headline CPI for Oct at 7.6% was higher than the market expectations largely led by food inflation (11.1% in Oct vs. 10.7% in Sep). The core-core inflation rose 0.43% MoM, on the back of a downward revised 0.11% MoM, gain in Sep. The core-core inflation reached a 20-month high of 5.7% YoY in Oct.

Core-core inflation was sticky printing at 5.4% YoY in both Jul and Aug. August food inflation at 8.3% YoY came marginally below the July print (8.5%). Monsoon and sowing are above normal, augurs well for food inflation.

Composite PMI gained 3.4pt MoM to 58.0 in Oct, following an 8.6pt MoM gain in Sept. The Indian economy is experiencing a two-speed recovery with services lagging manufacturing, similar to trends seen globally. India's services PMI improved to 54.1 in Oct (+4.3pt MoM) while the Manufacturing PMI printed at 58.9 in Oct (+2.1pt MoM and the highest print in 8+ years).

Sep IP gained by 0.2% YoY vs. -8% contraction in Aug and came in ahead of the cons forecast. This was the first monthly YoY gain since Feb-20. Seasonally adjusted IP was still at about 91% of its pre-pandemic levels in Sep, up from 87% in Aug. Consumer durables were at 96% of the pre-pandemic level in Sep improving from 86% in Aug. Nondurables, improved to 101% of the pre-pandemic level in Sep from 98% in Aug.

India's monthly merchandise trade balance at US$8.7bn in Oct widened from US$2.7bn in Sep. Merchandise exports were down 5% YoY in Oct (vs. 6% gain in Sep) and imports were down 12% YoY in Oct (vs 20% decline in Sep). Imports ex Oil and Gold declined 5% YoY (vs. 13% decline in Sep), the 21st consecutive month of YoY declines. India's FX reserves are close to their all-time peak at $575.3 Bn as of 20th Nov. INR gained 0.1% and ended the month at 74.05/$ in Nov as USD declined sharply with the DXY down 2.3%.

Benchmark 10-year treasury yields averaged at 5.99% in Nov (4bps lower vs. Oct avg.). US 10Y yields are at 0.84% (-94bps over the last 1 year). Brent oil price gained 28% MoM in Nov to end the month at US$47.2/bbl following a 10% MoM decline in Oct. YTD, oil prices are still 30% down.

Fiscal deficit for Apr-Oct came at INR 9.1tn or 120% of the budgeted FY21 deficit (INR 8.0tn). This compares to 94% reached during the same time frame in FY20. GST collections in Nov came in at Rs1.04tn (+1.4% YoY) and was the second consecutive month with collections of more than Rs1tn (Rs1.05tn in Oct).

OUTLOOK

MSCI India was among the worst-performing Emerging markets (EM) and ranked 20th basis performance among EM markets. MSCI India growth index outperformed value (for the second month in a row) and large caps underperformed the mid and small-cap indices.

Market breadth improved significantly in November with 94% of stocks above their respective 200-day moving averages. Year-to-date, India's performance ranks 4th in EM, but the underperformance widened to 452 bps vs. 355 bps in the previous month. 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 the EU and US are witnessing an increase in COVID-19 cases. The economy is responding positively to the reopening process as reflected in corporate earnings in Q2FY21.

High-frequency indicators continue to show improvement in economic recovery. This is important given the decline in Central government expenditure by 28% in the last 3 months. Urban indicators continue to show an encouraging trend helped by realty and flight data. Late-Nov data shows improvement in e-way bill generation (+7% MoM), E-toll collections (15% above pre-COVID levels) and rail freight (6% YoY). Electricity and Diesel consumption weakened Car/2W registration data has remained strong post-recovery.

Most importantly, GST collections in Nov were INR 1.04 Trn, 1.4% YoY, second 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, even as the govt. has pulled back on spending.

India will witness reduced underperformance going ahead among emerging markets led by better recovery than expectations as reflected in the better print of Q2FY21 GDP and higher Q2FY21 corporate earnings growth. The continued shift from unorganized to organized will continue to formalize the economy which continues to get supported by the various economic and structural reforms being taken by the government. Some of the notable ones were Agri and Labor reforms. These reforms will enable India to move more towards market-based economy enabling India as an attractive investment destination globally.

Additionally, India's long-standing ambition to succeed in manufacturing is seeing a renewed push through *Atmanirbhar Bharat* and *Make in India*. The initial focus is to reduce import dependency in products where India is self-sufficient or can easily graduate to. Sectors are being identified and added to Production Linked Incentive Schemes. Further, many global companies are in the process to re-structure their supply chain to reduce the geographical risk of high dependency on China thus supporting India's cause. Overall, the economic recovery has been strong post the unlocking of the economy which will be supported by the incentives and various medium to long term reform.

Source: Bloomberg, MSCI