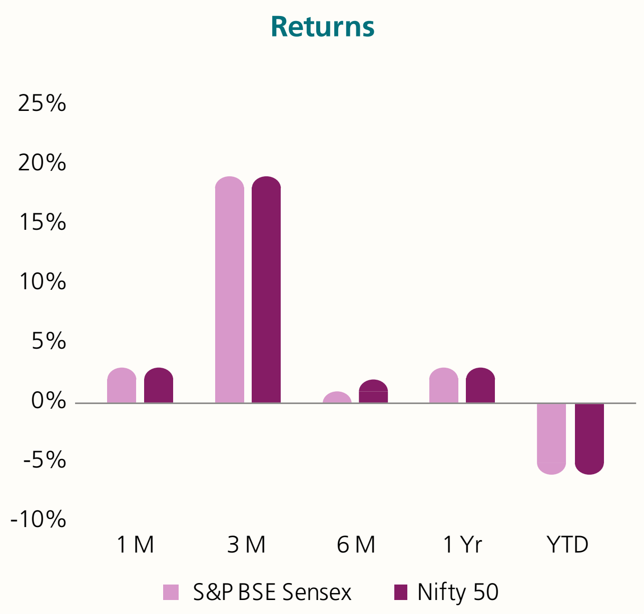
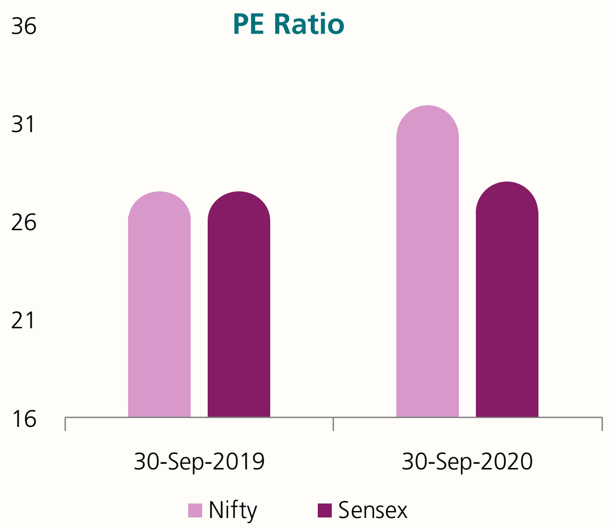
In line with global equities, Indian equity markets also saw a correction during the second half of October. Domestically, the focus was on Q2FY21 earnings and the gradual reopening of the economy. COVID-19 cases in India continue to decline from their peak in mid-September. 2QFY21 earnings overall have surprised positively so far.

MSCI India (US$) rose 0.9% in Oct but underperformed peers MSCI APxJ (2.4%) and MSCI EM (2%). However, YTD MSCI India (-4.6%) is underperforming peers, MSCI EM (-1.0%) and MSCI APxJ (+3.2%). Nifty50 and S&P BSE Sensex ended the month of October with 3.5% and 4.1% returns, respectively.

Indian domestic market outperformed the peer group MSCI Emerging market (3.4%). MSCI AWI Index ended with -2.6% returns. Among broader markets, the Midcap index underperformed the Largecap index by 270 bps while the Smallcap index underperformed the Largecap index by 390 bps. BSE Midcap and BSE Smallcap indices ended the month of October with 1.4% and 0.1% returns, respectively.





GLOBAL MARKETS

Global equities had a volatile month and continued to record negative returns in October with SPX (-2.8%), MSCI DM (-3.1%) and MSCI Europe (-5.7%). The VIX index jumped by 44% (MoM).

Equity markets remained focused on a double-dip in global growth, driven by lack of US fiscal stimulus, renewed COVID-19 lockdowns in Europe and the read-across from Europe's virus challenges to the US. The last week of October saw three national lockdowns in the EU5 countries.

Worldwide, major indices saw negative trends. Hang Seng was out-performer with 2.8% returns, followed by Nikkei (-0.9%), Dow Jones (-4.6%), and FTSE100 (-4.9%). Euro Stoxx was the worst performer with (-7.4%) returns.

SECTOR PERFORMANCE

Indian equity markets outperformed MSCI Emerging Market Index. Five out of eleven sectors delivered positive returns in October. Bank was the best performing sector with 12.5% returns outperforming Sensex by (8.4%). Realty (7.9%), IT (5.4%) and Power (4.6%) outperformed the Sensex. Capital Goods (2.4%), Consumer Durables (-0.8%), Oil & Gas (-0.9%) and FMCG (-1.2%) underperformed Sensex. Metal, Auto, and Healthcare were the worst performing sectors with (-1.2%), (-2.0%) and (-2.7%) returns, respectively.

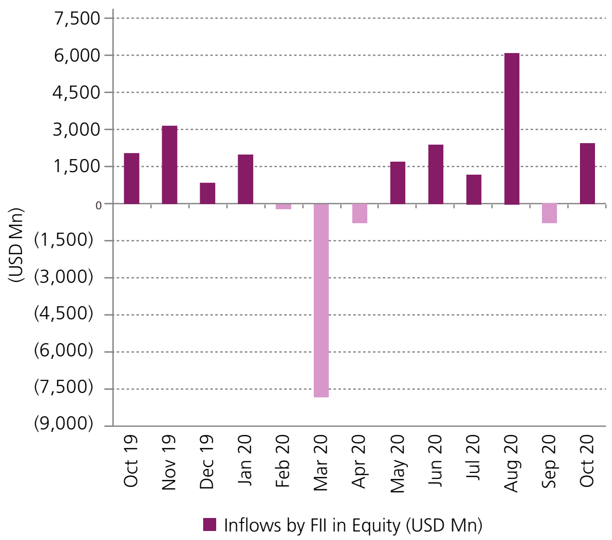
INSTITUTIONAL ACTIVITY

After recording monthly net outflows in September, FII's turned net buyers in October with inflows of $2.7 bn vs. outflows of $0.77 bn in September taking FY21 net inflows to $13.4 bn. DIIs were net equity sellers with outflows of US$2.4 bn in October vs. marginal inflow of US$15 mn in September taking the FY21 tally of outflows to $3.5 bn.

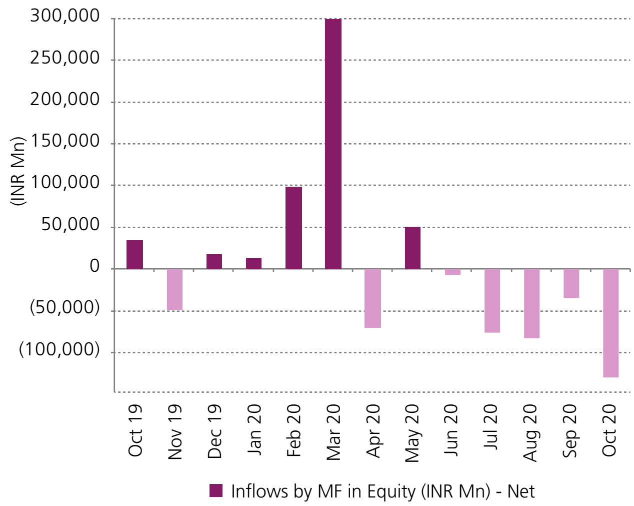
Within DIIs, both Insurance and mutual funds were net sellers in October. Mutual funds were net equity sellers at $1.6 bn while insurance funds sold $0.32 bn of equities in October.

(Mutual fund and insurance fund flow data is as of October 22, 2020).

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

Headline CPI for September at 6.7% was lower than the market expectations. Despite the recent softening of momentum, however, core-core inflation was sticky printing at 5.4% (YoY) in both July and August. 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 8.6 pt (MoM) to 54.6 in Sept, the first above the 50 print since April. The Indian economy is experiencing a two-speed recovery with services lagging manufacturing, similar to trends seen globally. India's services PMI improved to 49.8 in September (+8.0pt MoM, although still in contraction) while the Manufacturing PMI printed at 56.8 in September (+4.8 pt MoM and the highest print in 8+ years).

August IIP contracted by -8.0% (YoY) vs. 10.8% contraction in July and -15.8% contraction in June. Seasonally adjusted IP was still at about 87% of its pre-pandemic levels in August, marginally down from 89% in July. Consumer durables were at 87% of the pre-pandemic level in August improving from 82% in July. Non-durables, in contrast, eased to 98% of the pre-pandemic level in August from 103% in July.

India's monthly merchandise trade balance at US$2.7 bn in September narrowed down from US$6.8 bn in August. Merchandise exports were up 6% YoY in September (vs. 13% decline in August) and imports were down 20% (YoY) in September (vs 26% decline in August). Imports ex Oil and Gold declined 13% (YoY) (vs. 30% decline in August), the 20th consecutive month of (YoY) declines. India's FX reserves are close to their all-time peak at $560.5 bn as of October 23. INR depreciated by 0.5% and ended the month at 74.11/$ in October.

Benchmark 10-year treasury yields averaged at 5.9% in October (8 bps lower vs. September average). US 10Y yields are at 0.87% (-82 bps over the last 1 year). Brent oil price declined 9.9% (MoM) in October to end the month at US$36.9/bbl following a 7.7% (MoM) decline in September. YTD, oil prices are still 44% down.

The fiscal deficit for April-September came at INR 9.1 tn or 115% of the budgeted FY21 deficit (INR 8.0 tn). This compares to 85% reached during the same time frame in FY20. GST collections in October came in at Rs 1.05 tn (+10% YoY) and are near the pre-pandemic levels in February.

OUTLOOK

MSCI India underperformed Emerging Markets (EMs) despite India being the 6th best performing market (among 26 EMs). Year to date, India's performance ranking in EM stood at 4th but widening the underperformance to 355 bps as compared to 260 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-September even as EU and US are witnessing an increase in COVID-19 cases. The economy is responding positively to the reopening process. The continued reopening of the economy and preparation for the upcoming festive season has driven continuous improvement in the high-frequency indicators.

Late-October data shows improvement in E-way bill generation (+24% YoY), E-toll collections (11% above pre-COVID levels), Rail Freight (21% YoY), and electricity consumption. Car/2W registration data has remained strong post-recovery. Unemployment data continues to remain better on year on year basis. Petrol and Diesel consumption are now up by 2% & 9% YoY, respectively. Most importantly, October 2020 GST collections were at INR 1.05 tn (+10% YoY), the fastest growth pace in 18 months. The improvement in GST and several other data points show the economy moving close to normal across most segments, even as the government has pulled back on spending.

Over the last few months, we have seen govt. pushed through economic and structural reforms during the coronavirus crisis. Some of the notable ones were Agri and Labor reforms. These reforms will enable India to move more towards a 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. The focus is on import substitution. The Indian government is actively focusing on Atmanirbhar Bharat and Make in India as many global companies are in the process to re-structure their supply chain to reduce the geographical risk of high dependency on China. Overall, the economic developments are highly encouraging to post the reopening of the economy which will get further supported by the structural reforms taken by the government to ensure a sustainable and faster recovery.

Source: Bloomberg, MSCI