EQUITY MARKET REVIEW

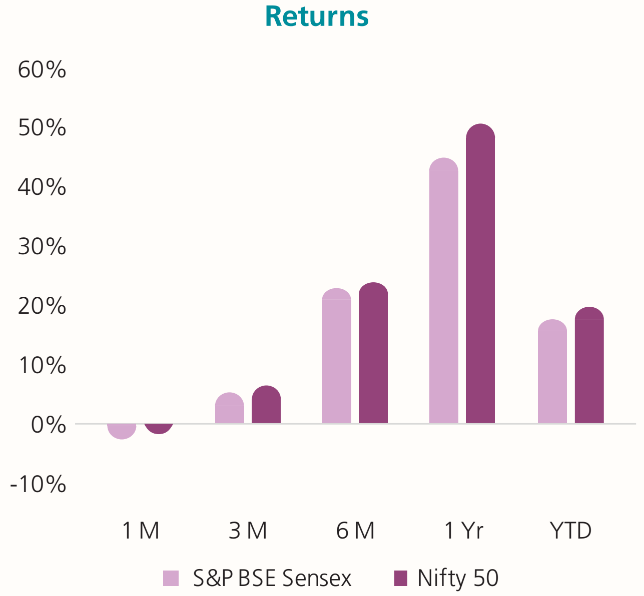
APRIL, 2021

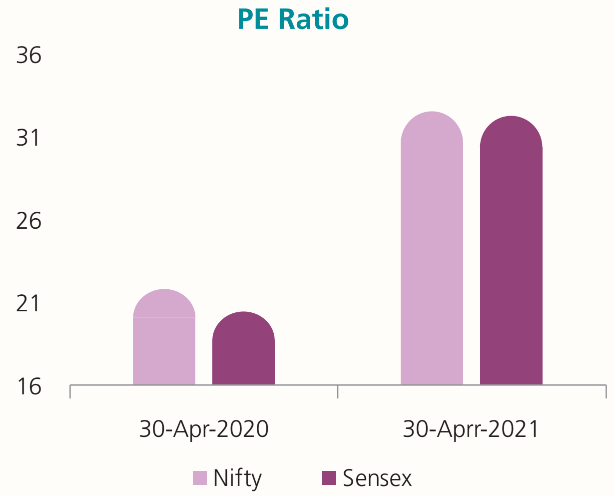
L&T Financial Services Mutual Fund

Indian equities ended flat on MoM. The failure to sever the link between mobility and the virus led Indian equities to lose ground for the first half of the month. MSCI India (USD) fell 1.0% in April and underperformed peers MSCI APxJ/EM (+2.8%/2.4%) as daily new cases surged over the month.

Nifty50 and S&P BSE Sensex ended the month of April with 1.1% and 0.8% returns, respectively. Midcaps and Smallcaps outperformed Largecaps by 0.2% and 1.6% respectively in March. Indian domestic market (Sensex) was down (-1.5%) underperforming emerging markets.

Among broader markets, the Midcap index outperformed the Largecap index by 210 bps while the Smallcap indices outperformed the Largecap index by 640 bps. BSE Midcap and BSE Smallcap indices ended the month of April with 0.6% and 4.9% returns, respectively.





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

GLOBAL MARKETS

Global equities traded higher with Europe catching up with the US markets. PMIs confirmed a few features – the global boom is taking shape; it continues to exceed optimistic expectations; and Europe is catching up to the US. Q1 earnings are beating high expectations in the US and Europe. The month confirmed the core trend: that global growth leadership is rotating from a decelerating China to the booming US.

Worldwide, major indices saw positive trends except for Nikkei. FTSE was out-performer with 3.8% returns, followed by Dow Jones (+2.7%) and Euro Stoxx (+1.4%). Hang Seng and Nikkei were the worst performers with +1.2% and -1.3% respective returns.

SECTOR PERFORMANCE

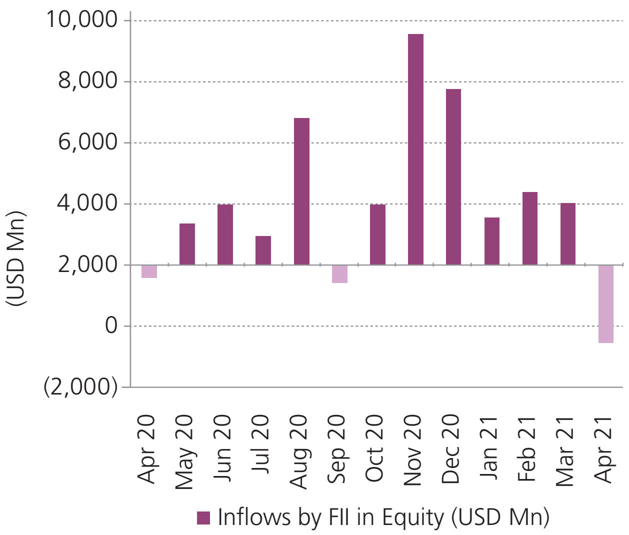
Indian equity markets underperformed MSCI Emerging Market Index. Healthcare, Materials and Communication Services outperformed while both Consumer Staples and Consumer Discretionary were notable laggards in April.

Metal was the best performing sector with 24.2% returns outperforming Sensex by 25.7%. Healthcare (10.3%), Oil & Gas (1.2%), Power (0.2%) outperformed Sensex. Bank (-0.6%), IT (-0.9%), Consumer Durables (-1.5%), Auto (-2.6%) underperformed Sensex. FMCG and Capital Goods were the worst-performing sectors falling 2.8% and 4.0% returns, respectively.

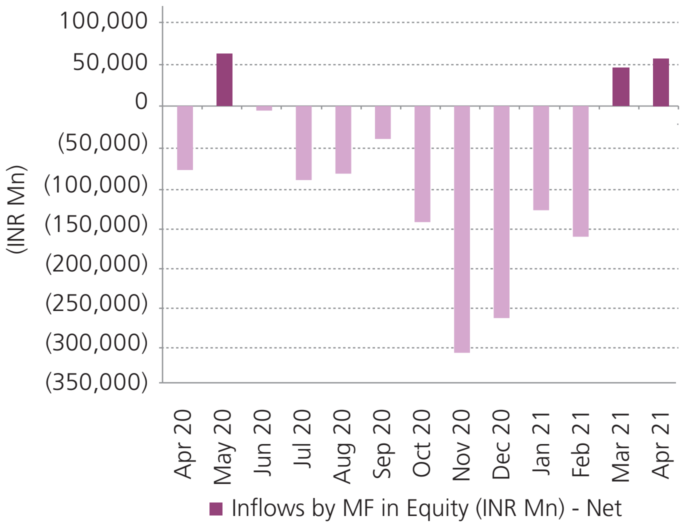
INSTITUTIONAL ACTIVITY

FIIs recorded monthly outflows of US$1.1 bn into Indian equities in the month of April vs. inflows of $2.3 bn in March 21 taking FY22 net outflows to $1.1 bn. This is 1st outflow after six consecutive months of inflows. DIIs remained net equity buyers in Apr with inflows of US$1.5 Bn in Apr vs. inflows of US$715 Mn in Mar taking the FY22 tally of inflows to $1.5 Bn. Within DIIs, both Mutual funds and insurance funds were net buyers. Mutual funds were net equity buyers at $796 Mn while insurance funds bought $503 Mn of equities in Apr.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

Headline CPI for Mar at 5.5%, from 5% in Feb. Momentum took a breather in March easing to 0.2% MoM. Core-Core decelerated to 5.2% YoY in March from 5.5% in February. Food prices continued to remain benign, remaining flat sequentially in March. There are a lot of moving parts that are likely to influence core-core in the coming months.

The composite PMI consolidated to 56.0 in March from an elevated 57.3 in February. The manufacturing PMI led the decline, dropping 2.1 pts to 55.4. The decline in the services PMI was more modest at 0.7 pt to 54.6. The forward-looking new orders index also moved down to 55.8 from 57.1.

IP printed in line with expectations coming in at -3.6% YoY for Feb. This came on the back of an upwardly revised -0.9% YoY print in Jan. Sequentially IP rose by 0.8% MoM in Feb – a third consecutive increase. In level terms, therefore, industrial production continued to recover and inched up to 98% of its pre-pandemic level from 97% in January.

India's FX reserves are close to their all-time peak, standing at $584 bn currently. FX reserves have increased by US$4.8 bn in the last 4 weeks. INR lost 1.3% and ended the month at 74.09/$ in Apr.

Benchmark 10-year treasury yields averaged at 6.06% in Apr (13 bps lower vs. Mar avg.). US 10Y yield is at 1.63% (-11bps MoM, +99bps YoY). The Brent oil price rose 6.6% in April, following a 3.1% decline in March.

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. GST collections in April hit a record monthly high of Rs 1.41 tn (from Rs 1.24 tn in March, +14.1% MoM). This was the 7th consecutive month with collections of more than Rs1tn.

OUTLOOK

India was one of the worst-performing EMs globally in April, ranking 22nd (among 27 EMs) vs. 10th rank in March. The BSE Sensex (large cap index) continued to underperform the broader market. In April, investor appetite for value stocks remained high, and thus the MSCI India Growth index underperformed the Standard and Value indices for the 5th month in a row.

India remains in the throes of a severe second COVID-19 wave. Daily new cases have surpassed more than thrice the first peak – and the virus has spread rapidly. The Reproduction Factor, R(0), is above two for 10 states in India. This suggests risks of a rapid and widespread if left unaddressed. This has led to a mark down in India's expected GDP growth. However, India's second wave close to peaking now and aggregate country daily cases growth slowing; India closed some of its under-performance with EM over the latter weeks.

GST collections in April hit a record monthly high of Rs 1.41 tn (from Rs1.24tn in March, +14.1% MoM). This was the 7th consecutive month with collections of more than Rs 1 tn. This is encouraging despite local/regional lockdown implemented in the second half of Apr. States are resorting to localized restrictions, which are being reflected in weaker sequential momentum in high-frequency indicators like E-way bill, power demand and fuel consumption. Having said that, the impact is expected to be temporary, and the cyclical recovery view remains intact.

The rise in cases and the concomitant restrictions are showing up in a dip in the sequential momentum of incoming growth data, although the deceleration is still mild. The intensity, duration and spread of restrictions are lesser this year, which cushions the impact on activity to some extent. Overall, we expect normalization in economic activity, a steady increase in the vaccination drive, favorable policy mix, and a robust global growth outlook to support cyclical recovery in subsequent quarters.

Source: Bloomberg, MSCI