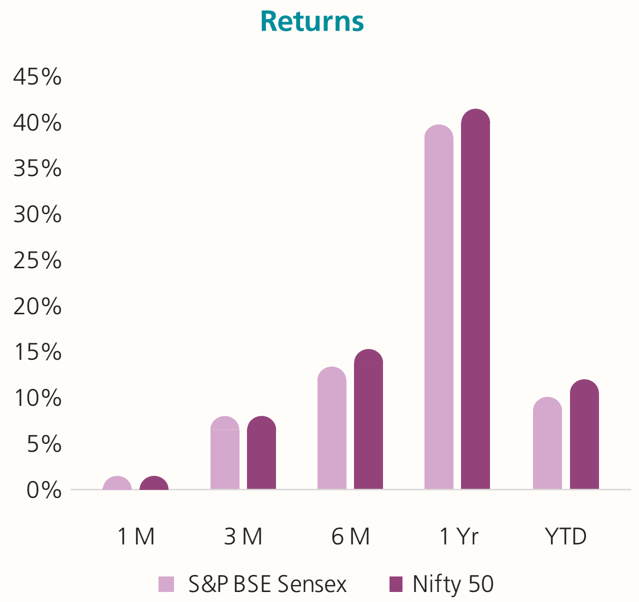
EQUITY MARKET REVIEW

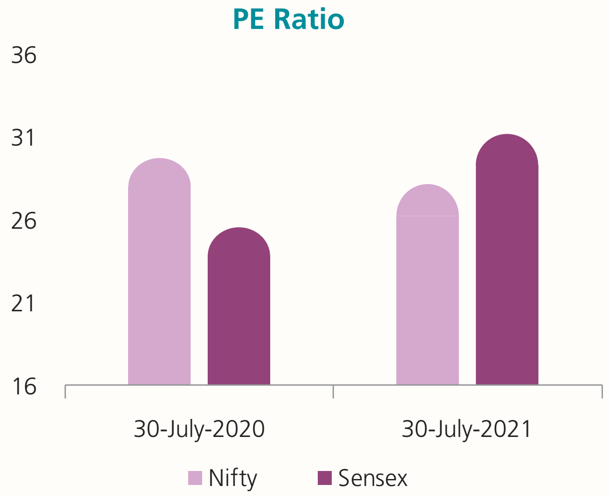
JULY, 2021

L&T Financial Services
Mutual Fund

Nifty gained 0.3% to close at 15,763 in the month of July after trading in a tight range of 15,500 -16,000 during the month. However, the broader market continued its strong uptrend with BSE Midcap and BSE Smallcap indices gaining 2.5% and 6.1%, respectively as the economy started to recover from the COVID-19 wave 2 disruptions.

MSCI India significantly outperformed broader emerging markets in July – up 0.7% over the month (USD terms) vs MSCI APxJ /EM (-6.8%/-7.0%) which was negatively impacted by tightening regulatory scrutiny of Chinese tech giants.





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

GLOBAL MARKETS

Global equities (+0.6%) traded modestly higher, with developed markets (US up +2.3% vs Europe +1.8%) leading EM (down 7.0%). Chinese equities fell 14.2% ($ terms) as a series of regulatory changes catalyzed a swift correction in the new economy stocks (internet, fintech, education, etc.). Global GDP growth is expected to remain strong in 2H 2021 as the laggards join in a more synchronized growth boom, as widespread vaccination allows for a sustained rise in mobility and economic activity.

Worldwide, major indices displayed divergent trends with the US S&P500 an out-performer up (+2.2%) returns, followed by Euro Stoxx (+2.0%) and FTSE flat while Nikkei was down (-5.2%) and Hang Seng was the worst performer with (-10.0%) returns.

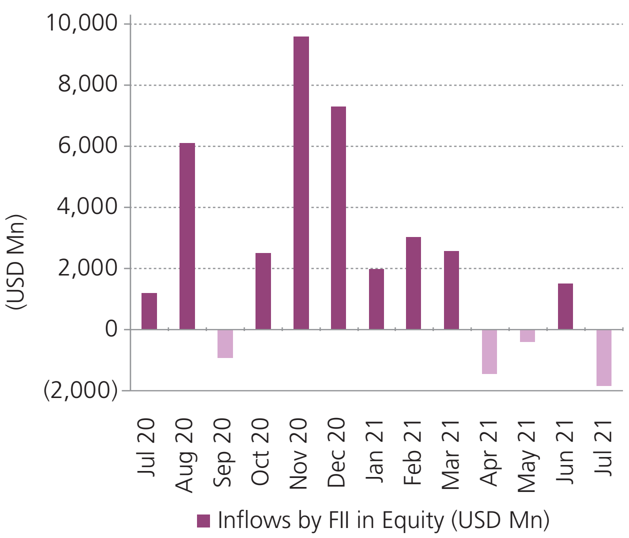
SECTOR PERFORMANCE

By sector, Materials, Telcos, Industrials and Health Care outperformed, while Utilities, Energy and Consumer Discretionary were notable laggards in July. 1Q earnings trends were mixed as IT / Commodities largely beat expectations while Financials/Autos missed. In terms of sectoral indices, Realty (+16%) and Metals (+13%) were the best performers while Autos (-5.4%), Utilities (-5.0%) and Energy (-4.5%) were the key underperformers in July.

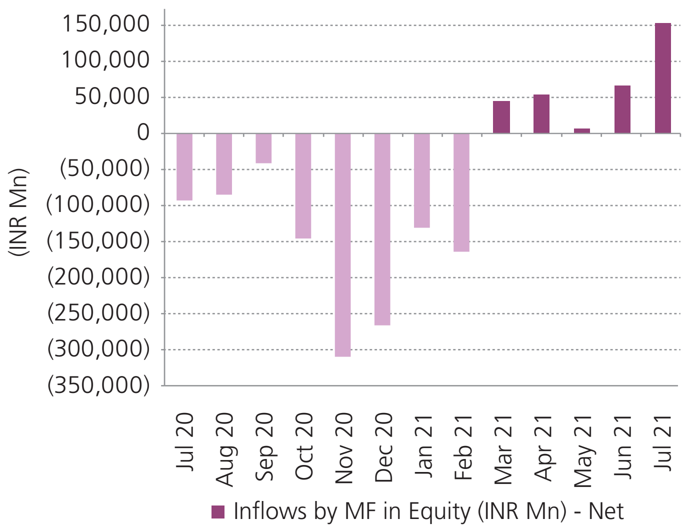
INSTITUTIONAL ACTIVITY

China Tech regulatory issues led EM risk-off also weighed on India. Consequently, FIIs again turned net sellers to the tune of -$1.9 bn (after 2 months of net inflows) which was more than offset by DII buying (+$2.5 bn), largely by the domestic mutual funds who had their highest single monthly deployment ($1.9 bn) in Jul’21 since Mar’20.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

India’s headline CPI inflation was at 6.3% (YoY) in June. Monthly core-core prices (standard core ex. petrol and diesel), inflation decelerated to 5.3% (YoY) in June from 5.9% in May. For the time being, economists believe headline CPI has peaked, but largely for statistical reasons.

IP growth was below expectations at 29% (YoY) in May helped by very favorable base effects from last year when the economy was in the midst of a national lockdown. Sequentially, in fact, IIP plunged 13.4% m/m sa in May on the back of a 0.7% contraction in April, as different states progressively locked down on account of the second wave. Re-openings in June should generate a meaningful bounce in the other direction.

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The composite PMI came in very weak at 43.1 for June after falling to 48.1 in May from 55.4 in April. This would suggest activity contracted in June, which is at odds with other high-frequency indicators that signal a recovery of activity in June after a deep contraction in May. However, PMIs can sometimes be lagging.

India's FX reserves are close to its all-time peak, standing at $611bn currently. FX reserves have increased by US$2.1bn in the last 4 weeks. INR ended at ~74.42/USD, flat in July. DXY was down a modest 0.3% over the month

Benchmark 10-year treasury yields were up 15bps in Jul and ended the month at 6.20%. The Brent oil was flattish in July, following a whopping 9.3% increase in June (was up +20.4% in Q2-21).

Fiscal deficit for Apr-Jun'21 came at Rs 2.74 tn or 18.2% of the budgeted FY22 deficit (at Rs 15.1 tn or 6.8% of GDP). GST collections grew 33% YoY in July (Rs 1.16 tn, from Rs 928 bn in June, -25% (MoM). This was the 9th consecutive month with collections of more than Rs 1 tn starting October last year (exception of June 2021).

OUTLOOK

After a very challenging few months, India's second COVID-19 wave peaked and rolled over in early May. India's positivity rate peaked at about 23% in early May but has now declined to below 2.5%. The 7DMA (seven-day moving average) of vaccine shots administered has increased sharply from under 2 mn a day in the middle of May to over 5.0 mn now. As of 31 July, c.463 mn shots have been administered in India (c.27% of the population has taken one shot+). We expect a majority of the adult population to be vaccinated by December 2021 but the larger cities are ahead and can possibly see further activity improvement ahead of the November festive season.

India's exports have been very strong since the beginning of the year, boosted by the constructive global environment. This strong export growth has been a tailwind for industrial production and growth.

The dip in cases, increased vaccination efforts and removal of restrictions will result in improvement in sequential growth momentum. Overall, supported by a stimulative monetary policy we expect the economic recovery to gain momentum in the coming quarters.

Source: Bloomberg, MSCI