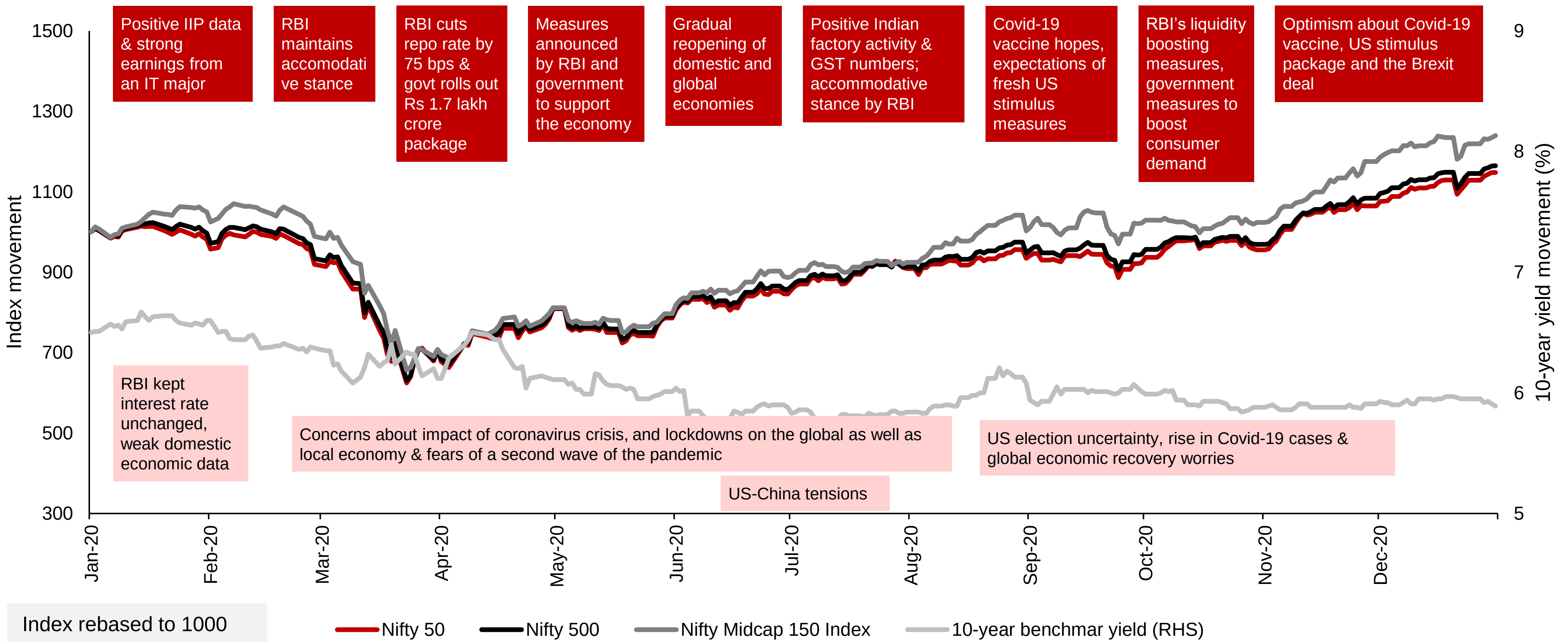
Global Navigator

HSBC
Global Asset
Management

6 January 2021

Looking back – Events and India Markets

Optimism about Covid-19 vaccine, US stimulus package and Brexit deal buoyed Nifty 50; the benchmark jumped 8% in December



Source:

Key events and performance of the Indian market (Nifty 50 and Nifty 500 rebased to 1000) in January 2020 – 31 December 2020

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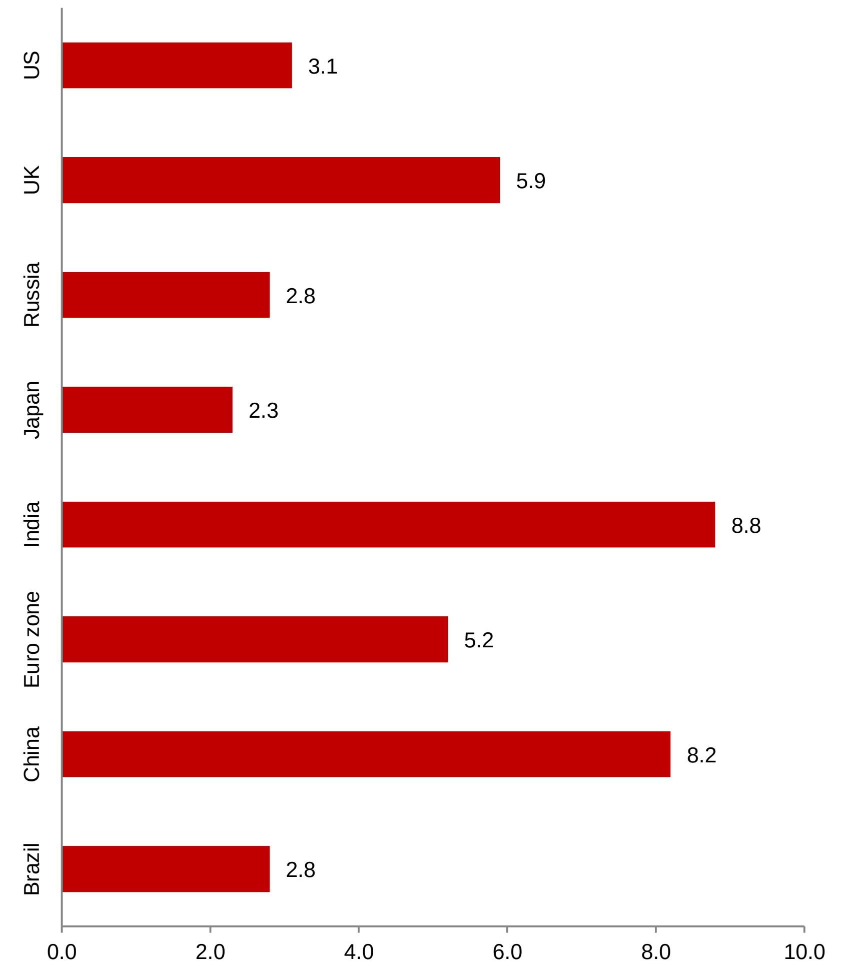
Data ended December 2020 except otherwise mentioned. Past performance is not indicative of future performance.

Global Economic Update

	GDP		Inflation		Industrial Growth	
	Current	Previous	Current	Previous	Current	Previous
US	33.4% Q3 2020	-31.4% Q2 2020	0.2% Nov'20	0.0% Oct'20	0.4% Nov'20	0.9% Oct'20
Eurozone	-4.3% Q3 2020	-14.7% Q2 2020	-0.3% Nov'20	-0.3% Oct'20	2.1% Oct'20	0.1% Oct'20
UK	16.0% Q3 2020	-18.8% Q2 2020	0.3% Nov'20	0.7% Oct'20	-5.5% Oct'20	-6.3% Sep'20
China	4.9% Q3 2020	3.2% Q2 2020	-0.5% Nov'20	0.5% Oct'20	7.0% Nov'20	6.9% Oct'20
Japan	22.9% Q3 2020	-29.2% Q2 2020	-0.9% Nov'20	-0.7% Oct'20	0.0% Nov'20	4.0% Oct'20
India	-7.5% Q2 2020	-23.9% Q1 2020	6.93% Nov'20	7.61% Oct'20	3.6% Oct'20	0.5% Sep'20

Major Global Central Bank	Latest Key Interest rate
US Federal Reserve	0.00-0.25%
Bank of England	0.10%
European Central Bank	0.00%
Bank of Japan	-0.10%
India	4.00%

IMF GDP Projections for 2021



Sharp rebound likely this year after previous year's downfall

Source: Bloomberg, Respective Central Banks, IMF. Data ended December 2020 except otherwise mentioned

Global Economic Update

US Q3 GDP growth revised upwards; Fed keeps interest rate near zero

- The US’ revised upwards its gross domestic product (GDP) growth in the third quarter to 33.4% from 33.1% reported earlier. This compares with a contraction of 31.4% in the previous quarter.
- Meanwhile, the US Federal Reserve (Fed), in its December policy meeting, kept the target range for federal funds rate at 0-0.25% and signalled that it plans to continue its asset purchase programme until the economy shows substantial progress towards the central bank's goals of maximum employment and price stability.
- Among other key developments, US President Donald Trump signed into law a $2.3 trillion pandemic aid and spending package.

Key economic indicators

- Non-farm payrolls rose 245,000 in November followed by a reading of 610,000 for October. Unemployment rate fell to 6.7% in November from 6.9% in October
- ADP said the private sector employment rose 307,000 jobs in November after climbing a revised 404,000 in October
- Consumer price index (CPI) rose 0.2% in November after remaining unchanged in October
- Retail sales tumbled 1.1% in November following a 0.1% fall in October
- Industrial production climbed 0.4% in November following a 0.9% growth in October; capacity utilisation of the industrial sector, meanwhile, increased to 73.3% from a revised 73%
- Manufacturing PMI posted 57.1 in December, up from 56.7 in November while services PMI was 55.3 compared with 58.4. The composite PMI was 55.7 compared with 58.6
- Producer price index (PPI) for final demand inched up 0.1% in November after climbing 0.3% in October
- University of Michigan consumer sentiment index rose to 81.4 in December from 76.9 in November
- Consumer confidence index fell to 88.6 in December from 92.9 in November
- Construction spending increased 0.9% to $1.46 trillion in November, the highest level since the government started tracking the series in 2002; data for October was revised higher to show construction outlays accelerating 1.6%.
- The NAHB Housing Market Index slid to 86 in December after climbing to 90 in November
- Housing starts jumped 1.2% to an annual rate of 1.55 million in November from a revised October rate of 1.53 million; building permits spiked 6.2% to an annual rate of 1.64 million from 1.54 million during the period
- Existing home sales tumbled 2.5% to an annual rate of 6.69 million in November after jumping 4.4% to a revised rate of 6.86 million in October
- New home sales plunged 11% to an annual rate of 841,000 in November after sliding 2.1% to a revised rate of 945,000 in October

US Fed keeps rates near zero; economy surged in the third quarter

Source : CRISIL. Data ended December 2020 except otherwise mentioned

Global Economic Update

ECB expands bond buying as Covid-19 resurgence weighs on the euro area's economic recovery

- The European Central Bank (ECB) increased Pandemic Emergency Purchase Program by 500 billion euros to 1.85 trillion euros, and extended it by nine months to at least the end of March 2022. The central bank held interest rates on its main refinancing operations, marginal lending facility and deposit facility at 0.00%, 0.25% and -0.50%, respectively.
- Eurozone GDP declined 4.3% on-year in the third quarter of 2020 after contracting 14.7% in the previous quarter.
- The European Union entered into an investment deal that will give European companies greater access to China and help redress what Europe sees as unbalanced economic ties.

Key Eurozone economic indicators

- Eurozone retail sales rose 1.5% on-month in October after a 1.7% monthly slump in September
- Jobless rate fell marginally to 8.4% in October from 8.5% in the previous month
- ZEW economic sentiment rose 21.6 points to 54.4 in December
- Consumer prices were down 0.3% on a yearly basis in November, at the same rate as in October
- Industrial output expanded 2.1% on month in October, faster than the 0.1% rise seen in September
- Manufacturing PMI was 55.2 in December compared with 53.8 in November and services PMI was 47.3 compared with 41.7.
- Consumer confidence rose to -13.9 in December from -17.6 in November

BoE holds interest rate steady; UK, EU reach post-Brexit trade agreement

- The Bank of England (BoE) kept its main lending rate at 0.1%, after cutting twice from 0.75% since the onset of the pandemic in March. It also retained its target stock of asset purchases at 895 billion pounds ($1.2 trillion).
- The economic recovery during July-September was better than expected, with GDP growth getting revised to a record 16.0% from the previous estimate of 15.5%. In the second quarter, the economy had slumped 18.8%.
- Among other key developments, the UK and the European Union reached a post-Brexit trade deal which ensures the two sides can continue to trade in goods without tariffs or quotas..

Key UK economic indicators

- The country's industrial production rose 1.3% on-month in October compared with 0.5% gain in September. On an annualised basis, industrial output fell 5.5% in October, as against a 6.3% decline in September
- CPI weakened to a three-month low of 0.3% on year in November from 0.7% in October.

The UK and the EU enter into a post-Brexit trade agreement

Source: CRISIL. Data ended December 2020 except otherwise mentioned

Global Economic Update

China lowers 2019 GDP growth to 6.0%

- China revised down its GDP growth for 2019 to 6.0% from the previously reported 6.1%. The People's Bank of China retained the one-year loan prime rate at 3.85% and the five-year loan prime rate at 4.65%.

Key Chinese economic indicators

- The country’s CPI fell 0.5% in November from a year earlier – the first decline since October 2009 –after rising 0.5% in October. Producer price index, meanwhile, fell 1.5% on-year after a 2.1% drop in October
- Exports in November surged 21.1% on-year and imports rose 4.5%, resulting in a record trade surplus of $75.42 billion compared with a surplus of $58.44 in the previous month
- Industrial production grew 7% on-year in November, after rising 6.9% in October
- Retail sales rose 5% on-year in November compared with 4.3% a month ago
- Fixed asset investment grew 2.6% in the first 11 months of the year from the same period in 2019, compared with 1.8% growth in the first 10 months of the year.
- Industrial profits rose 15.5% on-year in November to 729 billion yuan following a 28.2% gain in October
- Official manufacturing PMI fell to 51.9 in December from 52.1 in November, while non-manufacturing PMI fell to 55.7 from 56.4
- Caixin/ Markit manufacturing PMI fell to 53.0 in December from 54.9 in November

Japan unveils $708 billion fresh stimulus; Jul-Sept GDP growth upgraded to 22.9%

- Japan’s economy grew an annualised 22.9% during July-September compared with the preliminary figure of 21.4%. In April-June, the economy had contracted 29.2%.
- Japan rolled out a fresh $708 billion economic stimulus package to speed up the recovery. The new package will include about 40 trillion yen ($384.54 billion) in direct fiscal spending and initiatives targeted at reducing carbon emissions and boosting adoption of digital technology.
- The cabinet approved a record $1.03 trillion budget draft for the next fiscal year starting in April 2021.
- Among other developments, the Bank of Japan’s (BoJ) board voted 8-1 to retain interest rate at -0.1% on current accounts that financial institutions maintain with the central bank.

Key Japanese economic indicators

- Core machinery orders surged 17.1% in October, recouping the previous month’s 4.4% fall
- Exports fell 4.2% in November from a year earlier and imports dropped 11.1%, resulting in a trade surplus of 366.8 billion yen
- Core consumer prices dropped 0.9% in November from a year earlier compared with October’s 0.7% fall

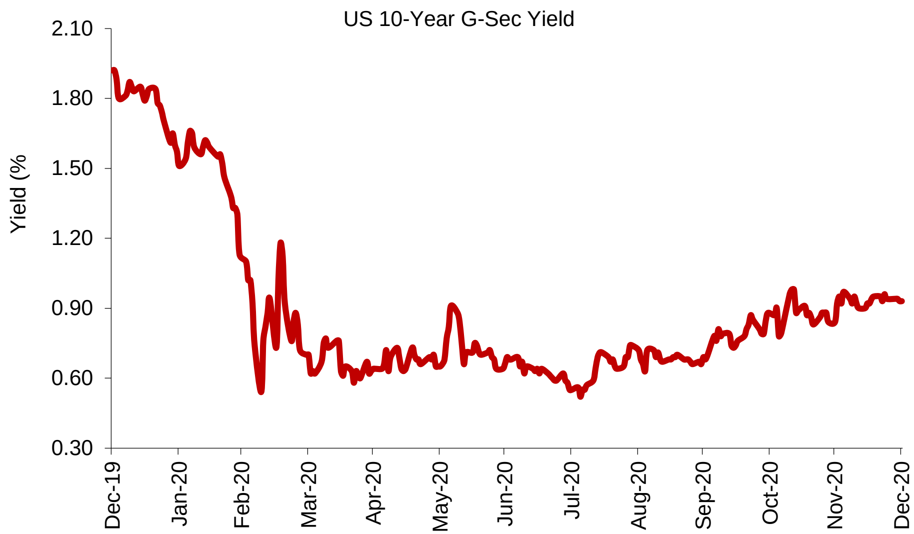
Japan rolls out a stimulus package to boost the economy

Source: CRISIL. Data ended December 2020 except otherwise mentioned

US Fixed Income Markets - Overview

US treasury prices fell in December

- The US treasuries declined in December, with the yield of the 10-year bond settling at 0.91% on December 31 compared with 0.84% on November 30.
- Sentiment for safe haven Treasuries was dented after the US Fed pledged to maintain its bond-buying programme until the economy returns to full employment.
- Treasury prices fell further after US President Donald Trump signed into law a $2.3-trillion pandemic aid and spending package.
- More bond selling was seen after the UK and the European Union (EU) negotiated a post-Brexit trade deal and France decided to reopen its borders to passengers from Britain.
- Some discouraging US domestic economic data and concerns about the impact of the more infectious variant of Covid-19 on global economic growth triggered bond purchases.



Global bond yields			
	31-Dec	30-Nov	Change
US 10-Year (%)	0.91	0.84	0.07
UK 10-Year (%)	0.20	0.38	-0.18
German 10-Year (%)	-0.58	-0.57	-0.01
Japan10-Year (%)	0.02	0.03	-0.01

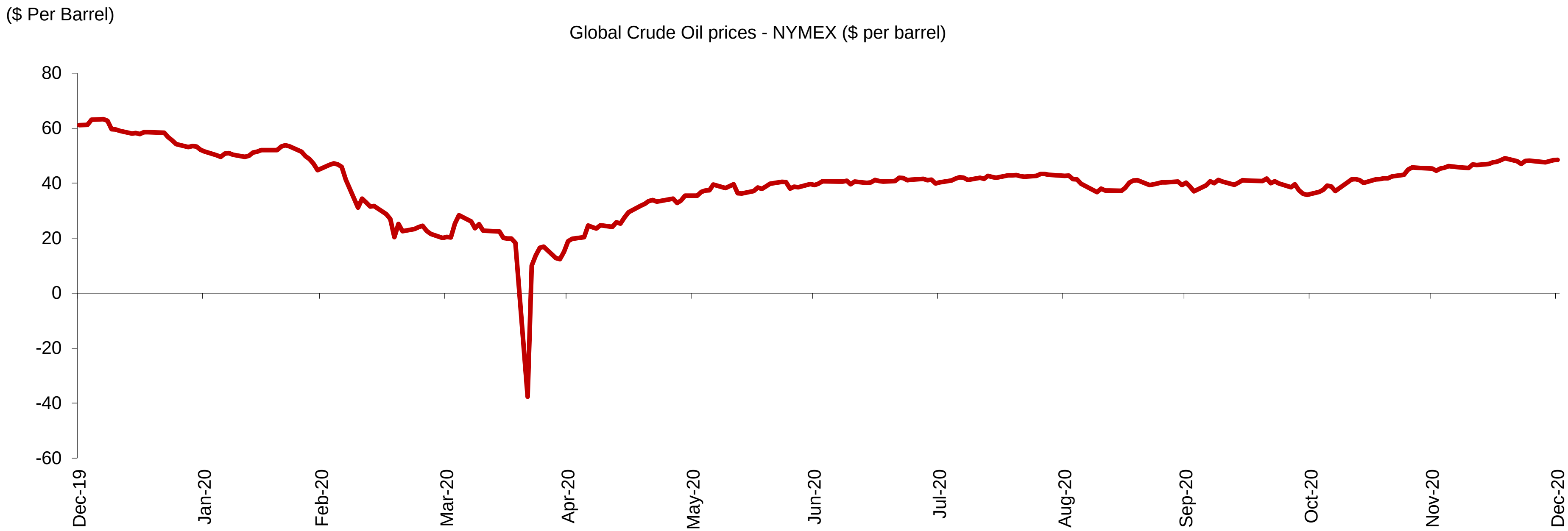
Fresh US stimulus package, UK-EU trade deal affected US treasury prices

Source: Bloomberg. Data ended December 2020 except otherwise mentioned

Commodity Market Review

International crude oil prices rose in December

- Crude oil ended year 2020 on a positive note with price on the New York Mercantile Exchange (NYMEX) on December 31 at $48.52 per barrel, up 7% from $45.34 per barrel a month ago.
- The price stayed elevated through most of December as various countries started to roll out Covid-19 vaccine, which gave rise to hopes of growth in demand.
- Price also gained after the United Kingdom and the European Union reached a post-Brexit trade deal and an unexpected fall in the US oil supply.
- However, worries about new Covid-19 strain, which raised concerns about slower recovery in fuel demand, and rising tensions between the US and China halted the gains.



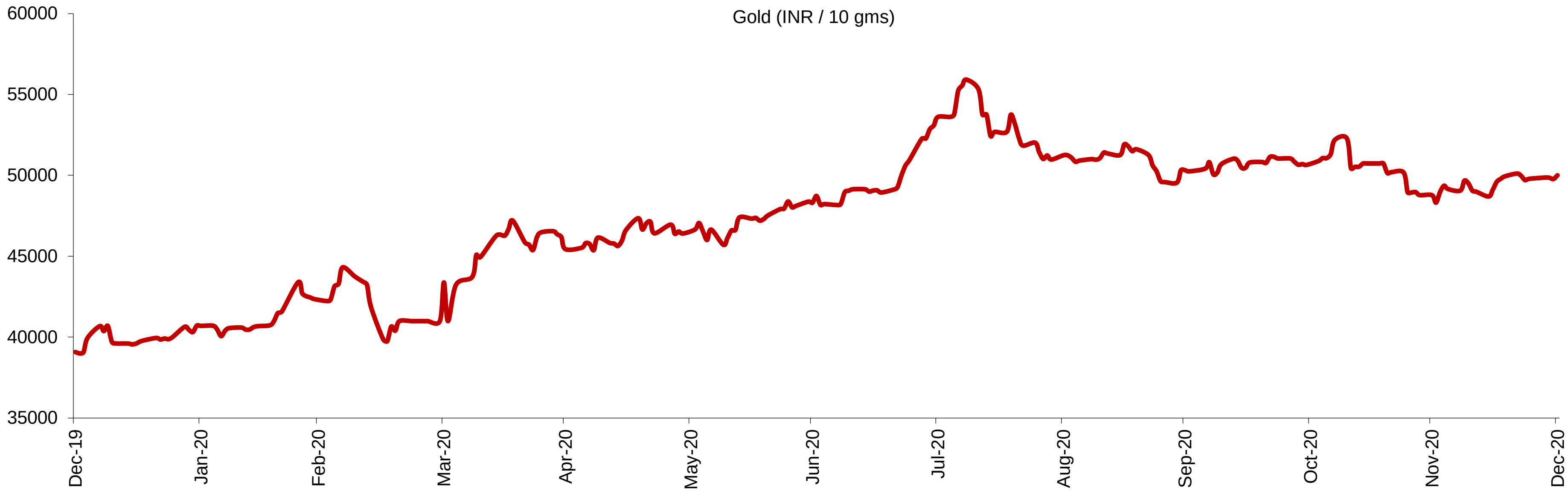
Hopes of demand recovery following Covid vaccine rollouts support oil prices

Source – NYMEX. Data ended December 2020 except otherwise mentioned

Commodity Market Review

Gold prices rose in December

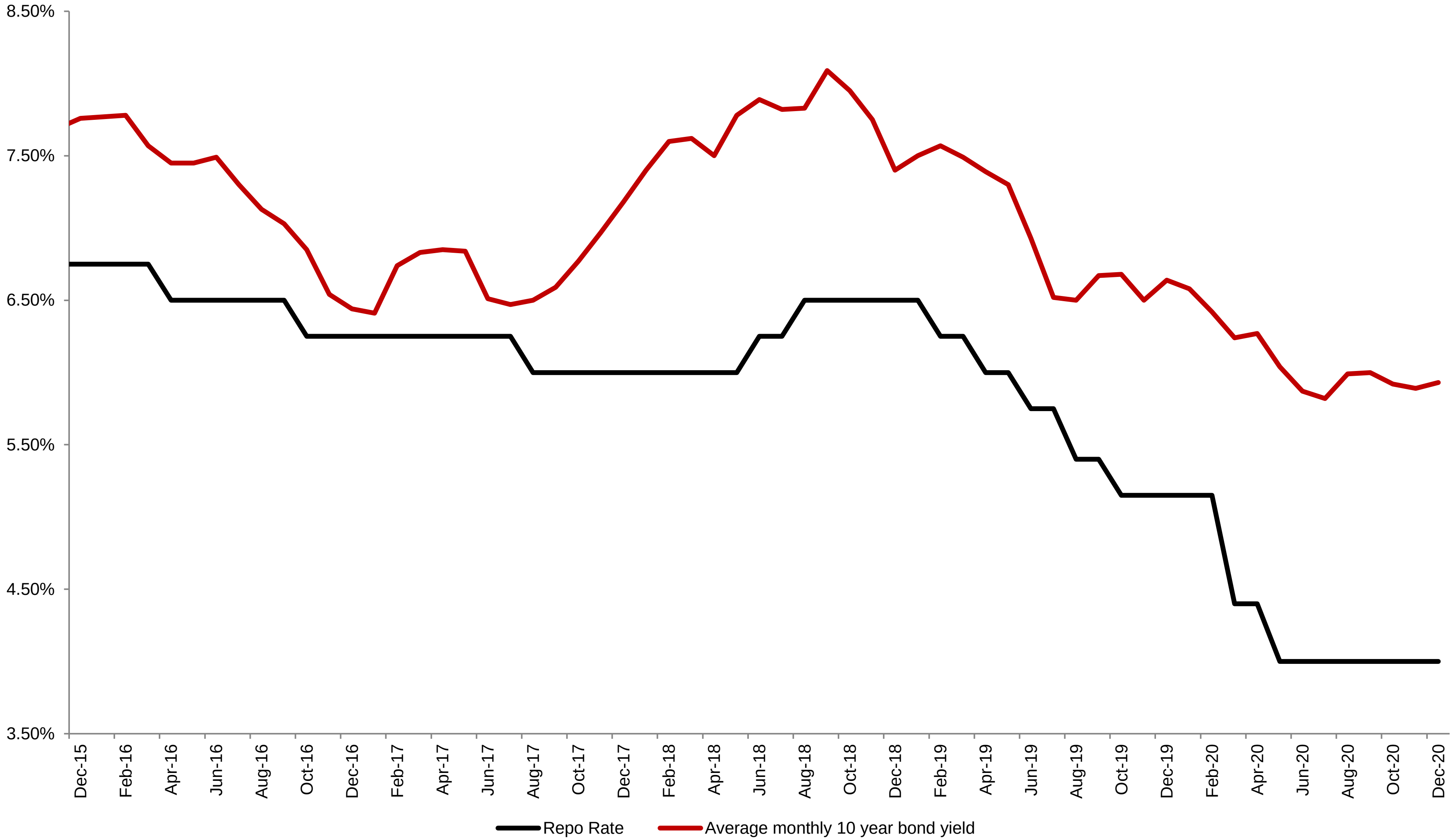
- Gold price on the Multi Commodity Exchange on December 31 was INR 50,005 per 10 gm, up 2.52% from INR 48,778 per 10 gm a month ago.
- Gold started December on a negative note as optimism about a Covid-19 vaccine boosted hopes of economic recovery and dented demand for safe haven assets such as yellow precious metal.
- The fall, however, was capped after the US lawmakers agreed on a $900 billion Covid-19 economic relief package.
- Concerns around a new Covid strain also supported prices.



Worries about new Covid strain supports the demand for the safe-haven asset

Source: MCX. Data ended December 2020 except otherwise mentioned

Repo rate remains unchanged at 4%

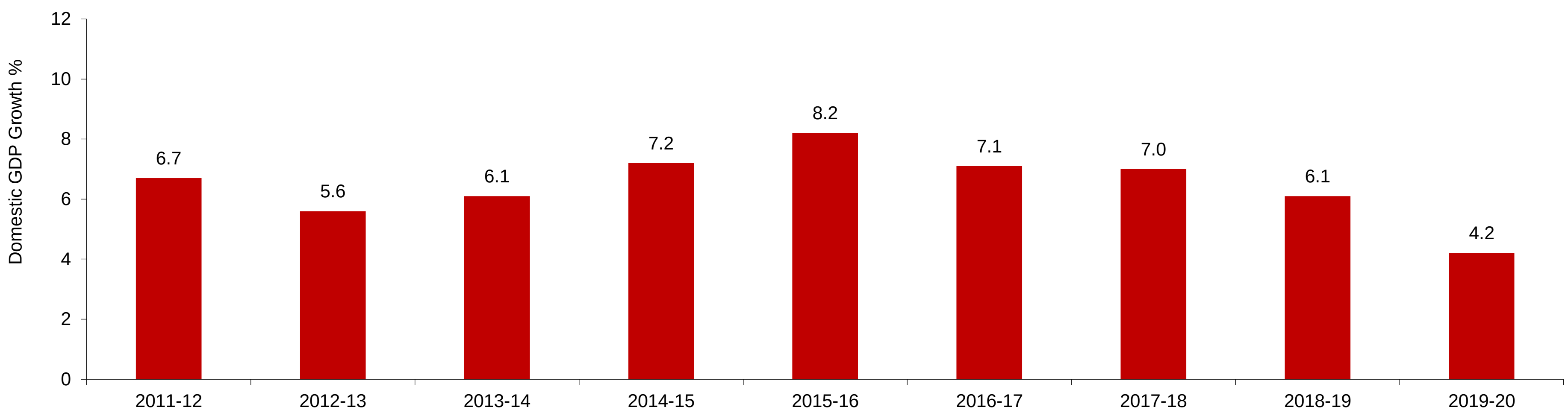


Source: RBI, CRISIL Research, Data as of December 2020 except otherwise mentioned. Past performance is not indicative of future performance

Indian Economic Environment

Global and domestic institutions scale down India's GDP contraction forecasts for current fiscal, expect rebound in next

- Gradual recovery in India's economic activity has prompted various institutions to temper their earlier forecasts of a sharp contraction in gross domestic product (GDP) this fiscal.
- The Organisation for Economic Co-operation and Development revised its India GDP growth forecast to -9.9% for fiscal 2021 from -10.2% projected in September. It also forecast the economy would rebound 8% in the next fiscal and 5% thereafter.
- The Asian Development Bank (ADB) expects India's economy to grow 8% next fiscal, from a projected contraction of 8% this fiscal (earlier forecast being -9%).
- According to a United Nations report, India's economy could prove to be the "most resilient" in the sub-region of south and south-west Asia over the long term.
- The Reserve Bank of India (RBI) too, revised its forecast for the current fiscal to -7.5% compared with -9.5% earlier.
- S&P Global Ratings raised India's growth projection for the current fiscal to -7.7% from -9% estimated earlier on the back of rising demand and falling Covid-19 infection rates.



Source – Central Statistical Organisation (CSO), CRISIL Data ended December 2020 except otherwise mentioned.

Indian Economic Environment

Retail inflation retreated in November

- India's retail, or consumer price-index (CPI)-based, inflation decelerated to a three-month low of 6.93% in November 2020 compared with 7.61% in October, as vegetable prices eased significantly.
- However, the wholesale price index-based inflation rose to a 9-month high of 1.55% in November compared with 1.48% in October 2020 and 0.58% in November 2019, as manufactured products turned costlier.
- Meanwhile, the RBI expects CPI inflation at 6.8% for the third quarter of fiscal 2021 and 5.8% for the fourth quarter. For the first half of fiscal 2022, it has projected inflation at 5.2-4.6%, with risks broadly balanced.
- An RBI paper said maintaining 4% inflation is appropriate for India as targeting a lower rate could impart deflationary bias to the monetary policy.

Indicators	Current	Previous
Monthly CPI Inflation	6.93% (November 2020)	7.61% (October 2020)
Industrial Growth	3.6% (Oct 2020)	0.49% (Sep 2020)
Exports	$173.66 bn (April-November FY21)	$211.17 bn (April-November FY20)
Imports	$215.69 bn (April-November FY21)	$324.59 bn (April-November FY20)
Trade Balance	- $42.03 bn (April-November FY21)	-$113.42 bn (April-November FY20)
Gross Tax Collections	INR 10,26,055 cr (April-November FY21)	INR 11,74,143 cr (April-November FY20)

Retail inflation fell in November on the back of a dip in vegetable prices

Source – Ministry of Commerce, Comptroller General of Accounts, CRISIL Data ended December 2020 except otherwise mentioned

Indian Economic Environment

Goods and Services Tax (GST)-related developments

- GST collection hit an all-time high in December at INR 1.15 lakh crore compared with INR 1.05 lakh crore in November as economic activity gained momentum and a sustained drive against tax evasion yielded results
- The government further tightened the GST rules, limiting the use of tax credits and tweaking the electronic permits needed for goods transportation to check tax evasion amid a sharp shortfall in revenue. It also said businesses with monthly turnover of over INR 50 lakh would have to mandatorily pay at least 1% of their GST liability in cash
- The government rolled out the quarterly return filing and monthly payment of taxes (QRMP) scheme for small taxpayers under GST system
- The government extended the deadline for completing GST anti-profiteering investigations from November 30, 2020 to March 31, 2021
- The government also extended the date for filing annual returns under GST for fiscal 2020, to February 28, 2021 from the previous deadline of December 31, 2020
- The Ministry of Finance (MoF) said all states had taken the INR 1.1 lakh crore borrowing option to meet the shortfall from GST implementation
- The Centre released INR 6,000 crore as loan to states to meet GST shortfall, taking the total amount of funds released to INR 54,000 crore
- The GST Network said businesses would now get complete auto-populated monthly sales return form GSTR-3B. It also rolled out the ‘communication between taxpayer’ feature on its portal

Decisions taken by the Cabinet

- The Union Cabinet approved a proposal to provide employees' provident fund contribution to firms hiring additional workforce for two years from 2020 to 2023
- It approved changes to the guidelines for providing direct-to-home (DTH) services to bring it in line with the existing policy that allows 100% foreign direct investment (FDI) in the DTH broadcasting services sector
- It also approved an interest subvention of INR 4,573 crore for new distilleries producing ethanol, which could be used for doping of petrol

GST collection hit an all time high in December

Source –CRISI Data ended December 2020 except otherwise mentioned.

Indian Economic Environment

Other major developments

- Prime Minister Narendra Modi released over INR 18,000 crore to more than 9 crore farmer families under the Pradhan Mantri Kisan Samman Nidhi, or PM-KISAN. He also launched National Common Mobility Card services.
- India and the United States inked a memorandum of understanding to co-operate on intellectual property examination and protection for the next 10 years and to strengthen related systems in both countries.
- Nine states implemented the one-nation-one-ration-card system.
- The Ministry of Finance extended till February 15, 2021, the deadline for states to implement the ‘citizen-centric’ reforms in order to avail of the additional borrowing limit granted by the Centre in May.
- It approved interest rate at 8.5% for subscribers of the Employees’ Provident Fund Organisation for the year 2019-20.
- It also notified the updated viability gap funding scheme which gives a push to the social infrastructure sector in India along with extending the existing scheme to continue support to core infrastructure sectors.
- It approved INR 9,880 crore worth capital expenditure proposals of 27 states. Of this, INR 4,940 crore has been released as the first instalment.
- The government retained interest rates on small savings schemes for the quarter starting January 1, 2021.
- It identified investment prospects worth INR 1.02 lakh crore across sectors, as it sought to revive growth and soften the blow from the pandemic to the economy.
- It also shortlisted 50 key infrastructure projects worth over INR 2 lakh crore for regular monitoring by the Prime Minister's Office to ensure early completion.
- It prepared a five-phase road map to ease the regulatory and compliance burden faced by companies, and identified at least eight sectors that were complying with hundreds of legislative and regulatory requirements at present.
- Further, it deferred implementation of the strict disclosure requirements for auditor reports of companies by one year.
- It also extended the suspension of the Insolvency and Bankruptcy Code till March 31, 2021.
- It extended the benefit of Remission of Duties and Taxes on Exported Products scheme to all export goods from January 1, 2021.
- The government entered into a $1 billion loan agreement with the New Development Bank to support the Mahatma Gandhi National Rural Employment Guarantee Scheme and the country’s rural infrastructure.
- The World Bank and the Indian government signed a pact for a $500 million to build safe and green national highway corridors.
- India also inked a $400 million loan agreement with the World Bank to support the country’s social assistance programmes for poor and vulnerable households impacted by the pandemic.

Source –CRISIL Data ended December 2020 except otherwise mentioned

Indian Economic Environment

- The government sold 61.43 lakh shares of Special Undertaking of The Unit Trust of India's stake in Axis Bank.
- It offloaded 20% stake in IRCTC via an offer for sale to raise INR 4,374 crore.
- It also invited expression of interest for sale of its 63.75% stake in Shipping Corporation of India, along with management control.
- The Centre launched a programme for socio-economic profiling of beneficiaries of PM Street Vendors’ Aatmanirbhar Nidhi, or PM SVANidhi scheme to extend benefits of other government plans to them.
- NITI Aayog released 'Vision 2035: Public Health Surveillance in India', where it proposed strengthening public health surveillance in India by implementing a surveillance information system.
- NITI Aayog Chief Amitabh Kant launched India's first digital asset management platform DigiBoxx.
- The government issued a set of rules to ensure the rights of electricity consumers.
- It formed a central power transmission utility - The Central Transmission Utility of India - separating its business from that of Power Grid Corporation of India.
- It extended the validity of motor vehicle documents such as driving licence, registration certificate and permits till March 31, 2021.
- It also extended the deadline for 100% collection of toll charges on the national highway network through FASTag till February 15.
- Further, it gave extra time to various classes of tax payers to file their income tax returns and tax audit reports in view of the pandemic situation, extending the deadline to January 10, 2021.
- The Ministry of Labour issued guidelines for the Atma Nirbhar Bharat Rozgar Yojana, clarifying the government would only contribute to new employees earning up to INR 15,000 a month as defined under the Employees Provident Fund & Miscellaneous Provisions Act.
- Minister of Petroleum Dharmendra Pradhan said the government planned $60 billion investment in creating gas infrastructure in the country till 2024, and expected share of gas in the energy mix to rise to 15% by 2030.
- The government allowed domestic airlines to operate at 80% of their pre-pandemic approved capacity with immediate effect.
- It also approved a framework for the proliferation of public Wi-fi networks through Prime Minister Wi-Fi Access Network Interface (PM WANI) scheme.
- The Employees' State Insurance Corporation allowed its beneficiaries to avail of health services directly in any nearby private hospital in case of emergency.

Source –CRISIL Data ended December 2020 except otherwise mentioned

Indian Economic Environment

Regulatory developments in the month

- The RBI raised the contactless card transactions limit to INR 5,000 from INR 2,000 with effect from January 1, 2021.
- It rolled out a composite Digital Payments Index with March 2018 as the base period to capture the extent of digitisation of payments across the country.
- The central bank identified cross-border payments as the second cohort of its regulatory sandbox programme.
- It extended the applicability of centralised know-your-customer, or KYC, registry to legal entities from individual accounts at present, effective April 1, 2021.
- It also announced measures to ease procedures for exporters at a time when exports are finding it difficult to recover.
- The Competition Commission of India removed certain disclosure requirements related to non-compete restrictions at the time of entities seeking approval for merger deals.
- The Department of Telecommunications issued guidelines for PM Wani project, saying that any entity can become a public Wi-Fi hotspot to provide internet services to consumers.
- The Directorate General of Civil Aviation extended the ban on international commercial flights till January 31, 2021.

Key economic indicators released in the month

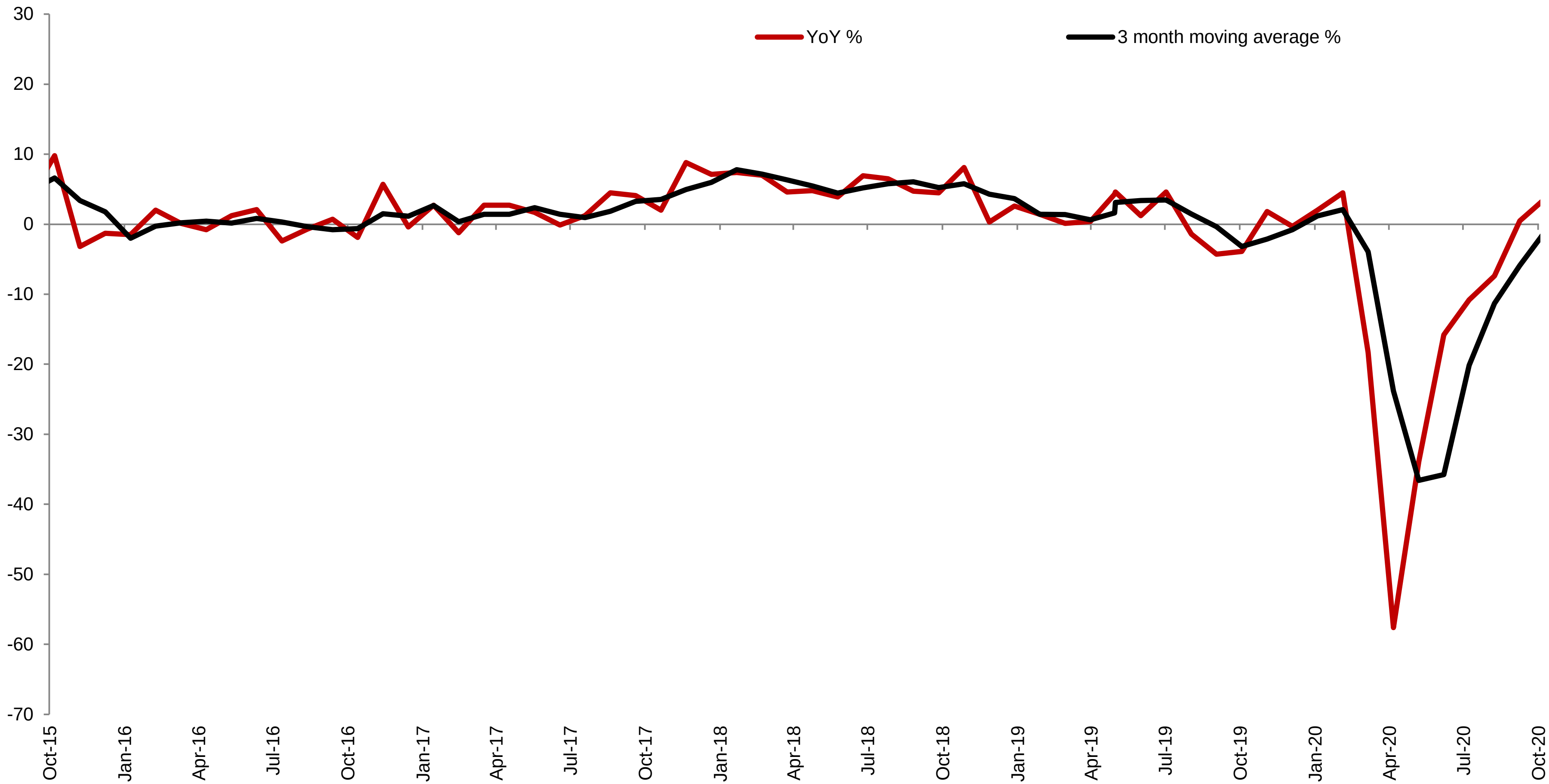
- Output of eight core infrastructure sectors dropped 2.6% on-year in November 2020, owing to decline in production of natural gas, refinery products, steel and cement. Core sector growth contracted 0.9% on-year in October.
- The country's exports dipped 8.74% to $23.52 billion in November while imports declined a steeper 13.32% to $33.39 billion, resulting in a trade deficit of $9.87 billion. Preliminary figures for December show exports shrank only 0.8% to $26.89 billion while imports rose 7.6% to $42.6 billion, resulting in trade deficit widening to $15.71 billion.
- India's current account surplus moderated to $15.5 billion (or 2.4% of GDP) in the July-September quarter of the current fiscal compared with $19.2 billion (3.8% of GDP) in the preceding quarter.
- Fiscal deficit for the eight months to end-November stood at INR 10.75 lakh crore, or 135.1% of budget estimates for the entire fiscal.
- According to data from the Department for Promotion of Industry and Internal Trade, FDI equity inflows into India grew 21% to $35.33 billion during April-October 2020.
- India IHS Markit manufacturing Purchasing Managers' Index (PMI) fell from 58.9 in October to a three-month low of 56.3 in November while services PMI fell to 53.7 in November from 54.1 in October. The composite PMI dipped to 56.3 in November from 58 in October.

Domestic infrastructure sector output contracted in November

Source –CRISIL Data ended December 2020 except otherwise mentioned

Index of Industrial Production - IIP

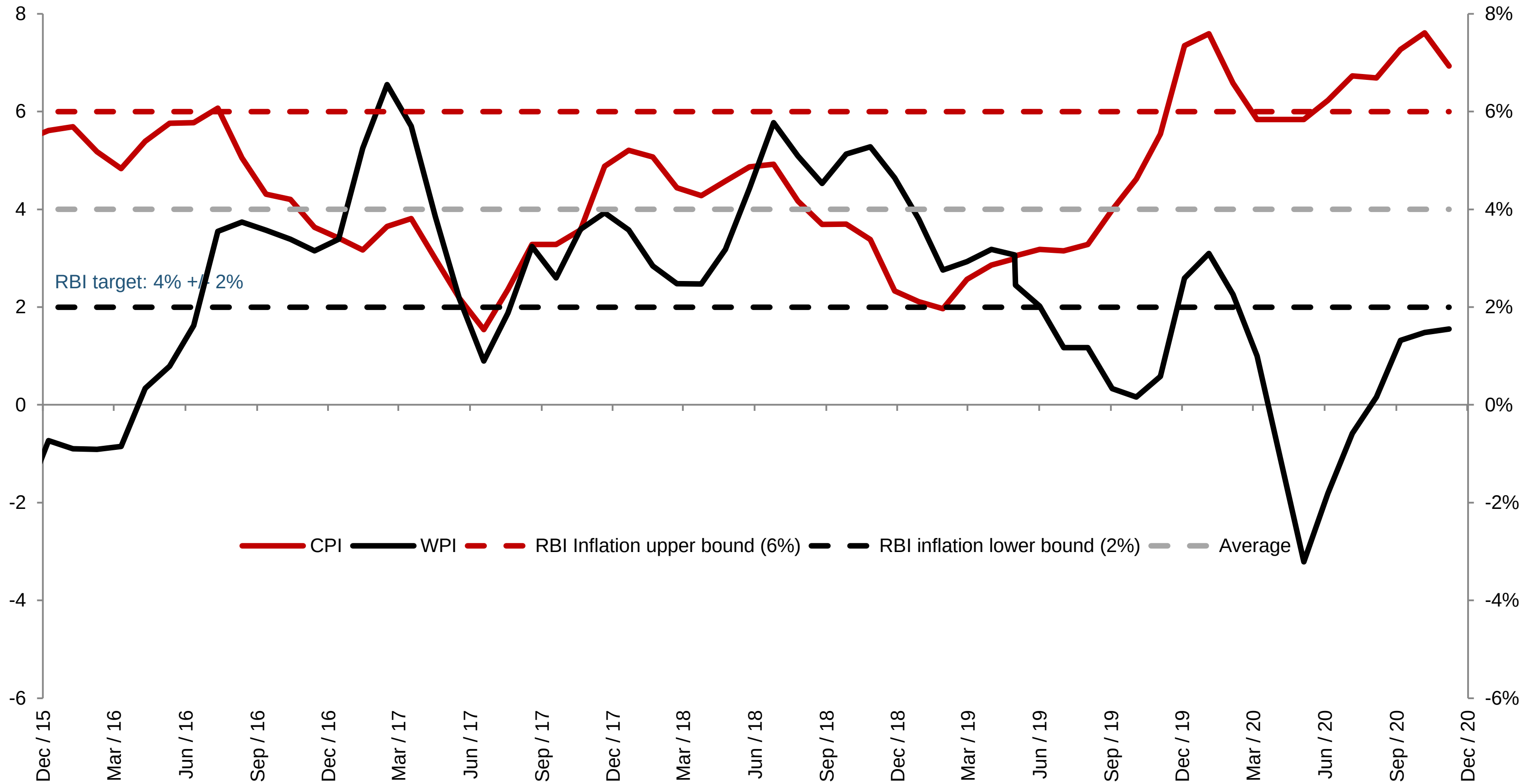
India's Index of Industrial Production rose 3.6% on-year in October 2020 owing to better performance of manufacturing and electricity generation sectors. It had expanded by a revised 0.49% in September.



Source: MOSPI, Data ended December 2020 except otherwise mentioned
Past performance is not indicative of future performance

Inflation target and trend

Inflation stays over the RBI's max target range



Source: MOSPI, RBI, Data ended December 2020 except otherwise mentioned
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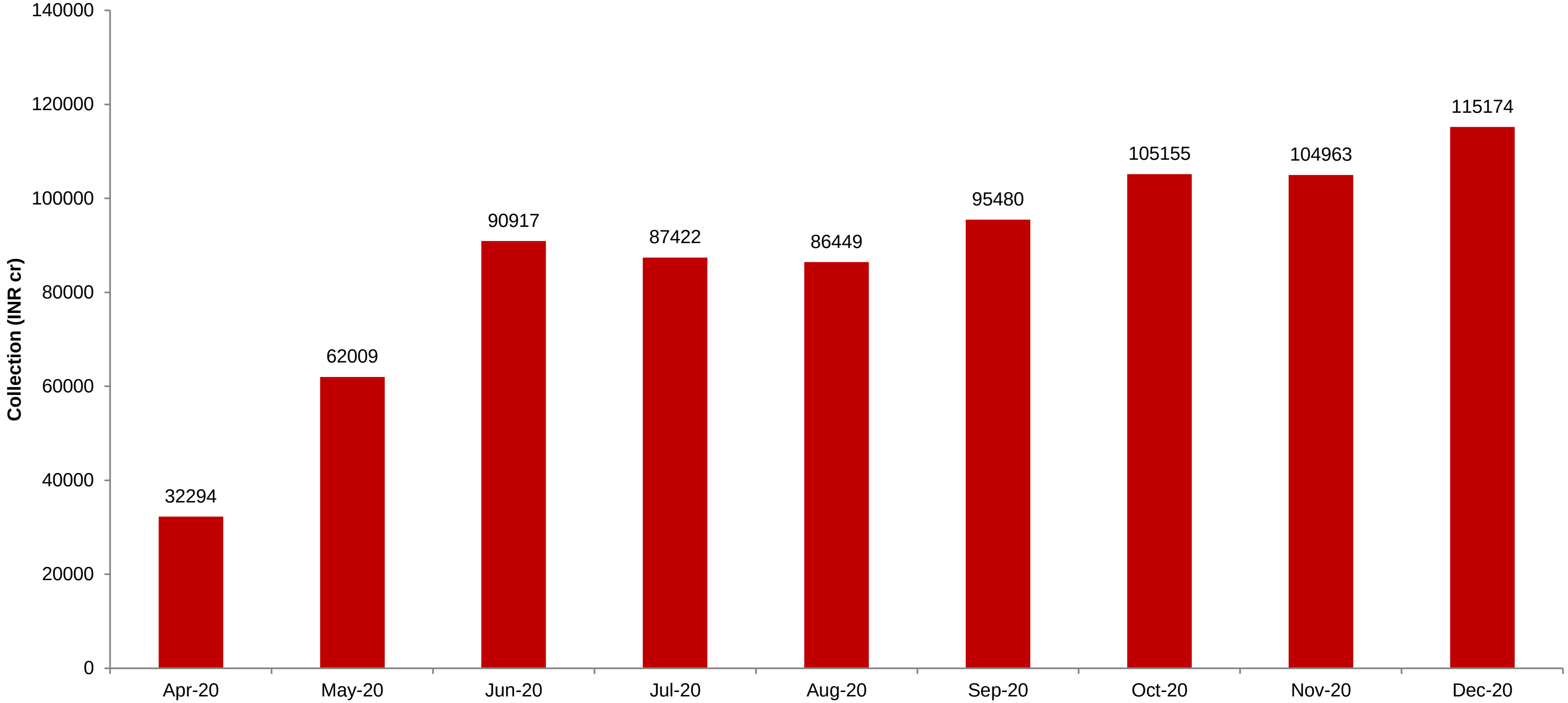
GST collection

The GST collection hit an all-time high in December at INR 1.15 lakh crore compared with INR 1.05 lakh crore in November.



Source: Ministry of Finance, Data ended December 2020 except otherwise mentioned
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Equity Market Review

Indian equity indices rose sharply in December

- Domestic equities ended the year on a splendid note. Benchmarks S&P BSE Sensex and Nifty 50 soared to record highs and rose 8% each on-month in the last month of 2020. The year was highly volatile, but indices managed to end on a firm note.
- Optimism regarding the Covid-19 vaccine, a stimulus package in the US and the Brexit deal helped offset the earlier losses caused by the surge in Covid-19 cases and resultant lockdown restrictions. The S&P BSE Sensex and Nifty 50 were up 16% and 15%, respectively, in 2020..
- The domestic markets rose in the beginning of the month after the Reserve Bank of India (RBI) decided to maintain the interest rate at 4%, retain its accommodative stance and revise its domestic growth forecast upward to -7.5% from -9.5% for fiscal 2021.
- Better-than-expected domestic gross domestic product (GDP) data and good auto sales numbers boosted sentiments.
- More gains were seen after S&P Global Ratings raised India's growth projection for the current fiscal.
- Strong buying by the foreign institutional investors (FIIs) further supported the benchmarks. FIIs were net buyers of equities in December. They bought equities worth INR 53,500 crore in December compared with INR 70,896 crore in November.
- Globally, optimism about economic recovery amid rollout of a Covid-19 vaccine, signing of a $2.3 trillion stimulus package by US President Donald Trump, and a trade deal between the UK and the European Union boosted domestic markets.
- Some gains were capped due to intermittent profit booking and volatility amid the expiry of the December futures and options contract.
- Selling by domestic institutional investors (DIIs) also acted as a dampener. DIIs sold equities worth INR 37,294 crore in December compared with equities worth INR 48,339 crore sold in November.
- Reports of rise in Covid-19 cases due to a new strain of the virus in the UK and several other countries also dented sentiments.

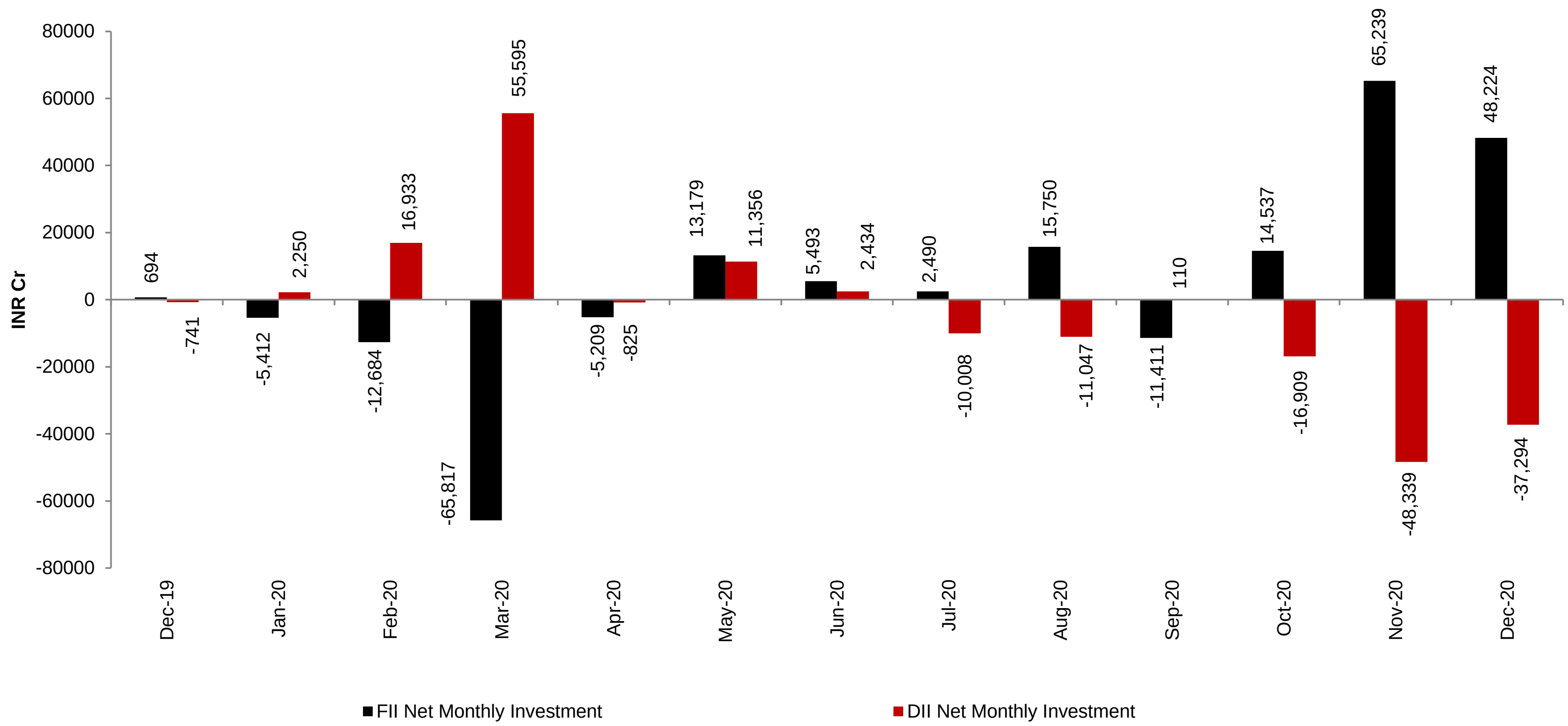
Upbeat global cues, including positive reports of Covid-19 vaccine, boosted Indian equities

Source –CRISIL Data ended December 2020 except otherwise mentioned

Equity Market Review

S&P BSE sectoral indices ended higher in December

- All the S&P BSE sectoral indices ended higher in December 2020. The realty, metal, consumer durables and information technology (IT) sectors saw heavy buying. The S&P BSE Realty, S&P BSE Metal, S&P BSE consumer durables and S&P BSE IT indices rose 12-20%.
- The S&P BSE PSU and S&P BSE Capital goods indices followed suit at around 10% each.
- Defensive counters such as fast moving consumer goods (FMCG) and healthcare also ended positive. The S&P BSE FMCG and S&P BSE Healthcare gained around 7% each.



Source: NSDL, NSE Data ended December 2020 except otherwise mentioned

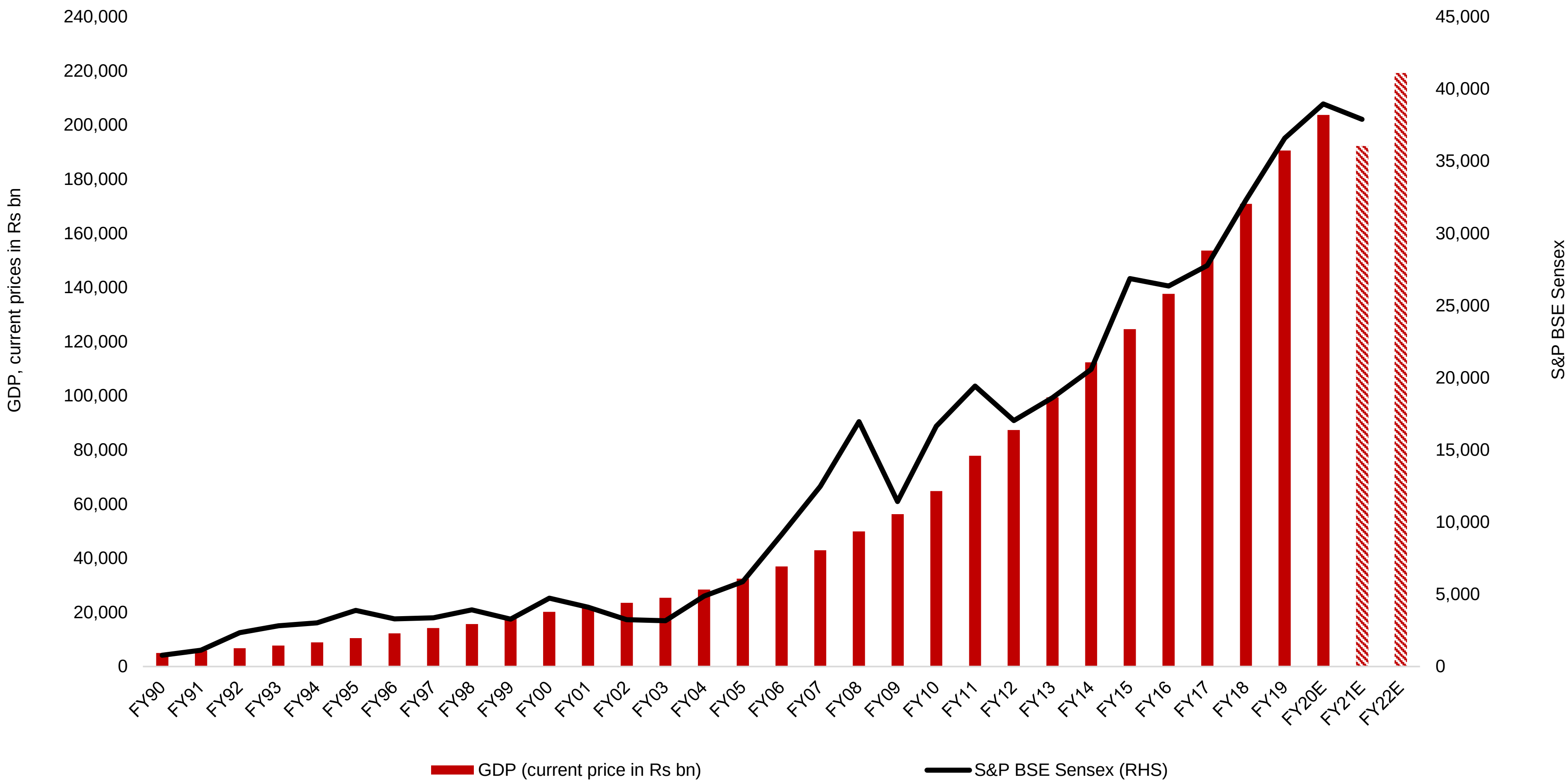
Equity Market Review

Indices	31-Dec-20	27-Nov-20	% Change 1 Month	% Change 1 Year	% Change YTD
Nifty 50	13982	12969	7.81	14.90	14.90
S&P BSE Sensex	47751	44150	8.16	15.75	15.75
S&P BSE Auto	20811	20129	3.39	12.59	12.59
S&P BSE BANKEX	35888	33884	5.92	-2.14	-2.14
S&P BSE Capital Goods	18745	17022	10.12	10.63	10.63
S&P BSE Consumer durables	30394	27046	12.38	21.52	21.52
S&P BSE FMCG	12609	11726	7.53	10.55	10.55
S&P BSE Healthcare	21681	20319	6.71	61.45	61.45
S&P BSE Information Technology	24248	21635	12.08	56.68	56.68
S&P BSE Metal	11599	10219	13.51	11.23	11.23
S&P BSE MidCap	17941	16915	6.07	19.87	19.87
S&P BSE Oil & Gas	14090	13251	6.33	-4.44	-4.44
S&P BSE Power	2062	1999	3.14	7.05	7.05
S&P BSE PSU	5781	5295	9.18	-16.88	-16.88
S&P BSE Realty Index	2478	2062	20.20	8.66	8.66
S&P BSE SmallCap	18098	16875	7.25	32.11	32.11

Source: NSE, BSE. Data ended December 2020 except otherwise mentioned

Equity mirrors economic growth in the long term

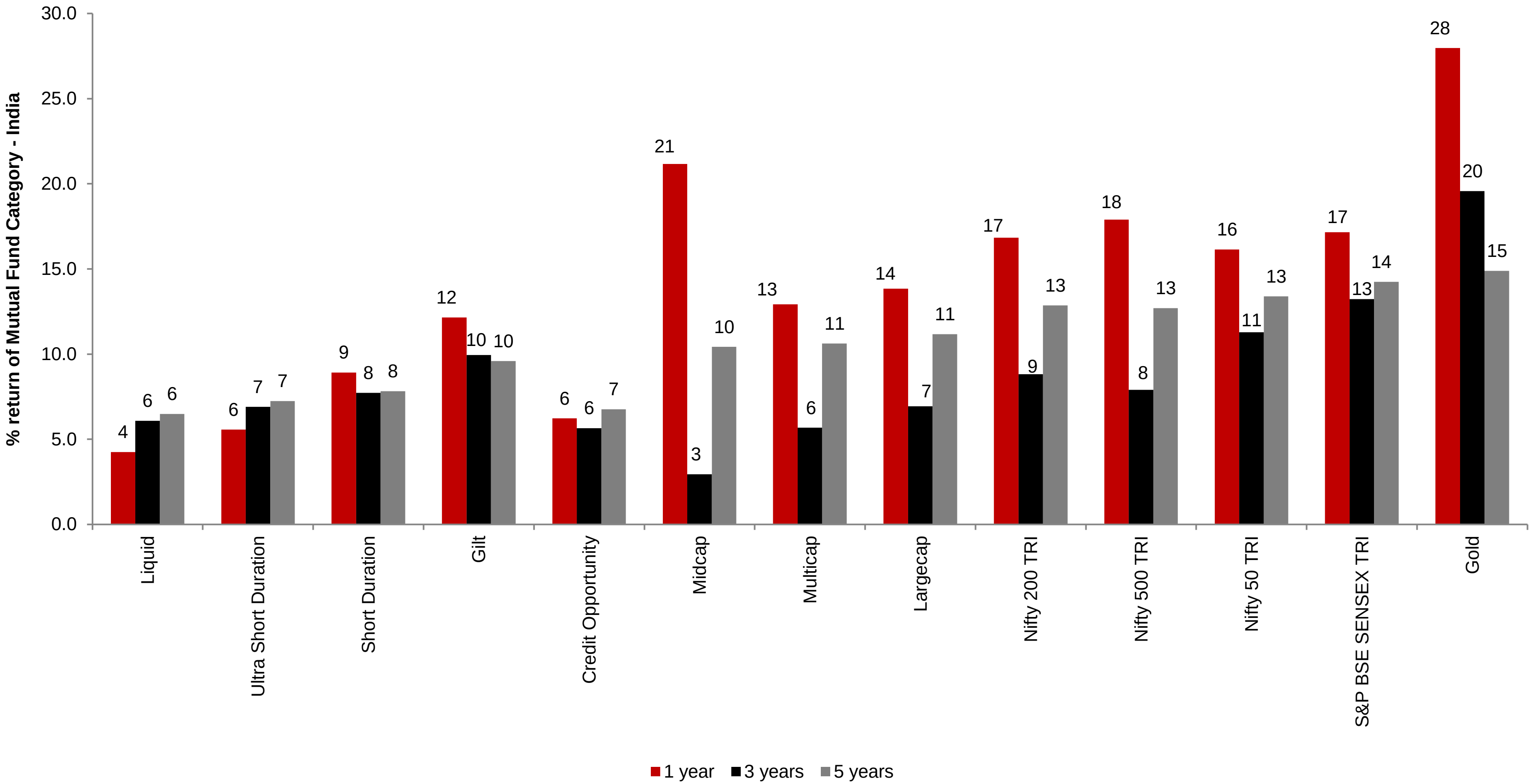
GDP - India looks on a long-term growth trajectory despite intermittent hiccups



Source: BSE, IMF The GDP projection start after fiscal year 2020 and are shown shaded in this graph is for illustration purposes only and is not guaranteed
Data ended December 31, 2020 except otherwise mentioned. Past performance may or may not sustain and does not guarantee future performance.

Gold emerges strong amid downbeat economic situation

Fund Category returns – Safe-haven buying has resulted in Gold emerging as the best performing asset class



Source: Bloomberg, Data ended December 2020 except otherwise mentioned,
YTD, 1 year returns are absolute, 5 years annualised CAGR returns,
Past performance is not indicative of future performance. Mutual Fund investments are subject to market risk. Read all scheme related documents carefully

Sectoral performance long term trends

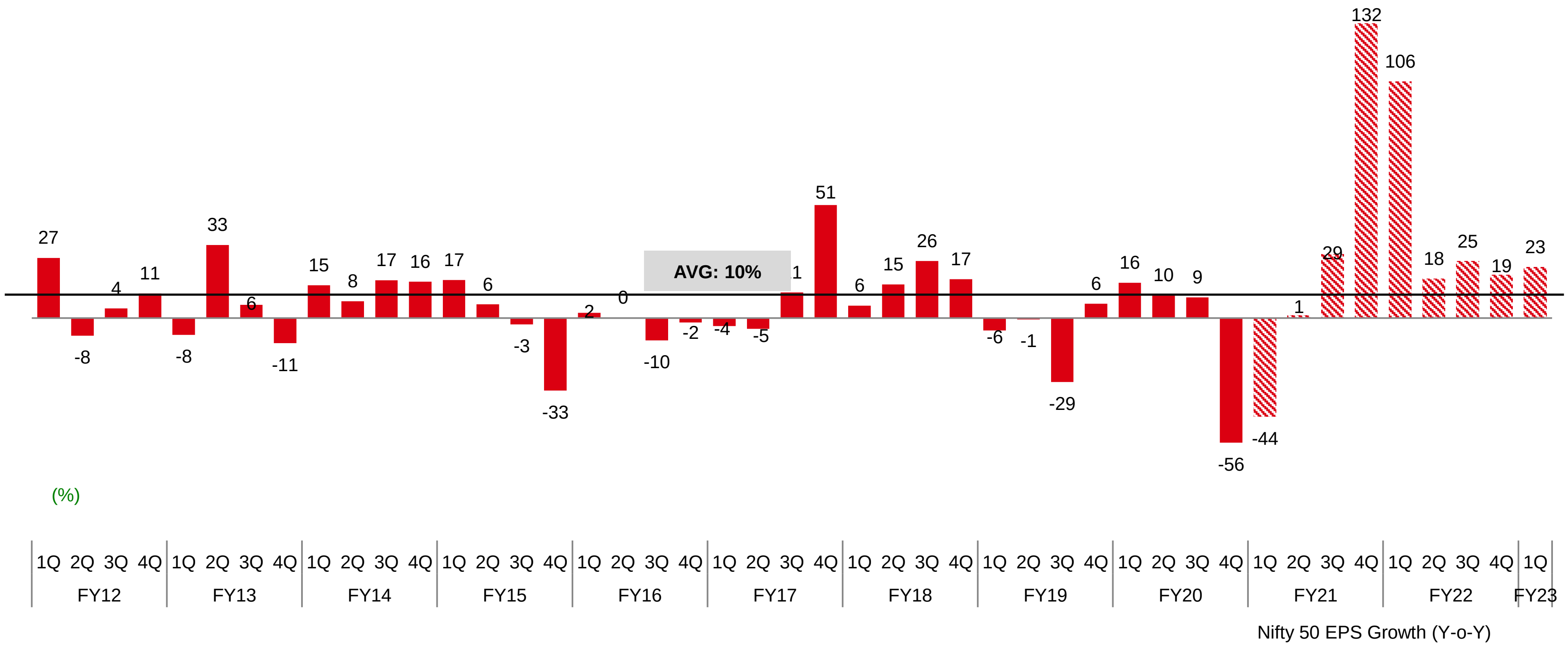
Sectoral returns – Most sectoral indices post positive performance over the 10-year period

Sectoral indices	% Change										
	CY11	CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20	10-year CAGR*
S&P BSE Auto	-20.44	40.31	7.29	51.98	-0.60	9.39	32.06	-22.12	-11.27	12.59	7.35
S&P BSE BANKEX	-31.59	56.72	-9.36	65.04	-9.92	7.35	39.08	5.27	20.72	-2.14	10.36
S&P BSE Capitalgoods	-47.66	34.71	-5.56	50.45	-8.51	-3.28	40.03	-1.63	-9.97	10.63	1.97
S&P BSE Consumerdurables	-16.87	46.08	-24.59	66.18	24.02	-6.34	101.92	-8.79	20.86	21.52	16.92
S&P BSE Fast Moving Consumer Goods	9.53	46.61	11.00	18.27	1.36	3.29	31.54	10.60	-3.58	10.55	13.08
S&P BSE Healthcare	-12.83	38.53	22.55	47.43	15.06	-12.88	0.49	-5.92	-3.55	61.45	12.39
S&P BSE Information Technology	-15.72	-1.18	59.78	16.54	4.51	-8.00	10.83	24.93	9.84	56.68	13.50
S&P BSE Metal	-47.19	19.13	-9.99	7.91	-31.20	36.65	47.78	-20.75	-11.92	11.23	-4.08
S&P BSE MidCap	-34.19	38.52	-5.73	54.69	7.43	7.97	48.13	-13.38	-3.05	19.87	8.68
S&P BSE Oil & Gas	-28.98	13.14	3.71	12.01	-3.43	27.17	34.00	-15.57	7.25	-4.44	2.88
S&P BSE Power	-39.91	10.86	-14.57	23.03	-6.44	1.53	19.83	-16.06	-3.65	7.05	-3.64
S&P BSE PSU	-32.72	15.24	-19.43	39.21	-17.18	12.88	19.27	-21.11	-3.88	-16.88	-4.80
S&P BSE Realty	-51.84	53.44	-32.09	8.49	-13.55	-5.98	106.36	-31.07	26.85	8.66	-1.41
S&P BSE SmallCap	-42.61	32.97	-11.23	69.24	6.76	1.77	59.64	-23.53	-6.85	32.11	6.46

Source: BSE, Data ended December 2020 except otherwise mentioned
Figures in red indicate negative returns in that period. *CY20 and 10-year CAGR are as of December 2020
Past performance is not indicative of future performance. Mutual Fund investments are subject to market risk. Read all scheme related documents carefully

Earnings growth – quarterly trend

Nifty 50 earnings de-grew in Q4FY20



Earnings growth may rebound in FY'21 after de-growth in Q4 FY'20

Estimates – FY21, FY22

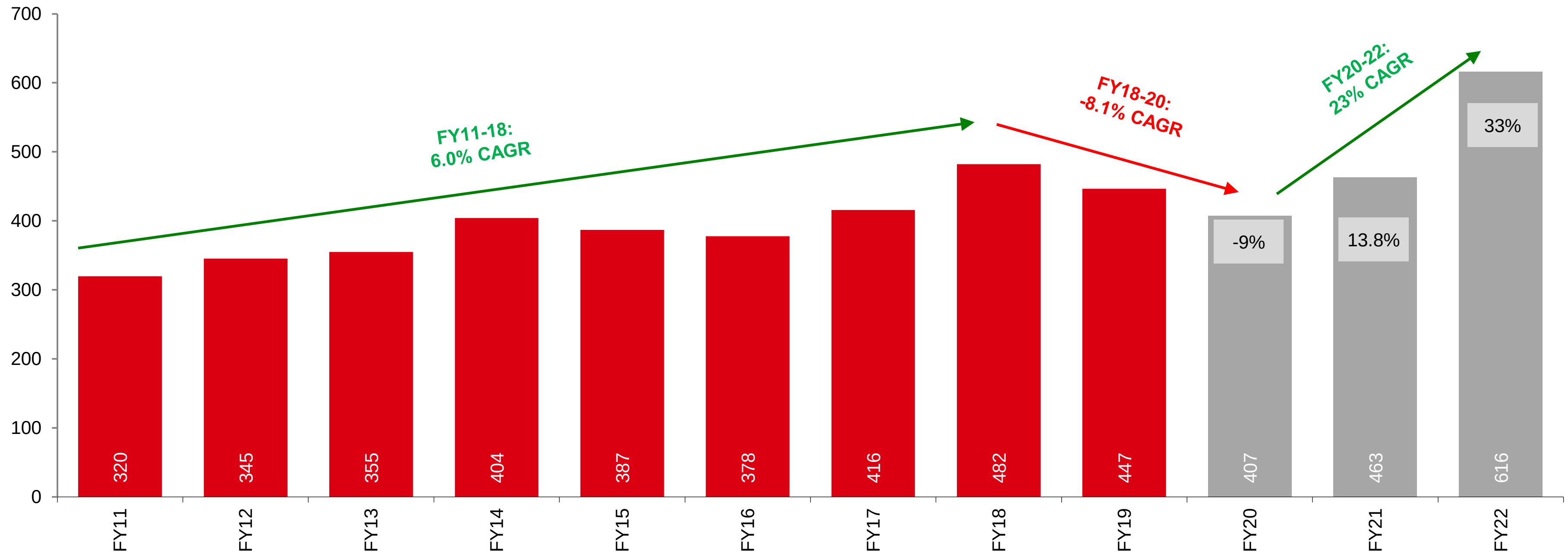
^Average figure mentioned is from FY12 to FY22

Source: Bloomberg, data as of December 31, 2020

Past performance is no guarantee of future returns

Earnings history

India - Equity earnings (Nifty 50 EPS)



Nifty 50 EPS may grow at 23% CAGR over FY20-22E, vs ~8% de-growth in FY18-20

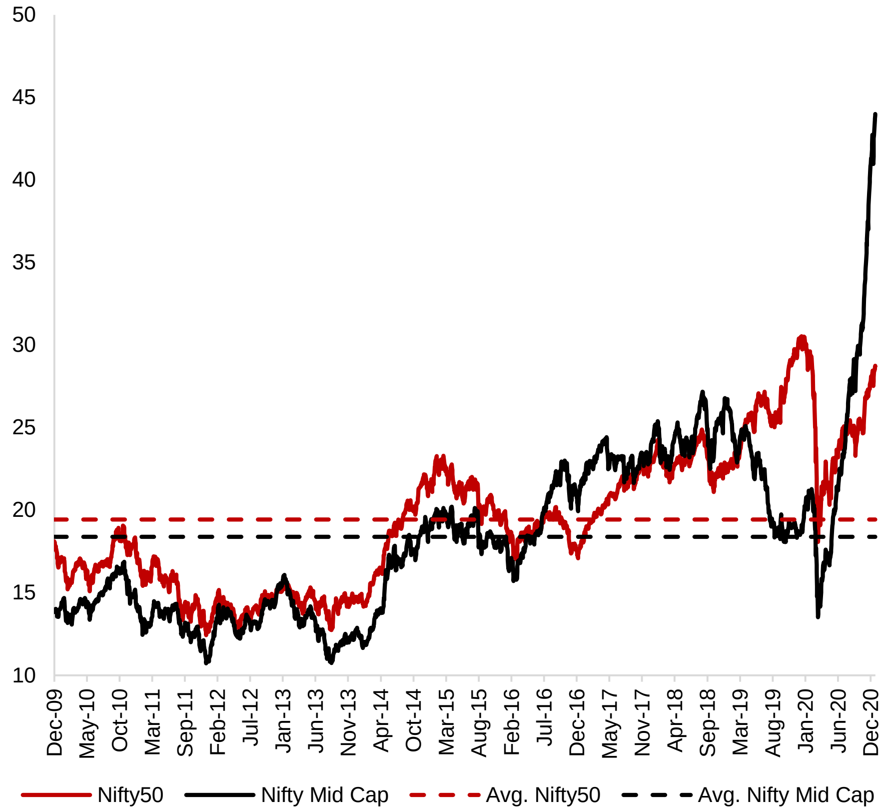
Note: Trailing 12M EPS (Earnings Per Share)

Grey shaded columns are estimates of FY20 - FY22

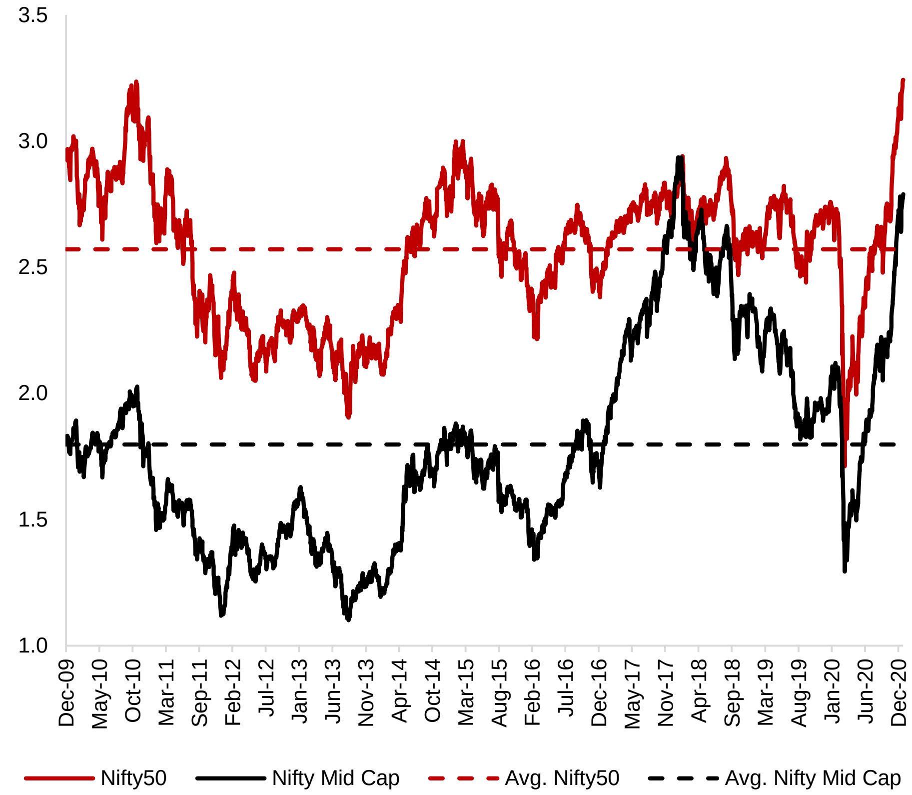
Source: Bloomberg, Data as of December 31, 2020. Past performance is no guarantee of future returns

Market valuations – Nifty 50 and Nifty Midcap 100

Large and Mid Cap - Price to Earnings (PE)



Large and Mid Cap - Price to Book (PB)



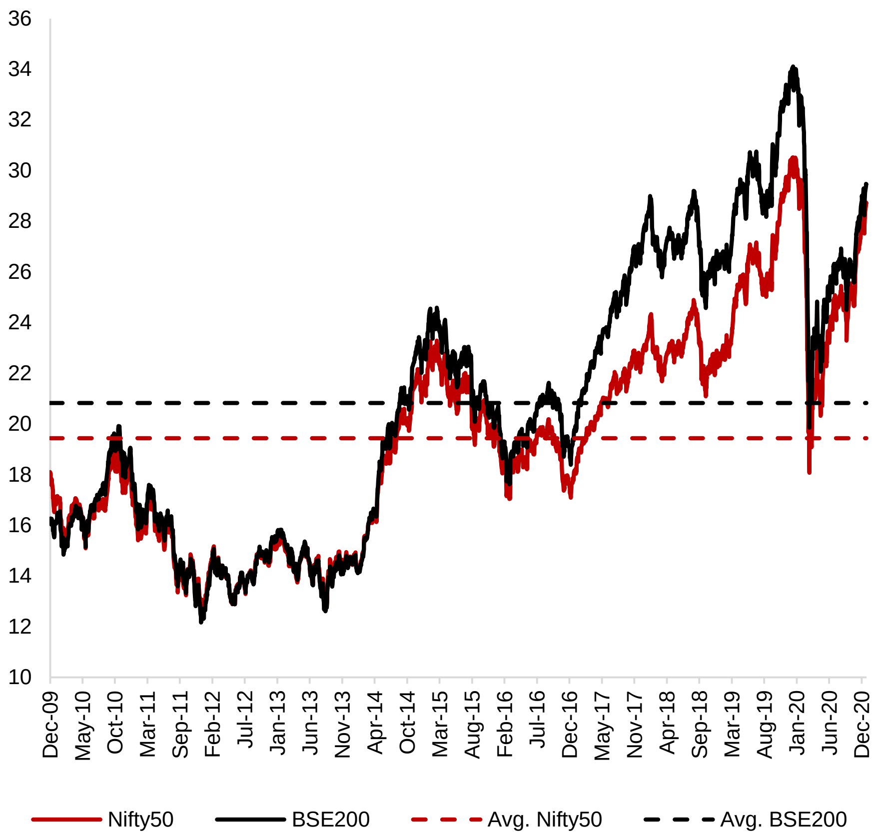
Valuations climb up the long term averages

Source: Bloomberg, data as on December 31, 2020

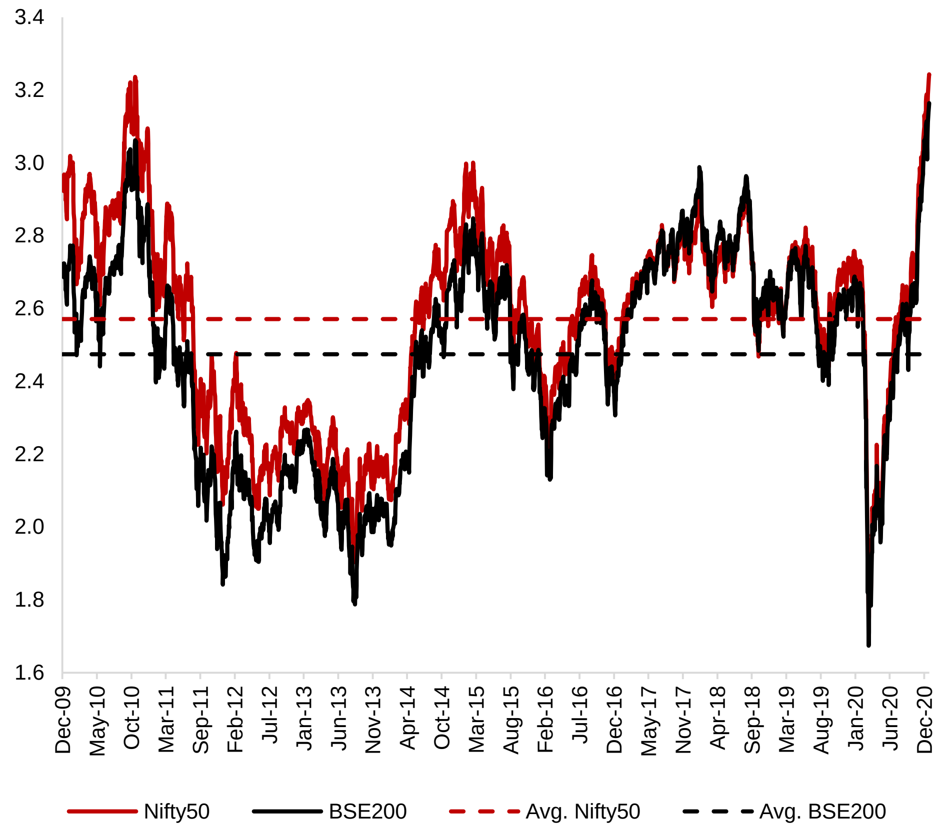
Investment involves risks. Past performance is not indicative of future performance,

Market valuations – Nifty 50 and S&P BSE 200

Large and S&P BSE 200 - Price to Earnings (PE)



Large and S&P BSE 200 - Price to Book (PB)

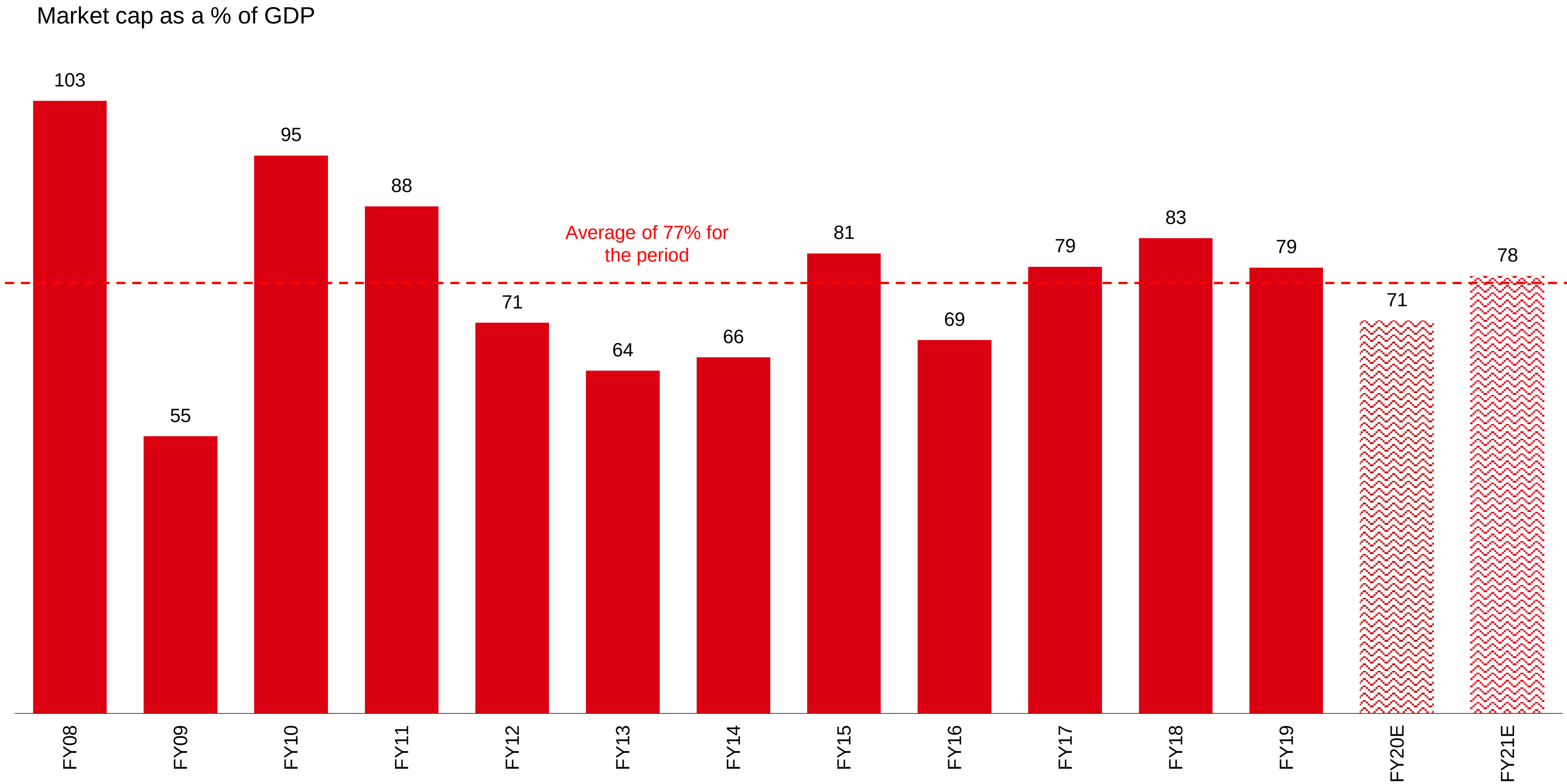


Valuations reach above the long term averages

Source: Bloomberg, data as on December 31, 2020

Investment involves risks. Past performance is not indicative of future performance,

India Market cap to GDP (%)



Market cap to GDP (%) is mostly hovering around long term average of 77%

Shaded area are Estimates (E) – FY20, FY21

Source: MOSL, Bloomberg, CRISIL estimates; data as at December 31, 2020

Past performance is not indicative of future performance

Sectorial Outlook

Sector*	View	Commentary
Healthcare	Positive	Our positive stance is on account of the earnings resilience coupled with revenue visibility. Over the medium term, we believe that the profit pool of pharma companies will improve owing to reduction in fixed costs, secular domestic market growth and US business showing signs of improvement. Most of the companies have significantly deleveraged their balance sheets which will aid earnings and returns profile going ahead. Valuations can improve further as the sector offers mid-teen earnings growth visibility and improving return ratios. Our exposure to the sector, is primarily through companies having exposure to US generic business. We also own domestic focused businesses with a higher degree of vertical integration. Our small exposure to hospitals/diagnostics space is under anticipation that demand in the post pandemic phase shall sustain. Also, due to the non-discretionary nature of the demand, we are seeing early signs of recovery coming in from elective procedures as well.
Financials	Positive	We continue to hold a constructive view on lending financials (banks/ NBFCs). We now believe that the market is pricing in the credit cost normalisation and valuations are largely reflecting the same, with the outperformance of banks vs. NIFTY since September. While slippage (NPL formation) rates will still rise over 3Q/4QFY21, credit costs, should be contained, as lenders will run down standard asset buffers which were built up over 4QF20-2QFY21 under pessimistic conditions. Liquidity and capital adequacy remain comfortable for large private banks and NBFCs. Hence, now the key challenge/focus is likely to be loan growth and market will start differentiating across franchises that are able to deliver steady growth and thus, have market share gains. In this, we think that large private banks and NBFCs (with good parentage), will continue to gain share driven by their investments in digital infrastructure, analytics brand and distribution strength. In non-lenders, we have exposure to the life insurance sector, as we expect financialisation of savings to continue and with the rise in protection in the product mix (driven by under-penetration); margins and growth can continue to beat street expectations. On the same theme of financialisation of savings we have some exposure to brokerages and AMCs with good track record and decent scale.
Real Estate	Positive	We continue to remain positive on the sector and is a differentiated call compared to peers. We see the sector on a revival path driven by improvement in the residential affordability and listed players being the beneficiaries of industry consolidation. With low interest rates (coupled with negative real rates), the home purchase affordability is best since 2003. In addition, the current crisis shall accelerate the consolidation amongst the residential developers in favour of the major players especially, the listed companies. Commercial assets such as Grade A office spaces and malls will also see consolidation as new supply will be restricted due to current cash flow issues faced by developers coupled high gestation business models. The current recovery in sales looks promising and is much better than anticipated. We reckon that markets are overly pessimistic about the prospects of the sector and we hold a contrarian view here. Our current exposure are to developers who have a mix of residential portfolio and commercial assets, along with relatively strong balance sheet.

Source: HSBC Asset Management, India, Data as of December 2020 except otherwise mentioned.
* GICS

Sectorial Outlook

Sector	View	Commentary
Consumer Discretionary	Positive	We continue to remain positive on the discretionary names as they are beneficiaries of the opening up of the economy. We remain positive on three types of companies. a) Those companies that have rebounded in the pandemic phase itself. e.g. Auto OEMs have witnessed good traction due to increased need for personal mobility, small appliances driven by small ticket purchases. b) The companies that have rebounded in the recovery phase e.g. White goods, paints, QSR etc. c) Segments and companies that may not have rebounded but we believe that the disruption will affect weaker players and unorganized players more. Therefore, in the post pandemic phase, these companies shall come out stronger. e.g. Jewellery retailing, apparel. As a result, the valuations have expanded for those names where market ascribe higher probability of being beneficiaries of formalisation and / or continue / sustain the market share gains. We reckon that the high valuations for these names would sustain owing to their leadership position in their respective sub-segments along with industry leading growth. In the past few months, we have reoriented our exposure within the sector and added to names where the price correction has been steeper than the value destruction in the business. Also, our exposure is through companies that are dominant players in their respective businesses coupled with their ability to gain from the disruption (digital strategy, investing for sustained market share gains etc.)
Communication Services	Positive	Though we continue to remain positive, we have reduced the extent of the overweight in the sector owing to lack of positive surprises (delay in tariff hike) and the advent of the next big capex cycle (5G). Telecom sector will remain beneficiary of industry consolidation and a 'gradual' return of pricing power. However, the inordinate delay in the much anticipated tariff hike cycle has brought down the probability of earnings upgrade surprises in the near to medium term. Along with this, new technology adoption by next year or so, would lead to higher capital outlay. Our current overweight in the sector is on account of the exposure to the multiplex name, which is a play on industry consolidation and normalisation in economy. Our preference is for sector leaders with stronger balance sheet and that have shown better execution on the ground.

Source: HSBC Asset Management, India, Data as of December 2020 except otherwise mentioned.
* GICS

Sectorial Outlook

Sector	View	Commentary
Materials	Neutral	We continue to have a neutral position in materials, within which there is a positive tilt towards cement and specialty chemicals. Also, given the pick-up in residential construction and upgradation we expect stocks with exposure to real estate to do well (paints, pipes, plastic furniture etc.). In cement with domestic economy activity picking up driven by continued resilient rural activity and normalization in the urban India, cement demand continues to improve. We also expect prices will remain firm in the "busy" season (or 4Q) as utilization improves across markets. This has to some extent been reflected in the specific margins (i.e. EBITDA per ton) of cement companies in the past two quarters and though there can be some moderation in the same in the near term (or 3QFY21) driven by rise in input costs, the earnings growth outlook for these companies remain healthy. Within specialty chemicals we expect larger niche players to continue to deliver faster revenue traction as India continues to benefit from the global supply chain diversification theme. These companies have continued to surprise in terms of order book build up, revenue expectations and also margins, as share of exports continues to see pick-up. In global cyclicals (metals), we think that current "high" commodity prices and "near peak" margins are unsustainable. Since, these seem to driven by certain artificial supply and trade issues. This could eventually lead to swift supply response from producers, which can reverse the current profitability and hence valuations.
Information Technology	Neutral	While we continue with our neutral stance, we remain positive on the sector potential from a medium to long term perspective. This is driven by the view that the pandemic has accelerated the shift towards a more digitised world, resulting in continued technology investments from enterprises across industries globally. This should not only improve demand for services vendors but also provide more avenues for growth. Indian IT shall continue to gain market share owing to proven capabilities across horizontals, domain knowledge of verticals, scale and access to talent. In addition, large Indian IT companies have strong management, robust profitability ratios and prudent capital allocation. Our preference is for players with strong digital capabilities, scale, beneficiaries of vendor consolidation and relative valuations. Our current neutral stance is dictated by the recent outperformance of the sector with the valuations now trending above historical averages and we reckon that the near term revenue acceleration is adequately reflected in the current prices. However, but if the current trend of digital adoption and "migration to cloud" were to gain momentum (and we think that it will), then growth over medium term will accelerate further. Thus Technology is a "buy on dips" sector for us.

Source: HSBC Asset Management, India, Data as of December 2020 except otherwise mentioned.
* GICS

Sectorial Outlook

Sector	View	Commentary
Consumer Staples	Negative	We have maintained our underweight stance in staples. This is on account of two reasons 1) lack of positive earning surprises from hereon and 2) high valuations. Though the earnings visibility for staples remain high, this is priced in at the current valuations. Also, given the faster normalisation of the economy driven by vaccine news flows, we think that the earnings surprises would now play out in the case of discretionary and semi-discretionary segments compared to staples. As a result we have used the weight reduction to add to segments that can offer more earnings surprises going forward. Within staples our preference is for category leaders with scale and product diversification along with superior execution capabilities. We are also positive on companies where there has been renewed growth momentum due to revival of their respective categories e.g.: home insecticides.
Energy	Negative	We continue to hold a negative view of the energy companies. This is due to weak demand, weak profitability ratios, and volatile prices (which are not in control of the companies). Our only exposure in the energy sector is through private sector conglomerate, that has been able to delever their balance sheet and unlock value of investments made over the last decade. We believe that technology platform of the conglomerate is unique in the Indian market place and best option in this category.
Industrials	Negative	Private capex has been weak for the last few years and still may take time to pick up. On the government side, due to stress on both centre and state finances, we expect the order awarding activity to be under pressure this year. However, we expect the recovery in the medium term as government's thrust on infrastructure will remain and this is one of the large employment generating sectors. However, companies with weak balance sheets will continue to face funding challenges. Hence, we remain negative on the sector from a top down perspective. Our exposure within the sector is to the most dominant player (s), who will benefit from market share gains owing to strong balance sheet, execution capabilities and scale advantages. We have taken exposure to allied segments (CV, cables), inorder to play the economic recovery theme rather than the capex recovery theme.
Utilities	Negative	We continue with our negative stance on the sector. Lower demand (for both power and gas) is having an impact on utilities, though the impact on power utilities with regulated business model will be relatively less. Currently India is power surplus and hence new capex would be limited in the sector and hence the growth for power utilities will continue to remain subdued in the near to medium term. Within the sector our slight preference is for Gas utilities as opposed to Power utilities as the former depends more on consumer activity rather than industrial activity.

Source: HSBC Asset Management, India, Data as of December 2020 except otherwise mentioned.
* GICS

Equity Market Outlook

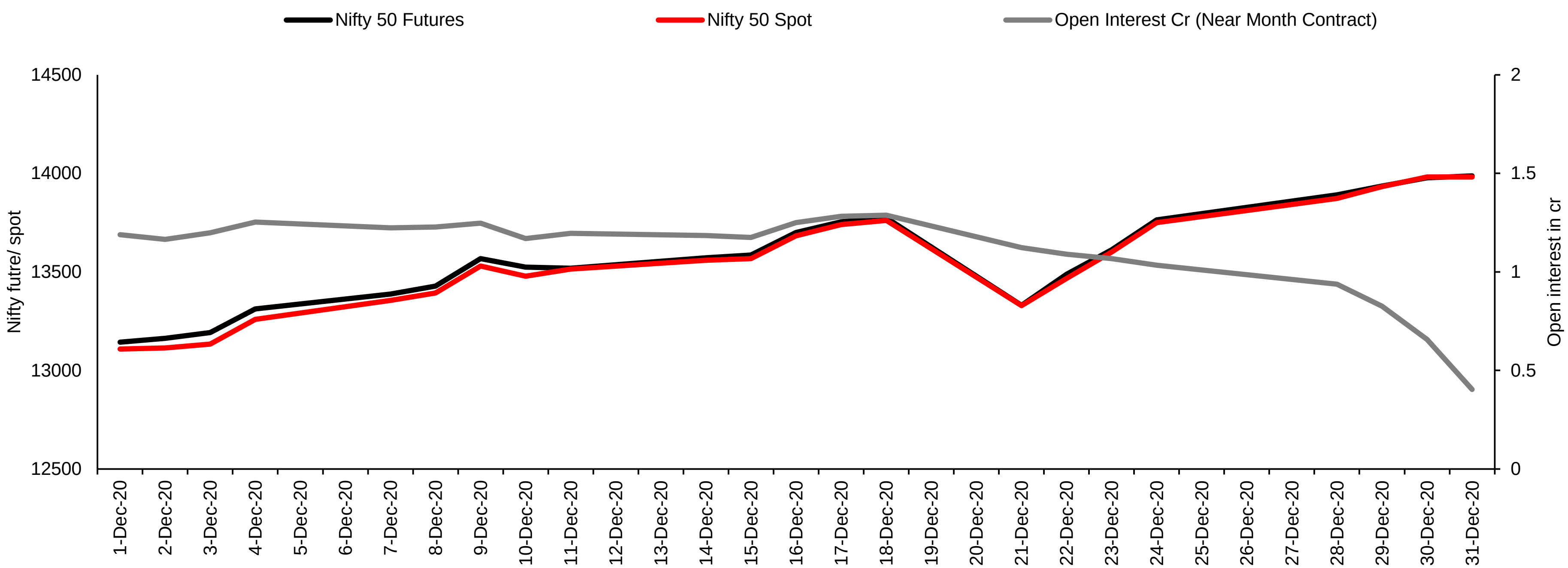
- Equity markets continued to be buoyant and ended the year on a strong note. India meaningfully outperformed global equity indices during December.
- Strong FII flows momentum into Indian equities continued through December, helping the markets to surge higher.
- Considering the sharp economic recovery seen so far, the RBI upgraded the FY21 GDP estimates to a contraction of 7.5% compared earlier expectation of a contraction of 9.5%.
- As we look ahead and form an outlook for 2021, the restoration phase for the global economy should continue to play out while the pace of recovery shall vary across individual markets and dependent on the delivery of the vaccine as well as continued policy support.
- The economic activity levels have rebounded and in majority of the segments, it is either above or closer to pre-COVID levels.
- The segments that are worst impacted due to the pandemic such as travel, tourism, hospitality, entertainment, construction etc. are seeing a more gradual recovery but that trend could get accelerated as a result of the faster than anticipated vaccine intervention, which is expected now.
- As we look ahead and visualize the outlook for 2021, two key variables that shaped up the equity rally during 2020 viz global liquidity and lower interest rates are here to stay.
- In addition, the restoration / recovery process from the COVID-19 disruption is likely to continue, leading to significant economic GDP rebound and corporate earnings growth (~38%) in FY22.
- A sustained period of lower cost of capital coupled with low real rates, sets up a fertile soil for equity to continue to flourish as a preferred asset class.
- Looking at valuations, on P/E and P/B basis, markets are now trending above historical averages. However, at the same time, the current lower cost of capital continue make equities relatively more attractive, even after the significant outperformance.
- Over the past few years, we've witnessed a trend of profit pool consolidating with the dominant players in respective sectors/industries. We believe that the trend will accelerate as the current disruption has higher magnitude as well as it encompasses more sectors.
- Another long term theme is that of diversification of the global supply chain due to 'China + 1' strategy which could be adopted by corporates as well as economies and India could stand to benefit out of that.

Source: HSBC Global Asset Management, India, Data as of December 2020 except otherwise mentioned.

Futures & Options (F&O) Review

Nifty futures

- The Nifty 50 near-month future contract of December ended higher on the rollover day (December 31) versus spot.
- The new near-month contract (January 28) ended 28 points higher on December 31.
- The rollover of the new near-month contract (January) was 70% on the expiry day compared with 74% in the previous expiry.
- Domestic equities ended the year on a splendid note in December. Benchmarks S&P BSE Sensex and Nifty 50 surged to fresh record highs and rose 8% each on-month in the last month of 2020.
- Volatility of the Nifty 50 index, as measured by India VIX, rose 21.09 on December 31, as against 20.02 on November 26.
- Nifty futures saw a trading volume of INR 3.34 lakh crore, arising out of 32.83 lakh contracts, with an open interest of around 30.69 crore during the month.



Source – NSE, CRISIL. Data ended December 2020 except otherwise mentioned.

Futures & Options (F&O) Review

Nifty options

- On December 31, Nifty 14,000 call option witnessed the highest open interest of around 112.74 lakh, and the same contract garnered the maximum number of contracts of around 33.81 lakh.
- Nifty 13,000 put option witnessed the highest open interest of 88.72 lakh on December 31 and the Nifty 14,000 put option garnered the maximum number of contracts of around 19.03 lakh.

NSE F&O turnover

- Turnover on the NSE's derivative segment rose 19% in the month, led by gains in index and stock options. The average put-call ratio was 0.95 in December higher than 0.90 in the previous month.

Instrument	Monthly turnover summary (Figures in INR crore)		
	Dec-20	**Nov-20**	**Change %**
Index futures	691463	826341	-16%
Stock futures	1587988	1543447	3%
Index options	62349153	52195386	19%
Stock options	2633644	2192926	20%
Total	**67262248**	**56758100**	**19%**

Source-NSE. Data as on December 2020 except otherwise mentioned.

Futures & Options (F&O) Review

FII segment

- On December 31, FIIs' open interest was INR 1.52 lakh crore (18 lakh contracts). The details of FII derivatives trades for December 1 to 31 are as follows:-

	BUY		SELL		BUY %		SELL %	
	No. of contracts	**Amount in INR Cr**	**No. of contracts**	**Amount in INR Cr**	**No. of contracts**	**Amount in INR Cr**	**No. of contracts**	**Amount in INR Cr**
Index Futures	1010457	90217	1047421	93765	1.11	1.18	1.16	1.23
Index Options	83417592	7013897	83188856	6994093	91.89	92.09	91.81	92.00
Stock Futures	4753069	378375	4771791	379681	5.24	4.97	5.27	4.99
Stock Options	1595094	134189	1597467	134380	1.76	1.76	1.76	1.77
Total	**90776212**	**7616678**	**90605535**	**7601919**	**100.00**	**100.00**	**100.00**	**100.00**

Source-SEBI. Data as on December 2020 except otherwise mentioned.

Debt Market Review

Inter-bank call money rates were below the repo rate in December

- Interbank call money rates remained below the RBI's repo rate of 4% in December as liquidity remained in a state of surplus.

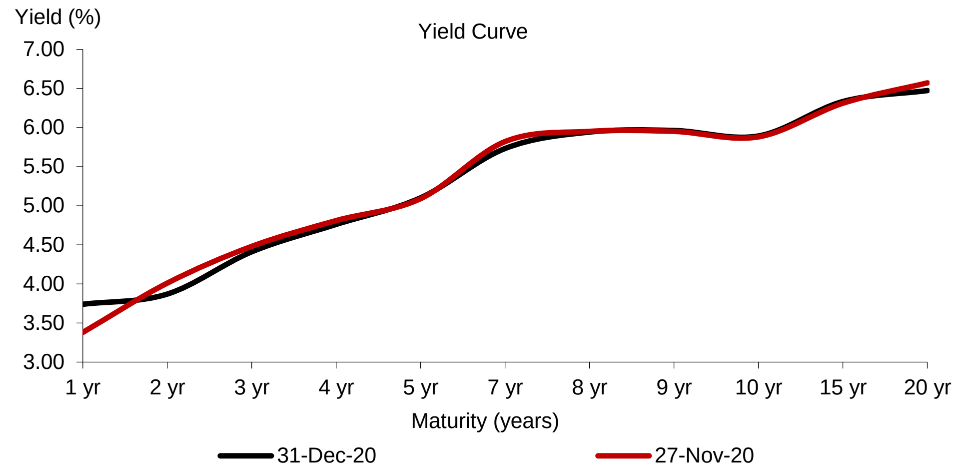
Bond prices were flat in December

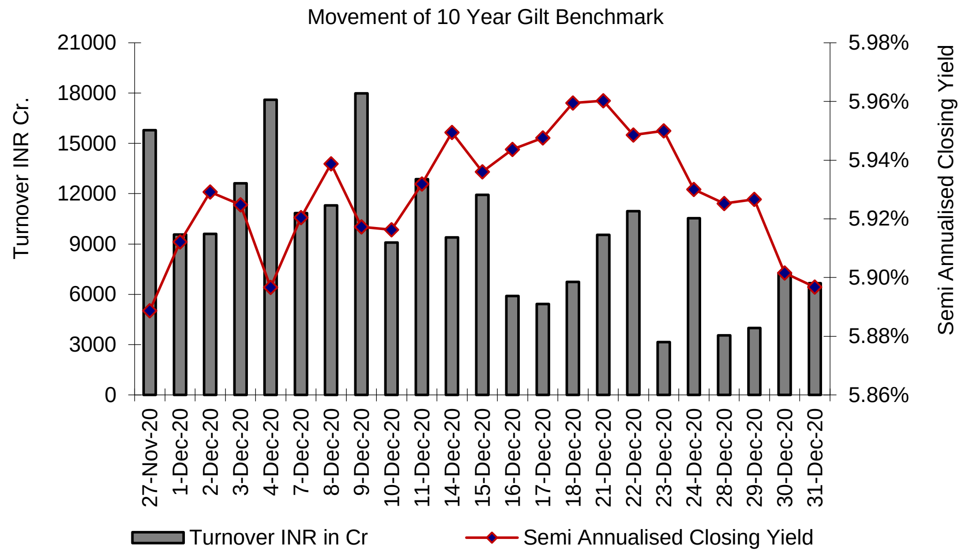
- Gilts ended little changed in December with the yield on the 10-year benchmark 5.77% 2030 paper settling at 5.90% on December 31 compared with 5.91% on November 27.
- Sentiment for dated securities remained weak earlier in the month due to the absence of open market bond purchase announcements from the central bank.
- Comments from Finance Minister Nirmala Sitharaman that India would be looking to step up spending to support economic growth and that the budget deficit target may be missed put bonds under pressure.
- Prices also dipped after the banking regulator announced that it would buy and simultaneously sell securities for a total notified INR 10000 crore each on December 17, as against the market's hopes of an outright bond purchase announcement.
- Gilts retreated further ahead of the results of some weekly debt auctions.
- However, losses were recouped on intermittent value buying and after the RBI's Monetary Policy Committee (MPC) kept the repo rate unchanged and decided to continue with the accommodative stance as long as necessary to prop up economic growth.
- Further, RBI Governor Shaktikanta Das assured that the central bank will continue to maintain sufficient liquidity through the use of various instruments at an appropriate time.
- Bond prices received a boost after domestic retail inflation for November eased.
- Gilts were buoyed later in the month after the central bank bought the bulk of the paper maturing in 2034 in a special open market operation.
- Expectation that the central bank would announce open market bond purchases in January also lifted sentiments.

Source: CRISIL Data as of December 2020 except otherwise mentioned.

Debt Market Review

Debt Market Indicators	31-Dec-20	27-Nov-20
Call Rate	2.10%	3.40%
3-mth CP rate	3.70%	3.18%
5 yr Corp Bond	5.55%	5.50%
10 Yr Gilt	5.90%	5.91%
Repo	4.00%	4.00%
Reverse Repo	3.35%	3.35%
CRR	3.00%	3.00%
1-mth CDs	3.01%	2.82%
3-mth CDs	3.36%	2.90%
6-mth CDs	3.44%	3.35%





Source: CRISIL Fixed Income database. Data as on December 2020 except mentioned otherwise

Debt Market Outlook

- The yields during the month have continued to trade in a narrow range. With the policy taking the focus in the beginning of the month, market sighed a welcome relief soon after the policy as liquidity measures remain untouched.
- The gains were however short-lived and profit booking and lack of Open Market Operations (OMOs) reversed the gains.
- 10-year benchmark moved between a narrow range of 5.85 – 5.92% during the month largely supported by RBI actions.
- Inflation continues to remain elevated and post policy market has concluded that further rate cuts are largely ruled out.
- Liquidity is however expected to remain in surplus guiding the lower rates predominantly in the front end of the curve.
- RBI will continue to remain the driver of rates in the near to medium term until there is a complete return to normalization.
- While the scope for direct rate cuts is limited, we would expect RBI to use unconventional measures (such as OMOs and liquidity support) to anchor the rates and prevent undue volatility.
- Budget, fiscal position and the resultant borrowing for next financial year will take much of the market attention in the next month.
- In the corporate space, spreads were largely range bound in tandem with the G-sec curve. In the longer end the movement was largely in line with G-secs.
- Heading into the last quarter, there could be some supply pressures and therefore do not expect any meaningful compression in spreads.
- RBI maintained the policy rates as expected and much to the relief of the markets left the status on liquidity unchanged as well.
- RBI has guided to continue with accommodative stance as long as it is required - at least during the current financial year and also running into the next financial year, to revive growth on a durable basis and mitigate the pandemic impact while ensuring inflation remains within target.

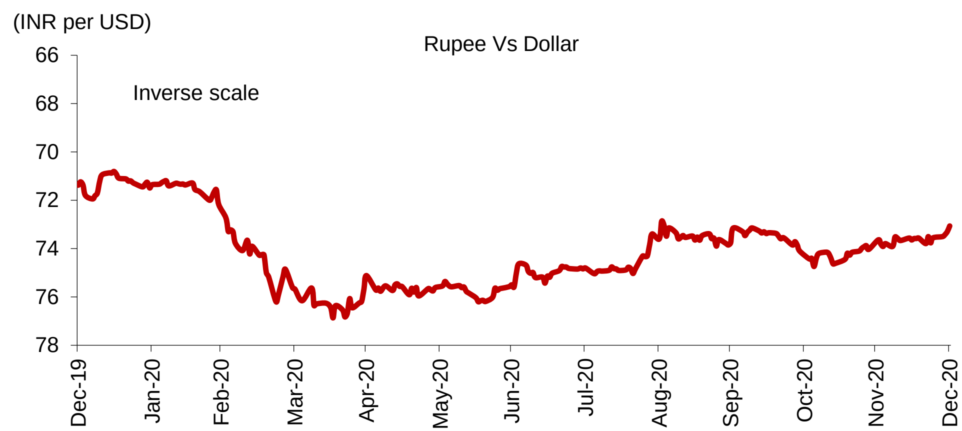
Source: HSBC Global Asset Management, India, Data as of December 2020 except otherwise mentioned

Forex Market Review

Indian rupee jumped in December

- The rupee strengthened sharply against the US dollar, aided by positive developments surrounding Covid-19 vaccines, periodic rally in local equity indices, and foreign fund inflows into the domestic financial market.
- The RBI's decision to keep interest rate unchanged at 4% and sporadic declines in the US dollar index helped the local unit. The US dollar index fell after the US Fed said that it would continue to support the US economy through adequate monetary stimulus.
- The rupee gained further after US President Donald Trump signed a second coronavirus stimulus package, on the back of improved investor risk appetite.
- Intermittent gains in other Asian units and exporters' dollar sales also contributed to the rupee's rise.
- Some rupee gains were chipped away weighed by state-owned banks' dollar purchases.
- Lack of progress on a fiscal stimulus bill in the US earlier in the month, the UK government's decision to impose fresh lockdowns to curb the spread of a new coronavirus strain, and concerns regarding the impact of Covid 19 on global economic recovery, also erased some of the rupee's gains.

Rupee Movement V/s Global Currencies				
	31-Dec-20	27-Nov-20	Change	% Change
USD	73.06	74.03	0.97	1.31
GBP	99.78	98.85	-0.93	-0.94
EURO	89.71	88.15	-1.56	-1.77
100 YEN	70.80	71.12	0.32	0.45



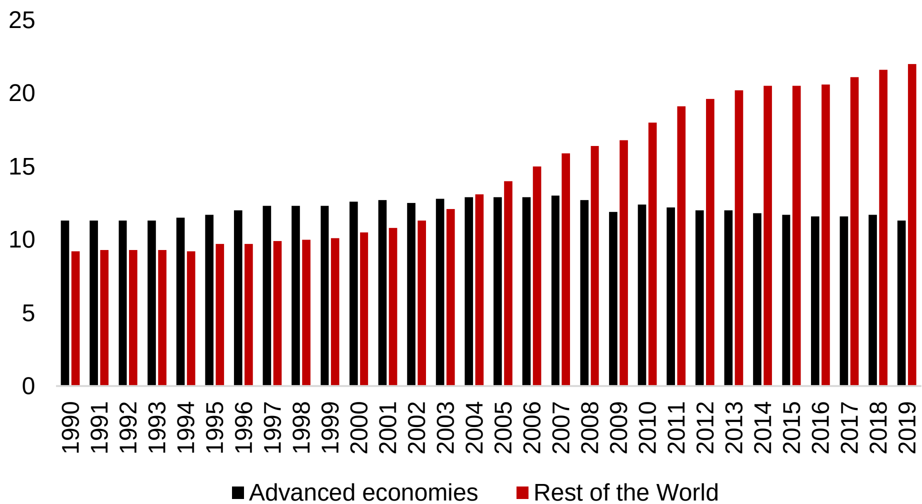
Strong foreign fund inflows into the domestic financial market prop up the rupee

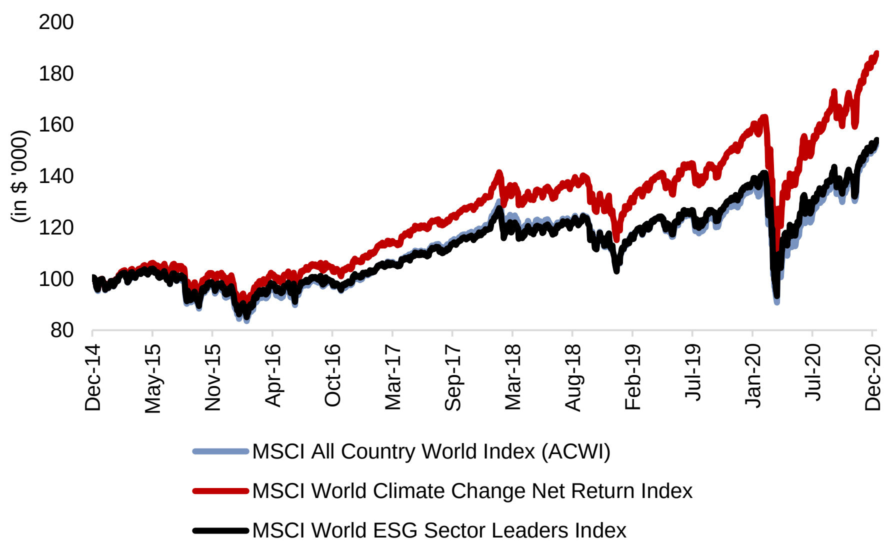
Source: RBI, CRISIL. Data as on December 2020 except otherwise mentioned

Climate Change and ESG

- The issue of climate change (generally measured in terms of carbon dioxide or CO_2 emissions) has been in the limelight amid the rising number of climate disasters such as wildfires, floods, droughts, diseases, etc in recent times. The steadily rising emissions are especially evident from countries other than advanced economies over the years.
- This has resulted in shifting of focus towards businesses which are sensitive towards tackling these issues or in other words take into consideration the environmental, social and governance (ESG) factors while conducting their business.
- In fact, globally the total assets under management of mutual funds/ETFs following the ESG route reached $1.2 trillion in third quarter of 2020.
- According to the Forum for Sustainable and Responsible Investment's 2020 trends report, between 2018 and 2020, total US-domiciled sustainably invested assets under management grew 42%, to $17.1 trillion, up from $12 trillion.
- If we consider climate change and ESG themes in terms of performance vis-à-vis general equity for illustrative purposes, a sum of $100,000 invested in MSCI World Climate Change index and MSCI World ESG Sector Leaders index in December 2014 would have grown to $187,000 and $153,000, respectively as on December 31, 2020 as against growth of $152,000 in MSCI All Country World Index (ACWI) during the same period.
- Meanwhile, on the domestic front, the government formed constituted a committee which will oversee the implementation of the climate change mitigation targets committed under the Paris Agreement by India.

Energy Related CO_2 Emissions (in giga tonnes)



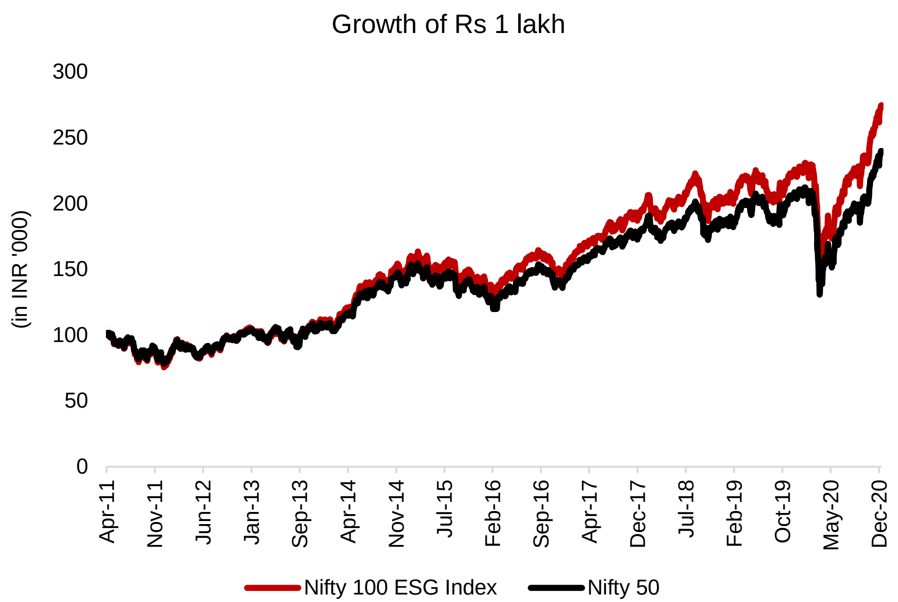


Source: Bloomberg, International Energy Agency (IEA), data as of December 2020

Investment involves risks. Past performance is no guarantee of future returns

ESG Performance

- In the Indian context, the ESG theme has shown encouraging performance.
- In terms of returns, ESG (represented by Nifty 100 ESG) has outperformed general equity (represented by Nifty 50) across various time periods.
- If long-term growth in ESG scheme is analyzed, if an investor put in INR 100,000 in Nifty 100 ESG and Nifty 50 in April 2011, it would have grown to INR 280,000 and INR 243,000, respectively, for the period ended December 2020.



Period	Performance (%)	
	Nifty 100 ESG	Nifty 50
1 year	21.57	14.90
2 years	16.13	13.43
3 years	11.91	9.88
5 years	13.74	11.95
7 years	13.70	12.04

Source: NSE, Bloomberg. Data as of December 2020. Returns above 1 year are compounded annualized.

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Economic Events Calendar

Date	Indicators	Previous
6-January-21	US ADP Employment Report, December	307,000
	Eurozone Producer Price Index, November	0.4%
	India Markit Services PMI, December	53.7
7-January-21	Eurozone Consumer Price Index, December	-0.3%
	Eurozone Retail Sales, November	1.5%
	UK Markit Construction PMI, December	54.7
8-January-21	US Non-farm Payrolls, December	245,000
11-January-21	China Consumer Prices, December	-0.5%
	China Producer Prices, December	0.5%
12-January-21	India Consumer Inflation, December	6.93%
	India Industrial Production, November	3.6%
13-January-21	US Consumer Prices, December	0.2%
	Eurozone Industrial Production, November	2.1%
14-January-21	China Trade Surplus, December	$ 75.4 billion
	India Wholesale Inflation, December	1.55%
15-January-21	US Industrial Production, December	0.4%
	US Business Inventories, November	0.7%
	Eurozone Trade Balance, November	30 billion euros

Source: Crisil

Economic Events Calendar (cont'd)

Date	Indicators	Previous
18-January-21	China Industrial Output, December	7%
	China Retail Sales, December	5%
	China GDP, Q4 2020	4.9%
20-January-21	UK Consumer Prices, December	0.3%
	UK Producer Prices, December	-0.8%
	China Loan Prime Rate 5Y	4.65%
21-January-21	US Housing Starts, December	1.55 million
	ECB Refinancing Rate	0%
	BoJ Interest Rate Decision	-0.10%
22-January-21	US Existing Home Sales, December	6.69 million
	UK Retail Sales, December	-3.8%
27-January-21	US Durable Goods Orders, December	0.9%
	China Industrial Profits, December	15.5%
28-January-21	US GDP, Q4 2020	33.1%
	US Fed Funds Target Rate	0-0.25%
29-January-21	US Pending Home Sales, December	-2.6%
	India Core Sector Growth, December	-2.6%

Source: Crisil

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