Investment Snapshot

For the year ended in March - 2020

# Indian markets remain hopeful amidst Covid-19

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# Year gone by for the Indian markets

The narrative for fiscal Year 2020 which was largely dominated by successful signing of Phase 1- US China trade, slew of positive measures such as corporate tax cuts, massive thrust on infra, record highs for equity indices despite the persistent weak economic growth etc., changed significantly in the fag end of the Q4FY20 quarter boiling down to one word "Covid-19". In the last few weeks of FY20, Global and Indian Equity markets witnessed unprecedented times and saw crisis of confidence leading to extreme corrections across the globe. The genesis of the steep market corrections laid in the outbreak of the pandemic Novel Coronavirus (Covid -19).

The emergence of COVID-19 and its economic impact along with health risks became the central biggest factor impacting all asset classes. A quick global spread of the disease and its highly contagious nature brought a halt in the economic activity of world's major economies, thus leading to an almost vertical fall across global markets. Indian Equity benchmark- NIFTY 50 was down 26% during FY20, while Nifty Small Cap 100 lost 46% during the year with most part of the fall being recorded mainly in the month of March in Q4FY20 (Nifty50 lost ~30%). Metals and Autos saw the maximum decline followed by financials, while FMCG and Pharma being essential products by nature held up relatively well during the quarter. Although FII's were net sellers in the Indian equities in FY20, DII's continued to lend support to the markets with inflows to the tune of ₹1,28,208 crore in FY20. Nonetheless, global central banks were quick and responsive to the Covid shock and were abuzz with rate cuts, QE and liquidity boosting measures to combat the Covid impact on economy. Consequently, markets across the world including India have relatively stabilized from the panic bottoms seen in mid-March'20.

**Macro - Economic and Fixed Income Update**

From the global standpoint, one of the key positives in FY20 was the successful signing of the phase 1 of US- China trade deal which injected a bout of positivity in the markets. Besides, the Global central banks remained accommodative which kept the yield curves lower. While many central banks had already started easing rates as early as late January, it was the Fed's response to Covid crisis of back to back unscheduled rate cuts (Federal rate reduced from 1.50-1.75% at the end of February'20 to 0.00-0.25%), unlimited/Open-ended Quantitative Easing (QE) and liquidity measures that led the other global central banks to follow suit in order to quell the gravity of COVID-19's economic impact in the months ahead.

In response to the Covid crisis, RBI too fired on all fronts and gave the necessary panacea to the reeling economy by announcing a sharp 75bps repo rate cut and a slew of measures in its preponed MPC meet, which injected liquidity of around ₹3.7 trn into the system. The key measures included the 75 bps repo rate cut and 40 bps Reverse Repo cut, 100bps CRR cut and the introduction of the TLTRO facility to support investment in corporate bonds; alongside 3-month forbearance on loan instalment and interest deferment on working capital facilities and most importantly reassured future actions as necessary. Besides, on the fiscal side too, the government announced relief measures of ₹1.7 trn to support the lower sections of the economy and has ensured more measures in the coming months. The most significant and pre-emptive move in March from the government was the announcement of 21-day nation-wide lockdown imposed on 25th March to contain the spread of COVID-19. The government also mentioned that essential services would run as normal during this lockdown period.

As a confluence of Global and domestic factors, Indian Bond yields saw easing for most part of the FY20 in response to the total 210 bps repo rate cut by RBI and has eased by ~120 bps during the year to 6.14% by end of Mar-20. While these strong measures by RBI in March led the yields to ease to 6.14%, the yields climbed back since then as markets continued to fear the higher borrowing from the government on account of fiscal slippage, while their revenue side continued to struggle. In order to further put to rest the concerns of the market and economy, RBI unleashed a second round of relief measures in April'20 ranging from further 25bps cut in reverse repo and relief for banks in classifying bad loans to liquidity support for non-bank lenders (TLTRO-2) and increased emergency funding for state governments through Ways and Means Advances.

International Brent crude prices have corrected sharply during the quarter from $66/barrel to $22.80/barrel amid the dispute between Russia and OPEC which could weaken the cartel and lower the demand amid Covid. While the INR depreciated nearly 6% in Q4FY20 amid Covid fears leading to FPI outflows from the emerging economies across asset classes, but INR still remained a better performing currency than its EM counterparts.

**Macro and Fixed Income Market Outlook**

With the spread of Covid-19 across economies, the lockdown has indeed become a global phenomenon and the economic fallout due to this on global growth is likely to spill over in Q1FY20 and may extend to the second quarter as well. However, with the infection curve likely to flatten soon and lifting of lockdowns in a phased manner, the economy is likely to kick start and normalise completely post 2QFY21. We anticipate a pickup in growth in the second half as the significant amount of fiscal and monetary stimulus announced by central banks and governments across the world including India, will steer the wheels of growth in the economy.

The significant announcement of fiscal and monetary stimulus across the world and India in an synchronised and coordinated way and its fast pace stands as a testimony to

the fact that the Central Banks and government stand ready to do 'Whatever it takes' to combat the Covid crisis. On the domestic front, with the 21 day lockdown (now extended to 45 days), the high frequency indicators on the ground may likely show weaker prints in the ensuing months ahead, before they get on to the path of recovery in the medium term. But the key positives for India in the entire Covid episode is the crash in crude prices which bodes well from its external account standpoint. Also Inflation for FY21 is also likely to remain well under RBI's target band of 4%, although there might be some temporary spikes owing to supply chain disruption due to Covid, but the bumper Rabi crop and favourable crude prices would help keep it lower.

From the debt markets standpoint, the RBI has so far been cognizant of the gravity of the problem and has taken the requisite pre-emptive measures in the form of liquidity support to NBFC's and Mutual funds, doing rate cuts and focusing on transmission and pushing the credit to the needy sector in the economy, increasing of borrowing limits for state governments and OMO purchases, which has likely cushioned the yields hitherto. Nonetheless, the bond market participants would continue to remain focused on potential fiscal stimulus to be announced by the government and its financing plan (possibly by way of direct monetization of deficit) and also would expect RBI to front load the rate cuts along with continued announcements of OMO purchases covering both G-secs and SDLs to lower the elevated term premium and credit spreads in the economy. Although from the fiscal standpoint, the math may looked stretched at this point in time, given the need to ramp up the fiscal stimulus required to be given to revive the economy, as long as the excess supply is absorbed by RBI directly or indirectly, the yields would remain under check.

**Equity Market Outlook**

Fundamentally, we see CORONA virus will have a positive impact on India as long as the world and our country is able to contain it. With regards to Equity market, what we are currently experiencing is volatility, not absolute loss. We know that markets come back from every correction and eventually make new highs. Even the 2008 market collapse - the worst in recent times - is a testimony to this. From highs of 6200 points in January 2008, the Nifty collapsed to a low of 2600 points in March 2009. At that point in time, every market pundit predicted that it would take many years, possibly even a decade to recover from what they termed 'complete and utter devastation of the world's financial markets'. However, the markets were back to 6100 levels in Oct 2010, in a span of just 18 months! History has exemplified, time and again, the continued progress of mankind, and there is no reason that this trend will reverse. If you're investing for the next five - ten years, then your focus should be on the opportunity and the way to harness it. One should keep investing as per goals and leverage on these falls in the markets.

While there could be a one and two quarter hit to earnings due to outbreak of Corona virus, we expect normalization of earnings in second half FY22 if the virus were to be contained. Post the correction, valuations have become more attractive with NIFTY trading at 15X FY21 EPS. Importantly, with the fall in 10-year G-SEC yields, the NIFTY earnings yield have converged with the bond yields implying that the market is not paying any premium for the future growth. Historically, periods like these have always been followed by significant rallies in equity markets. We believe, despite the near term challenges in reviving growth in India, the long-term structural growth story is intact and its favourable demographics should continue to support the structural growth to play for next few years. **We believe that the current correction in the market provides investors a great opportunity to increase allocation to equity markets for medium to long-term.**

## Market Performance

### Performance of Indian Equities across Market Caps and Debt benchmarks

| Sector | 7Yr CAGR | 5Yr CAGR | 3Yr CAGR | 1Yr Return | 6M Return | 3M Return |
|---|---|---|---|---|---|---|
| Nifty | 6.1% | 0.3% | -2.1% | -26.0% | -25.1% | -29.3% |
| Sensex | 6.6% | 1.1% | -0.2% | -23.8% | -23.8% | -28.6% |
| Nifty Midcap Index | 6.8% | -2.1% | -12.0% | -35.9% | -27.0% | -31.6% |
| Nifty Smallcap Index | 2.0% | -8.6% | -19.9% | -46.1% | -35.7% | -38.4% |
| NIFTY Composite Debt Index | 8.5% | 8.3% | 7.8% | 11.8% | 5.2% | 3.2% |

Source: Bloomberg, Reuters & FG Research

### Global Indices Performance (%)

| | 7Yr CAGR | 5Yr CAGR | 3Yr CAGR | 1Yr Return | 6M Return | 3M Return |
|---|---|---|---|---|---|---|
| Dow Jones Index (USA) | 6.0% | 4.3% | 2.0% | -15.5% | -18.6% | -23.2% |
| Nikkei 225 (Japan) | 6.2% | -0.3% | 0.0% | -10.8% | -13.0% | -20.0% |
| Hang Seng (Hong Kong) | 0.8% | -1.1% | -0.7% | -18.8% | -9.5% | -16.3% |
| FTSE 100 (UK) | -1.7% | -3.5% | -8.2% | -22.1% | -23.4% | -24.8% |
| Shanghai Composite Index (China) | 3.0% | -6.0% | -5.1% | -11.0% | -5.3% | -9.8% |
| DAX (Germany) | 3.5% | -3.7% | -6.9% | -13.8% | -20.1% | -25.0% |
| iBovespa (Brazil) | 3.8% | 7.4% | 4.0% | -23.5% | -30.3% | -36.9% |
| MICEX (Russia) | 8.3% | 9.1% | 7.9% | 0.5% | -8.7% | -17.6% |

Source: Bloomberg, Reuters & FG Research

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