Investment Snapshot

For the quarter ended on 31st March 2021

FUTURE GENERALI
TOTAL INSURANCE SOLUTIONS

An increased optimism for Indian economy amidst the 2nd COVID wave

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Quarter gone by for the Indian markets

Fiscal Year FY'21 - a challenging year for humanity but paradoxically, a stellar one for markets - comes to a close, on a strong footing, with renewed “hope and optimism’’. The year ended with a bang, as globally the US Government announced its $1.9 tn. stimulus and unveiled the $2.25 tn. US infrastructure plan. The new fiscal stimulus, announced by US, will not only aid growth in US, but will also have positive ramifications on economies globally. Fed’s recent ‘Dovish Stance’ and Pertinent Statements on Outlook were indeed a reprieve for the Debt and Equity markets, as it cleared a lot of clamour around premature tightening that the markets were clouded with. On the domestic front, the Indian equity markets which had initially rallied in Feb.’21, driven by the euphoria over the 2021 Union Budget, further bolstered recording new highs with the roll out of the US fiscal package. Nonetheless, the Indian economy and markets are now clouded with concerns around the sharp rise in 2nd Covid wave which can impede the recovery. However, we reckon the impact of Covid 2nd wave to be transient and that Indian economy and markets will sail through this too, swiftly, as testified in the past.

The markets in India and across the world, have touched historic highs due to strong liquidity boost (QE and rate cuts) by Central Banks, wide fiscal stimulus by the Governments all over the world and the advent of the vaccine that aided in reviving the sentiments and economic recovery. Liquidity has been the key catalyst for steering the wheels, for all asset classes, in the last one year and has been the key reason for the incumbent high valuations in markets. Indian Equities have given stellar 70% returns in FY'21, outperforming most of the developed and emerging markets' major equity indices. While the markets may have given whopping 70% returns in FY'21, but these phenomenal returns are stemming from the backdrop of an unprecedented decline of 40% in Nifty over Feb. & March 2020. Besides, after having underperformed for two years, the broader markets too have not only participated in this rally, but even outperformed the benchmarks. Nifty Midcap and Small Cap returned 102% and 125% respectively, in FY'21 vs 70% rise in Nifty.

Although, on a yearly basis, markets have given phenomenal returns, the markets remained quite volatile in the Q4 FY'21. The bond markets' concerns around rising inflation, stemming from US stimulus and rising commodity prices, coupled with worries of consequent premature tapering of balance sheet, led to a sharp spike in bond yields. This unnerved the equity markets, witnessing sharp bouts of volatility. However, Fed’s continued dovish stance with response of no rate hike until 2023 and explicit articulation of inflation spike being transient, quelled the market fears and aided to stave off further rise in yields. On the domestic side, this also led to some decline in pace of FII inflows in markets. Nonetheless, despite the fall in FII inflows in the last quarter, India witnessed the highest FII inflows vs its EM counterparts in FY'21, which exemplifies the confidence of foreign investors in India’s growth story and its huge potential.

Macro - Economic and Fixed Income Update

FY'21 was indeed an eventful year for the world economy, as the global GDP growth, after having contracted at the fastest pace, saw a strong rebound. GDP out-turns were stronger than expected in December Quarter 2020 - particularly in Europe and emerging markets (EM). The widespread vaccination drive has aided the global economy to begin its recovery in full throttle. The prospects for full recovery are promising, despite the risks emanating from resurgence of Covid waves, as fiscal support is stepped up sharply, economies adapt to social distancing norms and vaccination roll-out gathers steam. IMF expects global GDP to expand by 6% in 2021, revised up from 5.5% from their Jan. 2020 estimates on the back of unprecedented stimulus to fight the pandemic, primarily by the US. Immunisation delays or problems remain the key downside risk to the growth forecasts. On the domestic macro front, India continued to outshine the recovery expectations with stellar performance across major macro indicators. The 2021 Union Budget was a path-breaking one with major reform initiatives such as large Infrastructure – capex allocation, setting-up of Development Financial Institution (DFI), cleaning up of NPA’s in the financial system by creation of an ARC, Privatisation of banks, etc. to name a few.

India’s GDP grew at 0.4% in the quarter ending Dec’20, against steep contraction in the previous 2 quarters and being one of the third economy to post growth for the quarter amongst 16 Major World economies. Most of the high frequency indicators were back to pre Covid levels as visible in the Manufacturing & Services, PMI data continuing to show expansion, Auto and Passenger Vehicle Sales posting strong growth and GST collections also rising MoM, thus signaling revived activity in the economy along with improved formalization of the economy. Nonetheless, since the month of March, there has been a strong resurgence in Covid cases, blooming into full-fledge concerns about second wave, both domestically and globally. However, the key solace in the midst of the rising Covid cases, is the rampant vaccination programme being run globally and in India, which might aid in inoculating the citizens at a faster pace & thereby tapering the risk posed by the virus. Retail Inflation which was treading lower in December’20 and Jan’21 (aided by positive base effect and lower food prices), started inching higher in Feb. and March 21 to 5.03% and 5.52% respectively, largely due to higher core inflation which remained sticky around 6% due to higher commodity prices and services inflation. Brent crude has also been on a rise since Dec. 20, largely due to pick-up in oil demand, lower production by OPEC and geo-political issues.

With respect to bond markets, improving growth prospects, commodity price increases, and short-term supply constraints in some manufacturing sectors, have renewed focus on inflation risks and with US bond yields inching up, by more than 70bps in 2021. On the domestic front, the 10-year G-sec yields have been on a rise, in response to the hardening of US Bond yields and the budget announcement of elevated fiscal deficit in FY'21 and FY'22, as the markets were nervous about the increased government borrowing in FY'21 and FY'22. Despite RBI’s reassurance of an accommodative policy and ample liquidity stance to ensure that the government’s record borrowing goes through, in a non-disruptive manner in Feb. MPC, the yields continued to spike. The average increase in G-sec across 3, 5 & 10 yrs. around 30-70 bps since Dec 31, 2020. Nonetheless, RBI in its latest April MPC meeting, reassuringly tried to assuage the markets by re-emphasizing its commitment to keeping policy accommodative with a shift to ‘state based guidance’ and maintaining ample liquidity.

A shot-in-the-arm was RBI giving the antidote to the bond markets, in the form of announcement of an explicit G-SAP program (G-sec Acquisition Program), which put to rest the bond market apprehensions of large borrowings in FY'22. Besides, this move has come at an opportune time, when a new bout of uncertainty emanating from second COVID wave, could have hampered the markets. Consequently, we saw the 10 yr. G-sec yields cool off to the 6% handle.

Macro-economic and Fixed Income Market Outlook

From macro outlook standpoint, with the widespread roll-out of the Covid vaccine, growth conducive Union Budget and the new fiscal stimulus package by the US government, the growth outlook looks decidedly promising. Budget FY'22 was clearly a bold step in the direction of creating and establishing a growth-conducive platform that would support growth for the next few years. By discarding its fiscal conservatism, at a time when the economy needed public capex support, the government has done well to provide wings to growth. Budget announcements along with other policy announcements in the year (Atma-nirbhar, Production Linked Incentive (PLI) and National Infrastructure Pipeline) and successful implementation of the same, would start manifesting in the growth numbers. On Covid front, while the incumbent Covid second wave situation is quite grim in India, we reckon the impact to be transient and may create only some near-term dislocation in the economy, due to localized lockdowns and impact the markets in short-term, but will not derail the pace of economic recovery, as the rampant vaccination picks up. The vaccination pace will be the key barometer for economy and markets. As testified in the first wave, we believe that Indian economy will continue to be resilient in FY'22, posting an economic rebound, despite the short-term risks from Covid second wave. We reckon the long-term structural growth platform of India remains intact and that the consumption and demand engines are set to improve, aided by government support and reforms, from hereon.

From the debt market perspective, going forward, we see policy rates on status quo and the liquidity stance is unlikely to diverge from the accommodative policy stance in the near term. RBI will likely stay nimble-footed to maintain financial markets stability, given that there may be bouts of high volatility, given the 2nd wave of the coronavirus. However, the ongoing commodity rally globally, may have some spill-over effects on Inflation, domestically and may create some tough questions for RBI as far as the “Accommodative” stance is concerned, in the medium-term. Thus, we believe, as the cyclical rebound gains momentum, along with firmer core inflation and commodity price increases, pressure to normalise policy is likely to surface. On the Interest rates front, we reckon that MPC will continue to bring all innovation and policy tools to soothe the market nerves. The bond markets will be enthused in short-term with the announcement of the GSAP programme, however we continue to believe that eventually the interest rates will be more led by fundamental and structural macro variables and will begin to drift higher as economy starts seeing recovery, inflation pushes higher, and liquidity starts normalizing.

Equity Market Outlook

The Equity market moves in FY'21 were nothing short of being spectacular and has been literally a one-way rally, post the fall that we witnessed in March 20. The most obvious question which would come to an investor’s mind after such a resounding move is perhaps, how one should position themselves in the current market environment? The obvious answer to this is - Clearly, in the backdrop of, after having staged a heroic recovery in FY'21, with markets delivering an astounding ~70% returns in FY'21, the markets are bound to take some breather and see consolidation in FY' 2022. Markets at this juncture are witnessing bouts of volatility, as on one side they are posed with risks looming from second wave and localised lockdowns, while on the flip side, they are juxtaposed with excellent performance posted by corporates across sectors in the current earnings season, with growth outlook not so bleak. Nonetheless, the long-term growth outlook remains intact as the Union Budget FY'2021-22 has rightly laid the foundation for a growth-conducive platform, which would aid in a major economic rebound for India. Besides any pump priming measures to spur strong growth in US, will surely have positive ramifications on the global growth (via improved trade channels) and undoubtedly bodes well for EM’s including India.

FY'22 is going to be a year of strong economic rebound in India, despite the short-term risks looming from second wave, as rapid immunizations would taper the risk, in our view. We believe, despite the rise in global bond yields, the overall monetary conditions globally will remain accommodative, which coupled with stronger economic growth outlook, is a key positive for driving the equity market performance. India is on the cusp of a virtuous economic growth cycle, which will culminate into stronger momentum of earnings recovery and aid the markets to perform reasonably well. However at incumbent levels, markets are indeed pricing in, quite an amount of earnings expansions expected in FY'22. Thus, post the stupendous rebound, we believe investors should expect more normalized returns, which would be in line with the normalized earnings growth.

Given this construct, we advise investors to believe in the long-term potential of India and stay on course, to partake in the rally and leverage any dips, as an opportunity to buy. If you’re investing for the horizon of next five - ten years, we believe that Equities, as an asset class, represents the best opportunity for long-term wealth creation and your focus should be on these compelling opportunities and the ways to harness it. With Insurance being a long-term investment tool, it is advisable to remain invested and complete the term of the policy to optimize returns.

Snapshot of Macro Indicators

Quarterly Data												
	Q4 FY'18	Q1 FY'19	Q2 FY'19	Q3 FY'19	Q4 FY'19	Q1 FY'20	Q2 FY'20	Q3 FY'20	Q4 FY'20	Q1 FY'21	Q2 FY'21	Q3 FY'21
Real GDP (YoY%)	7.7	7.1	6.2	5.6	5.8	5.2	4.4	4.1	3.1	-23.9	-7.5	0.41
Real GVA (YoY%)	7.6	6.9	6.1	5.6	5.7	4.8	4.3	3.5	3.0	-22.8	-7.0	1.0
Agriculture	6.5	3.8	2.5	2.0	-0.1	3.0	3.5	3.6	5.9	3.4	3.4	3.9
Industry	10.3	7.5	4.8	5.0	2.6	4.2	0.5	-0.4	0.0	-31.1	-1.6	1.4
Services	6.1	7.4	7.4	7.4	8.7	5.5	6.5	4.9	3.5	-24.8	-10.9	0.0
Export Growth (%)	6.3	14.0	9.6	7.1	6.3	-0.8	-4.1	-2.2	-12.4	-36.8	-5.5	-5.2
Import Growth (%)	15.7	12.2	22.9	8.9	-1.0	-0.2	-11.5	-12.5	-9.0	-51.7	-23.5	-3.3
Trade Balance	-41.6	-45.7	-50.0	-49.3	-35.2	-46.2	-38.1	-34.6	-35.0	-10.8	-14.8	-34.5
Current Account Balance	-13.1	-15.8	-19.1	-17.7	-4.6	-14.3	-6.3	-1.4	0.6	19.2	15.5	-1.7
Balance of Payments	13.2	-11.3	-1.9	-4.3	14.2	14.0	5.1	21.6	18.8	19.8	31.6	32.5
CAD as % of GDP	-1.9	-2.4	-2.9	-2.7	-0.7	-2.0	-0.9	-0.2	0.1	3.8	2.4	-0.2

Source: Bloomberg, Reuters,Capital Line, IMF and FG Research

Snapshot of Macro Indicators

Yearly Data											
	FY'11	FY'12	FY'13	FY'14	FY'15	FY'16	FY'17	FY'18	FY'19	FY'20	FY'21E
GDP Growth %	10.3	6.6	5.5	6.4	7.4	8.0	8.3	7.0	6.1	4.2	-7.6
GVA Growth %			5.4	6.1	7.2	8.1	8.2	7.2	6.6	3.9	-6.3
CPI Inflation Avg.	10.5	8.6	9.9	9.4	6.0	4.9	4.5	3.6	3.4	4.8	6.2
Exports (US$bn)	256	310	307	319	317	266	280	309	337	314	288
Imports (US$bn)	383	500	502	466	461	396	393	469	518	478	390
Trade Deficit (US$bn)	-127	-190	-196	-148	-145	-130	-112	-160	-180	-153	-100
Trade Deficit (% of GDP)	-7.5	-10.4	-10.7	-8.0	-7.1	-6.2	-4.9	-6.2	-6.6	-5.0	-3.8
Brent Crude oil prices year ending	117.3	123.8	109.3	107.0	53.3	38.7	52.7	69.1	70.3	21.5	64.1
Oil Import USD Bn	106.0	155.0	164.0	164.8	138.3	82.9	87.0	109.1	140.8	130.4	85.0
CAD $ Bn	-48.1	-78.2	-88.2	-32.4	-26.8	-22.2	-15.3	-48.7	-57.3	-24.7	21.7
CAD (% of GDP)	-2.8	-4.3	-4.8	-1.8	-1.3	-1.1	-0.7	-1.9	-2.1	-0.9	0.8
Capital Account Balance (US$bn)	63.7	67.8	89.3	48.8	89.3	41.1	36.5	91.4	54.4	83.2	67.0
FDI (US$bn)	11.8	22.1	19.8	21.6	31.3	36.0	35.6	30.3	30.7	43.0	52.0
FII (US$bn)	30.3	17.2	26.9	4.8	42.2	-4.1	7.6	22.1	-0.6	1.0	34.0
Total BoP (US$bn)	13.1	-12.8	3.8	15.5	61.4	17.9	21.6	43.6	-3.3	59.5	89.0
Fiscal Deficit %	-4.8	-5.9	-4.9	-4.5	-4.1	-3.9	-3.5	-3.5	-3.4	-4.6	-9.5
Foreign Reserves (US$bn)	305	294	292	304	342	360	370	425	413	478	582
Rupee (INR/$) Average	45.6	48.1	54.5	60.9	61.2	65.7	67.1	64.5	69.9	71.0	74.3
Repo Rate year ending	6.8	8.5	7.5	8.0	7.5	6.8	6.3	6.0	6.3	4.4	4.0
US-10 year end	3.5	2.2	1.8	2.7	1.9	1.8	2.4	2.7	2.4	0.7	0.9
GIND-10 year end	8.02	8.56	8.01	8.88	7.80	7.40	7.06	7.42	7.35	6.14	6.18

Market Performance

Performance of Indian Equities across Market Caps and Debt benchmarks as on 31st March, 2021

Sector	7-year CAGR	5-year CAGR	3-year CAGR	1 year	6 months	3 months
Nifty	11.9%	13.7%	13.3%	70.9%	30.6%	5.1%
Sensex	12.0%	14.3%	14.5%	68.0%	30.1%	3.7%
Nifty Midcap Index	15.6%	13.2%	8.1%	102.4%	39.5%	13.7%
Nifty Smallcap Index	11.9%	10.7%	1.4%	125.7%	39.3%	14.5%
NIFTY Composite Debt Index	9.3%	8.1%	9.0%	6.0%	1.4%	-1.4%

Source: Bloomberg, Reuters & FG Research

Global Indices Performance (%)

Sector	7-year CAGR	5-year CAGR	3-year CAGR	1 year	6 months	3 months
Dow Jones Index (USA)	10.4%	13.3%	11.0%	50.5%	18.7%	7.8%
S&P 500 (USA)	11.4%	14.0%	14.6%	53.7%	18.1%	5.8%
Nikkei 225 (Japan)	10.2%	11.7%	10.8%	54.3%	25.9%	6.3%
Hang Seng (Hong Kong)	3.6%	6.4%	-1.9%	20.2%	21.0%	4.2%
FTSE 100 (UK)	0.3%	1.7%	-1.7%	18.4%	14.5%	3.9%
Shanghai Composite Index (China)	7.8%	2.8%	2.8%	25.2%	7.0%	-0.9%
DAX (Germany)	6.7%	8.5%	7.5%	51.1%	17.6%	9.4%
iBovespa (Brazil)	12.7%	18.4%	11.0%	59.7%	23.3%	-2.0%
MICEX (Russia)	14.5%	13.6%	16.0%	41.2%	21.9%	7.7%

Source: Bloomberg, Reuters & FG Research

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