Investment Snapshot

for the quarter ended in September 2020

Resurgence of the Indian Economy

Toll free: 1800 102 2355

life.futuregenerali.in

FUTURE GENERALI

TOTAL INSURANCE SOLUTIONS

Quarter gone by for the Indian markets

After a tepid start to the fiscal year 21, with the first quarter being characterized as a quarter of uncertainty, volatility and divergence, the narrative for Q2 FY21 has transitioned to that of 'Optimism and Strong Recovery on multiple fronts' as the path towards normalization has gathered steam since June'20. This has been a culmination of the huge stimulus provided by the government and the central banks of the major economies in the form of rate cuts, quantitative-easing and liquidity-boosting measures, along with a series of unlock measures being unveiled by the Central and State Governments, in a phased manner. Despite the fact that the pandemic continues to grapple the countries all around the world, along with even resurgence of Corona virus cases across Europe and some other parts of the world, its impact on the economy has started to abate as the economies have opened up and production and economic activities have started picking up, with green shoots being conspicuous in the high frequency data.

The country has transitioned, in the quarter, from localized lockdowns to widespread opening up, with very few sectors now under restriction ahead of the festive season, as the COVID infections have started tapering off, towards the fag-end of the quarter. While the measures by RBI (moratorium, credit support to MSME's, TLTRO's etc.) have helped both individuals and institutions endure the liquidity crisis, the measures by the government have helped the nethermost strata to survive the food crisis. All this while, the key silver lining has been the resilient rural demand as the impact of pandemic has been less prominent in rural areas vis-à-vis urban areas, along with increased government rural spend, robust Kharif crop sowing and normal monsoons.

The sharp V-shaped recovery in equity markets witnessed in India and across the world aided by strong liquidity boost (QE and rate cuts) and wide fiscal stimulus, continued in June and July, but took a breather in the month of September'20 largely due to concerns around the emergence of second wave of the virus globally, which brought a respite to the continued optimism path for global equities. After the strong rally of upto 60% from the bottoms across the geographies, the major world economies including US, UK, Japan and India delivered flat or negative returns in the month of September. Indian Equity Benchmark- NIFTY 50 was up 9.2% during Q2 FY21 (48% up from the bottom), while Nifty Midcap 100 and Nifty Small Cap 100 was up, 15.5% and 26.2% respectively, during the same period, highlighting the shift to broader markets from Large Caps. IT and Pharma saw the maximum recovery followed by Auto, while Banks, Financials and FMCG saw the least recovery. FII's were net buyers in the quarter ended Sep'20 ($ 6.6bn) with increased inflows as compared to last quarter ($4.16bn), while their domestic counterparts were net sellers in Q2 FY21. Till date, post the great fall, FII infused back more money than the money withdrawn in Mar'20 ($8.4bn).

Macro-economic and Fixed Income Update

The current global macro narrative is largely revolving around COVID-19, geo-political tensions (US-China or China-India) and the upcoming US elections which has taken the centre-stage and will indeed, be a deciding factor for the way forward for markets. The relation of new US President with China will not only affect the US-China trade but also the China-India tensions. The resurgence in COVID-19 cases, in some regions of Europe, has led to decline in Services PMI in Sep'20 vis-à-vis Aug'20. Going forward, the path of both, the Eurozone and the UK economies, will depend heavily on the path of the virus, as well as on the fiscal policy responses of the governments.

On the domestic macro front, government has announced many reforms, ranging from Agriculture to Defence sector aligned with the main motto of "AtmaNirbhar Bharat" to capture the opportunities in the global supply chain, created due to the pandemic. While the GDP in the first quarter of FY21, nose-dived to -23.9% decline, primarily on account of the strict lockdown that India had as against other countries, it distinctly indicates that the worst is behind and the macro indicators from hereon, have begun to improve in Q2 FY21. IIP numbers continued its pace of improvement, while the manufacturing PMI in September surged to the highest, in over 8 years at 56.8. Cement and Steel production too, is on a rising trend, while both rural and urban unemployment rates decline. The indicators which were slightly concerning, were the elevated levels of inflation due to rise in vegetable prices, owing to supply side disruptions and the stumpy credit growth. Nonetheless, the silver lining for the Indian macros was in the external account, wherein the current account and balance of payments has registered surplus and the foreign exchange reserves touched an all-time high of USD 545 bn in September '20.

With respect to bond markets, Indian bond yields remained flat on the shorter end while increased on the longer end, given the supply overhang due to current fiscal condition and alongside elevated inflation, data pointing towards RBI unlikely to cut rates in the near term. While the MPC continued to keep policy rates unchanged in its August policy meeting, owing to elevated inflation levels, it decided to maintain the accommodative stance as long as necessary to revive growth, while ensuring that inflation remains within the target range going forward. While end of August saw a slew of RBI measures being announced, including Rs.20,000 Cr. of special Open Market Operations (OMO's) and increase in HTM limit for banks from 19.5% to 22%, and strong liquidity, these turned out to be inadequate in the face of high CPI (August reading at 6.7%) and markets continued to be worried about the likely elevated H2 borrowing supply. RBI continued to communicate indirectly to the bond market players in September, through G-Sec (and SDL) auctions and OMO's that it would step in if yields moved significantly higher, and that RBI backstop was still in play.

While in Q2 FY21, the government positively surprised the markets, by sticking to its full-year gross borrowing figure of Rs. 12 lakh Cr. (which was a big overhang for the markets), thereby resulting in H2 G-Sec supply of only Rs. 4.34 lakh Cr., later in October, they revised the borrowing by an additional 1.1 lakh Cr. to compensate the states for GST compensation shortfall. Yields gradually settled into a range with the 10-year closing at 6% level, after rising up to 6.14% during the quarter ended Sep'20 v/s 5.88% in Jun'20.

Macro-economic and Fixed Income Market Outlook

While the near term outlook for the economy continues to be clouded with uncertainties relating to Covid, the medium and long-term outlook remains encouraging. Though COVID-19 continues to hang around, incremental daily cases have peaked out and is on a declining trend now which gives a strong ray of hope to the nation, in terms of both, health and economic recovery. The fear of second wave continues to linger on the economies but nonetheless 'severe lockdown' looks like a story of yesteryear. Albeit GDP growth in Q1 FY21 was highly disappointing, we are considerably certain that the worst is over and the economy is on the path of recovery. After a lull in July'20, activity has picked up, with phased out unlocking in August'20 and the momentum has gathered strong pace in September and October as testified by the high frequency indicators such as PMI's, Auto Sales, E-way Bill Generation, Toll Collection, Electricity Demand, Petrol/Diesel Demand, and GST Collections, which have surprised us positively. The robustness in the output prices for some of the key construction inputs like Steel & Cement, also point to substantial demand recovery in the economy. Besides, the government's continued support to the rural economy, better-than-expected Southwest monsoons, and bumper Kharif crop and an expectation of strong Rabi sowing, should augur well for rural recovery, which will be the key to kick-starting the consumption and growth engines of the economy.

Further, the passage of landmark bills pertaining to Agriculture and Labour Reforms in September 2020, are indeed steps in the right direction to strengthen reform-led growth and are expected to have a long-term impact on growth and productivity. Likelihood of better price realization for farmers and expected private sector participation that can improve farming infrastructure are some positives. Government's thrust on infrastructure spending remains to be firm and is expected to have a multiplier impact on the economy and employment. Further, with the moratorium ending, the RBI's resolution framework would greatly help ease the financial stress in the system and bring about a much smoother recovery. Thus, our conviction in the economic recovery is more firm than ever now, looking at the promising data and we are certain that the consumption and demand environment will improve, aided by government support and reforms from hereon.

From debt market's perspective, while RBI's accommodative stance with easy liquidity conditions and support for growth is likely to persist for some more time until growth picks up, the dilemma of higher inflation v/s weak growth will continue to plague any rate cut decisions in the near term. Nonetheless, the spike in Inflation is transient in nature due to supply-led disruptions and the inflation trajectory is likely to cool off, over a quarter or two, led by lowering food price inflation and favourable base effect, thus ensuring that it will not shift the narrative away from growth for monetary policy. RBI will remain focused on ensuring a non-disruptive borrowing program. Scaling up the size of OMO's, introducing on-tap TLTRO's, extending HTM limits for banks, and introducing OMO's in SDL's are all steps that are aimed at alleviating funding pressures across the economy .On the rates front, we reckon that we have seen the bottom in terms of interest rates and from here on, the yields may remain range-bound until FY21 as it remains supported by various RBI measures, but may eventually start treading higher in tandem with GDP growth, which is likely to pick up further pace in FY22.

Equity Market Outlook

From equity markets standpoint, Indian markets, though volatile, have generated positive returns all through the start of this fiscal year, in line with developed market returns. The market volatility is beginning to recede with the markets becoming more stable. We believe, after the sharp recent recovery, as the markets seem to have taken a breather in Sep'20, incrementally any rise in the markets will be gradual rather than swift. In terms of valuations, we see current valuations especially on trailing P/BV basis to be reasonable and fairly valued. Factors including outcome of US presidential elections, second wave of outbreak in COVID-19 cases in major economies, progress on the vaccine front and announcement of further stimulus packages, could determine the future path of the liquidity-driven rally in the equities, going forward. We are firmly of the opinion that the long-term structural India story is not derailed but has been delayed by a few quarters. Incrementally, the disruption in the global supply offers more opportunities to grow and expand its economy. We remain constructive on India and equities as an asset class.

It's a time-tested fact that markets come back from every correction and eventually, make new highs and that investments made in these tough times have reaped substantial returns, as exemplified during the global 2008 crisis, demonetization etc. This time will be no different and there is no reason for this trend to reverse. Indian Equity markets have bounced back from its off lows in March, at a time when the world is staring at a sharp decline in GDP and slowdown across the globe. This building wave of dichotomy between markets and the macros, sheer exemplifies the forward-looking ability of the markets to 'see beyond the here and now'. The markets appear sanguine that the worst has already passed and is factoring a reasonable recovery in the economy, from here on. The strong hope of recovery hinges on the slew of stimulus and monetary measures already announced by the government and RBI and the additional fiscal measures anticipated to be announced in the near term, which will begin to manifest in the growth numbers. Besides, the key silver lining for India in this entire crisis, has been the opportunity of India emerging as the preferred manufacturing and investment destination, given the efforts of global countries to diversify from China as their manufacturing base. Thus, if you're investing for the horizon of next five - ten years, then your focus should be on these compelling opportunities and the ways to harness it. 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 the next few years.

Indian Macro at a Glance (Monthly Data)

Real Sector	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar -20	Apr-20	May -20	Jun-20	Jul-20	Aug-20	Sep-20
Industrial production (%y/y)	4.6	-1.4	-4.3	-3.8	1.8	0.1	2.1	4.6	-16.7	-55.5	-33.9	-15.8	-10.4	-8.0	
Capital goods (%y/y)	-7.2	-21.4	-20.7	-21.9	-8.6	-18.0	-4.3	-9.5	-38.3	-92.0	-65.2	-37.4	-22.8	-15.4	
Consumer durables (%y/y)	-2.7	-9.1	-9.9	-18.0	-1.5	-5.4	-3.8	-5.8	-36.5	-95.7	-69.4	-34.3	-23.6	-10.3	
Core infrastructure (%y/y)	2.7	0.1	-5.1	-5.8	-0.6	2.1	1.4	7.1	-9.0	-37.9	-21.4	-13.0	-8.0	-8.5	
Automobile sales (%y/y)	-18.7	-23.5	-22.4	-12.8	-12.1	-13.1	-13.8	-19.1	-45.0	-98.0	-84.2	-45.5	-25.5	-1.3	
Manufacturing PMI	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46.0	52.0	56.8
Services PMI	53.8	52.4	48.7	49.2	52.7	53.3	55.5	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8
CPI Inflation (%y/y)	3.1	3.3	4.0	4.6	5.5	7.4	7.6	6.6	5.9	7.2	6.3	6.2	6.7	6.7	7.3
Credit Growth (%y/y)	12.1	10.1	8.6	8.8	6.9	6.7	8.0	6.9	6.1	6.7	5.5	5.4	6.1	5.5	5.3
Deposit growth (%y/y)	10.6	9.7	9.4	10.3	8.3	9.1	11.1	10.2	7.9	9.9	9.7	11.3	12.1	10.9	12.0
GST Collections (In Rs. Crore)	102000	98202	91916	95380	103482	103184	110828	105366	97597	32294	62009	90917	87422	86449	95480
External sector & Market Flows	**Jul-19**	**Aug-19**	**Sep-19**	**Oct-19**	**Nov-19**	**Dec-19**	**Jan-20**	**Feb-20**	**Mar -20**	**Apr-20**	**May -20**	**Jun-20**	**Jul-20**	**Aug-20**	**Sep-20**
Export growth (%y/y)	2.3	-6.0	-6.6	-1.1	-0.3	-1.6	-1.7	2.9	-34.6	-60.3	-36.2	-12.4	-10.2	-12.7	5.3
Import growth (%y/y)	-10.4	-13.4	-13.8	-16.3	-12.7	-8.8	-0.8	2.5	-28.7	-58.6	-52.4	-47.6	-28.4	-26.0	-19.6
Non oil -non gold imports (%y/y)	-2.2	-9.3	-8.9	-10.3	-12.0	25.4	26.6	24.4	-30.5	-53.6	-36.4	-41.4	-29.1	-29.6	-13.3
Trade balance (USD Bn.)	-13.4	-13.5	-10.9	-11.0	-12.1	-11.3	-15.2	-9.9	-9.8	-6.8	-3.1	0.8	-4.8	-6.8	-2.9
Forex reserves (USD Bn.)	428.8	428.6	433.7	445.1	451.3	459.9	471.3	481.3	477.8	481.1	493.6	505.7	534.6	541.3	542.0
Net FII inflows (USD Bn.)	-0.4	-0.9	0.9	2.3	3.2	0.4	0.1	1.3	-15.9	-2.0	-1.0	3.4	0.5	6.7	-0.4
FII equity (USD Bn.)	4.0	-2.5	1.1	1.7	3.5	1.0	1.7	0.3	-8.3	-0.9	1.9	2.9	1.0	6.3	0.4
FII debt (USD Bn.)	2.1	1.6	-0.1	0.5	-0.3	-0.7	-1.6	0.3	-8.1	-1.7	-3.0	-0.2	-0.3	-0.4	-0.8
FDI (USD Bn.)	4.0	2.0	1.9	2.8	2.9	4.3	5.8	2.0	2.5	2.4	2.0	-0.8	3.3		
DII Equity flows (USD Bn.)	3.0	2.9	1.8	0.7	-0.1	-0.2	0.3	2.4	7.5	-0.1	1.5	0.3	-1.3	-1.5	
MF SIP Flows (Rs. Bn)	83.2	82.3	82.6	82.5	82.7	85.2	85.3	85.1	86.4	83.8	81.2	79.2	78.3	77.9	77.9
Crude (Avg. Price)	64.1	59.2	59.9	59.6	61.3	66.4	56.3	50.0	21.5	23.3	31.0	39.9	42.8	44.3	41.7
DXY Index	98.5	98.9	99.4	97.3	98.4	96.5	97.4	98.1	99.0	99.0	98.3	97.4	93.3	92.1	93.9
Rupee (INR/$) Average	68.8	71.4	70.7	70.8	71.7	71.4	71.4	72.2	75.6	76.2	75.7	75.7	75.0	73.4	73.5
US 10Y Yield	2.01	1.50	1.60	1.69	1.78	1.89	1.51	1.15	0.67	0.64	0.65	0.66	0.53	0.70	0.68
India 10Y	6.37	6.56	6.70	6.45	6.47	6.55	6.60	6.37	6.14	6.11	5.76	5.89	5.84	6.12	6.01

Quarterly Data

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4Y20	Q1FY21
Real GDP (YoY%)	6.0	6.8	7.7	7.7	7.1	6.2	5.6	5.8	5.2	4.4	4.1	3.1	-23.9
Real GVA (YoY%)	5.9	6.6	7.3	7.6	6.9	6.1	5.6	5.7	4.8	4.3	3.5	3.0	-22.8
Agriculture	5.9	6.2	5.7	6.5	3.8	2.5	2.0	-0.1	3.0	3.5	3.6	5.9	3.4
Industry	0.6	6.7	7.7	10.3	7.5	4.8	5.0	2.6	4.2	0.5	-0.4	0.0	-33.8
Services	8.4	5.8	7.5	6.1	7.4	7.4	7.4	8.7	5.5	6.5	4.9	3.5	-24.3
Exports	73.1	76.1	77.5	82.2	83.4	83.4	83.1	87.4	82.7	80.0	81.2	76.5	52.0
Export Growth (%)	10	12.9	12.8	6.3	14.0	9.6	7.1	6.3	-0.8	-4.1	-2.2	-12.4	-37.1
Imports	115.1	108.5	121.6	123.8	129.1	133.4	132.4	122.6	128.9	118.1	115.9	111.6	62.0
Import Growth (%)	27	16.7	19.1	15.7	12.2	22.9	8.9	-1.0	-0.2	-11.5	-12.5	-9.0	-51.9
Trade balance	-41.9	-32.5	-44.0	-41.6	-45.7	-50.0	-49.3	-35.2	-46.2	-38.1	-34.6	-35.0	-10.0
Net invisibles	27.0	25.5	30.3	28.6	29.9	30.9	31.2	30.6	31.9	31.8	33.2	35.6	30.0
Current account Balance	-15.0	-7.0	-13.7	-13.1	-15.8	-19.1	-17.7	-4.6	-14.3	-6.3	-1.4	0.6	19.8
Capital account	26.9	16.9	22.5	25.0	5.3	16.3	13.7	19.3	27.9	12.1	22.4	17.4	1.0
FDI	10.6	13.0	11.3	12.6	0.0	7.9	7.3	6.4	13.9	7.4	10.0	12.0	0.0
FPI	7.1	12.4	4.3	6.4	0.0	-1.6	-2.1	9.4	4.8	2.5	7.8	-13.7	1.0
Balance of Payments	11.4	9.5	9.4	13.2	-11.3	-1.9	-4.3	14.2	14.0	5.1	21.6	18.8	19.8
CAD as % of GDP	-2.5	-1.1	-2.1	-1.9	-2.4	-2.9	-2.7	-0.7	-2.1	-1.1	-0.4	0.1	3.9

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
GDP Growth %	8.5	10.3	6.6	5.5	6.4	7.4	8.0	8.3	7.0	6.1	4.2
CPI Inflation Avg	12.3	10.5	8.6	9.9	9.4	6.0	4.9	4.5	3.6	3.4	4.8
Exports (US$bn)	182	256	310	307	319	317	266	280	309	337	314
Imports (US$bn)	301	383	500	502	466	461	396	393	469	518	467
Trade Deficit (US$bn)	-118	-127	-190	-196	-148	-145	-130	-112	-160	-180	-153
Trade Deficit (%of GDP)	-8.6	-7.5	-10.4	-10.7	-8.0	-7.1	-6.2	-4.9	-6.2	-6.6	-5.0
Year End Brent Crude oil	81.3	117.3	123.8	109.3	107.0	53.3	38.7	52.7	69.1	70.3	21.5
Oil Import USD Bn	87.1	106.0	155.0	164.0	164.8	138.3	82.9	87.0	109.1	140.8	130.4
CAD $ Bn	-38.2	-48.1	-78.2	-88.2	-32.4	-26.8	-22.2	-15.3	-48.7	-57.3	-24.7
CAD (% of GDP)	-2.8	-2.8	-4.3	-4.8	-1.8	-1.3	-1.1	-0.7	-1.9	-2.1	-0.9
FDI (US$bn)	18.0	11.8	22.1	19.8	21.6	31.3	36.0	35.6	30.3	30.7	30.0
FII (US$bn)	32.4	30.3	17.2	26.9	4.8	42.2	-4.1	7.6	22.1	-0.6	-0.3
Total BoP (US$bn)	13.4	13.1	-12.8	3.8	15.5	61.4	17.9	21.6	43.6	-3.3	59.5
Fiscal Deficit %	-6.5	-4.8	-5.9	-4.9	-4.5	-4.1	-3.9	-3.5	-3.5	-3.4	-4.6
Foreign Reserves (US$bn)	279	305	294	292	304	342	360	370	425	413	478
Average INR	47.4	45.6	48.1	54.5	60.9	61.2	65.7	67.1	64.5	69.9	71.0
Repo Rate year ending	5.0	6.8	8.5	7.5	8.0	7.5	6.8	6.3	6.0	6.3	4.4
US-10 year end	3.8	3.5	2.2	1.8	2.7	1.9	1.8	2.4	2.7	2.4	0.7
GIND -10 year end	7.83	8.02	8.56	8.01	8.88	7.80	7.40	7.06	7.42	7.35	6.1

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

Market performance

Performance of Indian Equities across Market Caps and Debt benchmarks

Sector	7yr CAGR	5yr CAGR	3yr CAGR	1 year	6 months	3 months
Nifty	10.1%	7.2%	4.7%	-2.0%	30.8%	9.2%
Sensex	10.1%	7.8%	6.8%	-1.6%	29.2%	9.0%
Nifty Midcap Index	13.5%	5.5%	-2.1%	6.0%	45.1%	15.5%
Nifty Smallcap Index	11.4%	2.2%	-8.4%	4.1%	62.0%	26.2%
NIFTY Composite Debt Index	9.7%	8.6%	8.2%	10.4%	4.5%	0.5%

Source: Bloomberg, Reuters & FG Research

Global Indices Performance (%)

	7yr CAGR	5yr CAGR	3yr CAGR	1 year	6 months	3 months
Dow Jones Index (USA)	9.1%	11.3%	7.4%	3.2%	26.8%	7.6%
S&P 500 (USA)	10.4%	11.9%	10.1%	13.0%	30.1%	8.5%
Nikkei 225 (Japan)	16.8%	19.3%	19.8%	39.6%	45.0%	11.0%
Hang Seng (Hong Kong)	7.0%	5.9%	4.4%	6.6%	22.6%	4.0%
FTSE 100 (UK)	0.4%	2.4%	-5.2%	-10.1%	-0.6%	-4.0%
Shanghai Composite Index (China)	-1.4%	-0.7%	-7.3%	-20.8%	3.4%	-4.9%
DAX (Germany)	5.8%	1.1%	-1.3%	10.8%	17.0%	7.8%
iBovespa (Brazil)	5.8%	5.7%	-0.2%	2.7%	28.4%	3.7%
MICEX (Russia)	8.8%	16.0%	8.4%	-9.7%	29.6%	-0.5%

Source: Bloomberg, Reuters & FG Research

FUTURE GENERALI
TOTAL INSURANCE SOLUTIONS

Future Generali India Life Insurance Company Limited (IRDAI Regn. No.: 133) (CIN: U66010MH2006PLC165288). Regd. & Corporate Office address: Future Generali India Life Insurance Co. Ltd, Unit 801 and 802, 8th floor, Tower C, Embassy 247 Park, L.B.S. Marg, Vikhroli (W), Mumbai – 400083 | Fax: 022-4097 6600 | Email: care@futuregenerali.in | Call us at 1800 102 2355 | Website: life.futuregenerali.in I Compliance Code: Comp-Dec-2020_308