Investment Snapshot

For the quarter ended in December 2020

A Year of **Recovery** and **Renewed** Optimism for Markets

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Quarter gone by for the Indian markets

Year 2020 - 'A year of Hope and Despair' began on a note of extreme uncertainty due to Covid, and ended on a note of 'Renewed Optimism' of a strong recovery. The narrative for the year 2020 was largely dominated by Covid-19 and the divergence that ensued, between the real economy and financial markets. The financial markets witnessed an almost uni-directional rise, aided by stimulus measures and the flush of liquidity, while the real economy was ravaged by the COVID storm and driven into a technical recession. However, towards the end of 2020, the economy also started witnessing positive growth impulses, seen in nascent signs of recovery, thanks to the swift and responsive 'financial vaccine' in the form of monetary and fiscal measures. It was again complemented with strong structural reforms such as Agriculture Reforms, Labour Reforms, PLI Scheme and Education Reforms, akin to the 1991 Reforms, having a long-term impact and the potential to drive the economic growth for years to come. The high-point of the quarter gone by, was the humungous rebound in consumption demand, during the festive season, both domestically and globally, and total upliftment of lockdown, throughout the nation and the approval of the vaccine, which gave further re-assurance for re-creation of lost demand.

CY20 has indeed been a remarkable year for the Global and Indian Equity markets which staged a heroic recovery of more than 90% from the March lows. The markets in India and across the world, have touched historic highs due to strong liquidity boost (QE and rate cuts), 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. Although the markets took a breather in the month of October, over fear of second wave of Coronavirus in Europe, before taking off to touch new highs in November and continuing the momentum in December as well. The Indian Equity markets have delivered stronger returns vis-à-vis major world economies, with Nifty 50 returning 84% from the bottoms vis-à-vis Dow Jones and Nikkei returning 65% and 63% respectively. NIFTY 50 was up 24.3% during Q3FY21, while Nifty Midcap 100 and Nifty Small Cap 100 was up, 22.7% and 21.7% respectively, during the same period. In terms of flows, FII's continued to pour money in the country, with in-flows of $19.3bn in the quarter ended Dec'20 vs $6.6bn inflows in prior quarter, while their domestic counterparts continued to sell and were net sellers in Q3FY21 to the tune of $13.9 bn. With this, FII's have infused more in Q3FY21 itself than they withdrew in Mar'20. Infact, India has witnessed the highest FII inflows vs its EM counterparts since the meltdown, which indeed testifies the huge growth potential of India.

Going into CY21, the most coveted event for the markets was "The Union Budget 2022" which was indeed a historic one, leaving no major stones unturned and was indeed, bold in intent and large in its ambition. The government fired on all fronts, delivering a 'Holistic, Forward-thinking and a Pro-Growth Budget', with quintessential policy reforms that will have a long-term impact and the potential to drive the economic growth for at least few years to come. While these pro-growth measures have entailed a higher fiscal deficit, the government has given more importance to growth over fiscal consolidation at this juncture, which was the need of the hour and has chalked out a very different FRBM Roadmap, than what we have seen over the last decade. The Government has finally taken on the mantle of pump priming the growth by focusing on reviving demand, by making investment and by putting more money in the hands of the consumer through Capital spending. Infrastructure took the centre-stage, with setting-up a Development Financial Institution (DFI), with immediate capitalisation of Rs. 20,000 Cr. and was complemented with the bold move of cleaning up of NPA's in the financial system, by creation of Asset Reconstruction C, to transform the Financial Ecosystem. Besides the liberalisation of FDI limits in the Insurance sector to 74%, further testified the Government's conscious efforts to facilitate deeper penetration of Insurance in the country. Clearly, the Equity markets were enthused with the Growth-oriented Budget and reached their new highs, while the Bond markets reacted negatively to higher than anticipated, fiscal deficit and market borrowings and the bond yields inched up by 12-15 bps.

Macro-economic and Fixed Income Update

The narrative for markets in CY20 was largely dominated by COVID-19 Pandemic, geo-political tensions (US-China Trade War or China-India border dispute, US North Korean skirmishes), and change of guards in the US Elections which lead to unprecedented uncertainty & volatility in the markets. The biggest development globally, in the last quarter, was the approval of Coronavirus vaccine (at least 8 countries have begun or granted approval for the vaccination) which provides the much-needed optimism and hope to people across the world, followed by the win of Joe Biden in the US Presidential Elections which was also perceived positively around the world. Incrementally, the GDP forecasts for major economies have seen improvement. Meanwhile, the reinforcing of lockdown in UK due to the onset of new strain of Coronavirus which is apparently harsher, and had re-instated the COVID fear among the people and nations.

On the domestic macro front, initially when the Covid crisis started, most of the countries in the West believed that it will be an ordeal for a country like India to deal with the crisis. Fast forward to today, and India has emerged much stronger and resilient than most of its Western counterparts. All the indicators have turned favourable to a great extent as exemplified by the Q2FY21 GDP, which came at -7.5% vs -23.9% in Q1FY21. The high frequency indicators are also pointing towards green shoots of recovery, as visible in IIP which is showing signs of recovery, aided by manufacturing and consumer goods, manufacturing and services, PMI expanding and recording a high of 58.9 and 54.1 after contracting sharply in the initial months of lockdown, and Auto and Passenger vehicle sales growth turning green. All the major commodity prices excluding coal, are sky-rocketing with the most rise visible in Copper and Steel prices, followed by Aluminium and Zinc which is a strong signal of economic recovery, especially industrial production. Exports and imports growth both stabilized in Nov'20, at low negative values, compared to sharp decline in previous quarters. All these factors adds credence to our belief that the damage to the economy, due to Covid, is not as severe as was being perceived by a large section of the markets.

With respect to Bond markets, the year CY20 saw a loose monetary policy stance by RBI in the backdrop of Covid, with cumulative repo rate cuts of 115 bps and direct and indirect massive liquidity injection to the tune of Rs. 11 trillion. With RBI's monetary policy stance, infusion of system liquidity and maintaining easing financial conditions, the markets have stabilized, both in terms of interest rates treading downwards and credit spreads compressing. This has aided the overall sentiment in the Fixed Income markets including Corporate Bonds, despite the large supply of Government borrowing. While the flush in system liquidity and the huge Forex intervention by the RBI, led the short-end rates move below the operational policy rates, the upside on the long-end was capped by various tools including Operation Twist, OMO purchases, etc. While being cognizant of the elevated inflation levels, the MPC kept the policy rates unchanged in its December policy. It remained committed to maintain its accommodative stance through FY21 and in some part of FY22, to support the borrowing program and revive growth, on a sustainable basis. In CY21 bond yields breached the 6% mark in response to the Expansionary Budget which pegged the borrowings at higher than anticipated levels and deferred the fiscal consolidation glide path to 4.5% in FY2026.

Macro-economic and Fixed Income Market Outlook

From Macro outlook standpoint, all the uncertainties pertaining to COVID-19, now seem to be waning and we are more sanguine about the future outlook both, from near-term and long-term perspective. While the fear of second wave and the new Covid strain still looms, 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. Post the highly disappointing GDP growth in Q1FY21, the growth improved in Q2FY21 and is on an improving trajectory. The quarter gone by, saw a strong pick-up in activity levels, supported majorly by the onset of festive season and complete unlocking of the economy, as testified by the high frequency indicators. 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. While it is conspicuous that India will see a rebound in FY22, owing to the base effect and normalisation, what's more important is the growth in Post-Covid Era (beyond FY22). Budget FY22 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. Besides, with the room for further monetary easing closing in, driven by the rise in commodity prices & policy normalisation, government's fiscal policy took the baton in 2021.

Strong aggression from the side of the government is conspicuous with the Pro-growth measures announced, in terms of capital spending towards Infrastructure, Healthcare, Financial Sector Reforms, along with prior policy announcements viz.- Atma-nirbhar Bharat, Production-linked Incentive (PLI) and National Infrastructure Pipeline and successful implementation of the same, would start manifesting in the growth numbers. We see a structural push to manufacturing, coming from the China+1 shift and the successful PLI schemes across the announced sectors. With Government's efforts to provide the augment investments, large corporations set to make investments in the country, by setting up their manufacturing base. This will culminate into huge employment opportunities for the country. Thus, our conviction in the economic recovery is now reinforced, much more than ever before and that the consumption and demand engines are set to improve, aided by Government support and Reforms, from here-on.

From the Debt market perspective, the window for a rate cut has almost shrunk in FY22 given the high market borrowings, concerns over inflation and move towards normalizing liquidity conditions by the RBI, which could push up the market yields. Nonetheless, there could be a positive surprise on the Tax Revenues' front if Tax buoyancy picks up, as the forecasts remain conservative in the budget. We believe RBI will continue with its yield management tools, to keep borrowing costs, under check. RBI's approach will continue to be less dovish but will maintain status quo on the rates front and continue supporting the Bond market, with unconventional policy measures such as 'Operation Twist', Outright OMO purchases etc. in the medium-term. RBI will likely maintain its accommodative stance, given the output gap still exists and growth is still in the negative territory. It will also likely stay nimble-footed, to maintain financial markets stability, should there be bouts of high volatility, given the 2nd wave & 3rd wave of the Coronavirus. On the rates front, we continue to reckon that we have seen the bottom, in terms of interest rates and from here on, the yields may eventually start treading higher as liquidity starts normalizing, economy sees a V-shaped recovery, inflation stays elevated and borrowing pressure continues. The 10Y Gsec yields are likely to start inching up gradually. We will need to watch out for the withdrawal of excess liquidity from the system and also the borrowing calendar which is expected to remain large. Also, we need to be careful of the ongoing commodity rally globally which can have spill-over effects, domestically and that will create some tough questions for RBI, as far as the "Accommodative" stance is concerned.

Equity Market Outlook

From Equity markets' standpoint, Indian markets, though volatile, have indeed delivered better returns vs developed markets from their lows, thus reflecting the inherent strong fundamentals of the economy. With market volatility receding and after the sharp recent run up, we reckon incrementally, any rise in the markets will be gradual, rather than swift. Going into 2021, the key themes driving the markets would be stimulus and policy reform-led growth restoration, along with rebound in cyclical sectors and demand resurgence in the domestic economy. Besides, the ample global liquidity could further support risk sentiments and flows to emerging markets, including India for a few months until liquidity starts normalizing. In terms of valuations, we see current valuations especially on trailing P/BV basis to be reasonable and fairly valued. The long-(term structural India story has begun to unfold after a small setback, with the strong policy reforms announced in the Budget 2022. 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.

The markets are sanguine of the impending growth and is rather factoring in a sharp V shape recovery in the economy, from here on. The strong hope of recovery hinges on the slew of stimulus and monetary measures announced by the Government and RBI and the fiscal measures announced in the budget, 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.

India Macro Data at a Glance (Monthly Data)

Real Sector	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Industrial production (%y/y)	0.1	2.1	4.6	-16.7	-57.3	-33.4	-15.8	-10.8	-7.4	0.5	4.2	-1.9	
Capital goods (%y/y)	-18.0	-4.3	-9.5	-38.3	-92.7	-65.9	-37.4	-22.8	-14.8	-1.3	3.5	-7.1	
Consumer durables (%y/y)	-5.4	-3.8	-5.8	-36.5	-95.7	-70.3	-34.3	-23.0	-9.6	3.4	18.0	-0.7	
Core infrastructure (%y/y)	2.1	1.4	7.1	-9.0	-37.9	-21.4	-12.4	-7.6	-6.9	0.6	-0.9	-1.4	-1.3
Automobile sales (%y/y)	-13.1	-13.8	-19.1	-45.0	-98.0	-84.8	-43.0	-18.6	-1.3	7.2	10.5	7.2	
Manufacturing PMI	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3	56.4
Services PMI	53.3	55.5	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8	54.1	53.7	52.3
CPI Inflation (%y/y)	7.4	7.6	6.6	5.9	7.2	6.3	6.2	6.7	6.7	7.3	7.6	6.9	4.6
Core CPI (%y/y)	3.7	4.2	4.1	4.0	4.8	5.0	5.3	5.7	5.8	5.7	5.8	5.8	5.7
Credit Growth (%y/y)	6.7	8.0	6.9	6.1	6.7	5.5	5.4	6.1	5.5	5.1	5.1	5.6	5.8
Deposit growth (%y/y)	9.1	11.1	10.2	7.9	9.9	9.7	11.3	12.1	10.9	10.5	10.1	9.7	10.8
Repo rate (%y/y)	5.2	5.2	5.2	4.4	4.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
GST Collections (In Rs. Crore)	103184	110828	105366	97597	32294	62009	90917	87422	86449	95480	105155	104963	115000
Export growth (%y/y)	-1.6	-1.7	2.9	-34.6	-60.3	-36.2	-12.4	-10.2	-12.7	6.0	-5.1	-9.1	-0.8
Import growth (%y/y)	-8.8	-0.8	2.5	-28.7	-58.6	-52.4	-47.6	-28.4	-26.0	-19.6	-11.5	-13.3	7.6
Non oil-non gold imports (%y/y)	25.4	26.6	24.4	-30.5	-53.7	-34.5	-42.0	-30.4	-29.7	-12.6	-4.9	-1.7	8.0
Trade balance (USD Bn.)	-11.3	-15.2	-9.9	-9.8	-6.8	-3.6	0.6	-4.8	-6.8	-2.7	-8.7	-10.0	-15.7
Forex reserves (USD Bn.)	459.9	471.3	481.3	477.8	481.1	493.6	505.7	534.6	542.9	544.7	560.2	574.8	580.8
Net FII inflows (USD Bn.)	0.4	0.1	1.3	-15.9	-2.0	-1.0	3.4	0.5	6.7	-0.2	3.0	8.5	9.6
FII equity (USD Bn.)	1.0	1.7	0.3	-8.3	-0.9	1.9	2.9	1.0	6.3	-1.1	2.7	8.1	8.4
FII debt (USD Bn.)	-0.7	-1.6	0.3	-8.1	-1.7	-3.0	-0.2	-0.3	-0.4	0.5	0.2	-0.2	0.6
FDI (USD Bn.)	4.3	5.8	2.0	2.5	2.3	-2.0	-0.8	3.2	17.7	2.4	4.6		
DII Equity flows (USD Bn.)	-0.2	0.3	2.4	7.5	-0.1	1.5	0.3	-1.3	-1.5	0.0	-2.4	-6.5	-5.1
MF SIP Flows (Rs. Bn)	85.2	85.3	85.1	86.4	83.8	81.2	79.2	78.3	77.9	77.9	78.0	73.0	84.2
Crude (Avg. Price)	66.4	56.3	50.0	21.5	23.3	31.0	39.9	42.8	44.3	41.1	40.5	43.2	49.9
DXY Index	96.5	97.4	98.1	99.0	99.0	98.3	97.4	93.3	92.1	93.9	94.0	91.9	89.9
Rupee (INR/$) Average	71.4	71.4	72.2	75.6	76.2	75.7	75.7	75.0	74.7	73.5	73.5	74.3	73.6
US 10Y Yield	1.89	1.51	1.15	0.67	0.64	0.65	0.66	0.53	0.70	0.68	0.87	0.84	0.91
India 10Y	6.55	6.60	6.37	6.14	6.11	5.76	5.89	5.84	6.12	6.01	5.88	5.91	5.87

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

Quarterly Data

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4Y20	Q1FY21	Q2FY21
Real GDP (YoY%)	7.7	7.7	7.1	6.2	5.6	5.8	5.2	4.4	4.1	3.1	-23.9	-7.5
Real GVA (YoY%)	7.3	7.6	6.9	6.1	5.6	5.7	4.8	4.3	3.5	3.0	-22.8	-7.0
Agriculture	5.7	6.5	3.8	2.5	2.0	-0.1	3.0	3.5	3.6	5.9	3.4	3.4
Industry	7.7	10.3	7.5	4.8	5.0	2.6	4.2	0.5	-0.4	0.0	-33.8	0.1
Services	7.5	6.1	7.4	7.4	7.4	8.7	5.5	6.5	4.9	3.5	-24.3	-11.1
Exports	77.5	82.2	83.4	83.4	83.1	87.4	82.7	80.0	81.2	76.5	52.3	75.6
Export Growth (%)	12.8	6.3	14.0	9.6	7.1	6.3	-0.8	-4.1	-2.2	-12.4	-36.8	-5.5
Imports	121.6	123.8	129.1	133.4	132.4	122.6	128.9	118.1	115.9	111.6	62.3	90.4
Import Growth (%)	19.1	15.7	12.2	22.9	8.9	-1.0	-0.2	-11.5	-12.5	-9.0	-51.7	-23.5
Trade balance	-44.0	-41.6	-45.7	-50.0	-49.3	-35.2	-46.2	-38.1	-34.6	-35.0	-10.8	-14.8
Net invisibles	30.3	28.6	29.9	30.9	31.2	30.6	31.9	31.8	33.2	35.6	30.0	30.3
Current account Balance	-13.7	-13.1	-15.8	-19.1	-17.7	-4.6	-14.3	-6.3	-1.4	0.6	19.2	15.5
Capital account	22.5	25.0	5.3	16.3	13.7	19.3	27.9	12.1	22.4	17.4	1.0	15.4
FDI	11.3	12.6	0.0	7.9	7.3	6.4	13.9	7.4	10.0	12.0	-0.8	24.6
FPI	4.3	6.4	0.0	-1.6	-2.1	9.4	4.8	2.5	7.8	-13.7	0.6	7.0
Balance of Payments	9.4	13.2	-11.3	-1.9	-4.3	14.2	14.0	5.1	21.6	18.8	19.8	31.6
CAD as % of GDP	-2.1	-1.9	-2.4	-2.9	-2.7	-0.7	-2.0	-0.9	-0.2	0.1	3.8	2.4

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

Yearly Data

	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
GVA growth %				5.4	6.1	7.2	8.1	8.2	7.2	6.6	3.9
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
WPI Inflation Avg	4.7	9.5	8.8	7.0	5.3	0.6	-3.4	2.2	3.0	4.8	1.7
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
Brent Crude oil prices year ending	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
Capital account balance (US$bn)	51.6	63.7	67.8	89.3	48.8	89.3	41.1	36.5	91.4	54.4	83.2
FDI (US$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$bn)	279	305	294	292	304	342	360	370	425	413	478
Rupee (INR/$) Average	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	6.14

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

Market Performance

Performance of Indian Equities across Market Caps and Debt Benchmarks

Sector	7 year CAGR	5 year CAGR	3 year CAGR	1 year	6 months	3 months
Nifty	12.1%	12.0%	9.9%	14.9%	35.7%	24.3%
Sensex	12.3%	12.8%	11.9%	15.8%	36.8%	25.4%
Nifty Midcap Index	14.5%	9.2%	-0.5%	21.9%	41.7%	22.7%
Nifty Smallcap Index	11.1%	4.6%	-8.0%	21.5%	53.6%	21.7%
NIFTY Composite Debt Index	9.9%	9.0%	9.7%	11.9%	3.3%	2.8%

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)	9.16%	11.93%	7.38%	7.25%	18.57%	10.17%
S&P 500 (USA)	10.66%	12.94%	12.00%	16.26%	21.15%	11.69%
Nikkei 225 (Japan)	7.73%	7.59%	6.43%	16.01%	23.13%	18.37%
Hang Seng (Hong Kong)	2.25%	4.44%	-3.09%	-3.40%	11.48%	16.08%
FTSE 100 (UK)	-0.62%	0.69%	-5.63%	-14.34%	4.71%	10.13%
Shanghai Composite Index (China)	7.34%	-0.38%	1.64%	13.87%	16.36%	7.92%
DAX (Germany)	5.31%	5.01%	2.03%	3.55%	11.44%	7.51%
iBovespa (Brazil)	12.71%	22.38%	15.92%	2.92%	25.21%	25.81%
MICEX (Russia)	11.83%	13.30%	15.95%	7.98%	19.90%	13.19%

Source: Bloomberg, Reuters & FG Research

BEWARE OF SPURIOUS PHONE CALLS AND FICTITIOUS/FRAUDULENT OFFERS

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