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Macro-economic developments

- On the global front, non-farm payrolls in the United States rose by only 103,000 in March 2018, much lower than market expectations of around 193,000. The unemployment rate stayed steady at 4.1%.
- As widely expected, the US Fed kept rates unchanged at 1.50-1.75% in its May 2, 2018 meeting. It also added that inflation had moved close to its target, and that on a 12-month basis is expected to run near the Committee's 2% objective over the medium term. The committee also downplayed a recent slowdown in economic and job growth, saying activity had been expanding at a moderate rate and job gains, on average, had been strong in recent months.
- India's trade deficit widened to $13.69 billion in the month of March 2018 (up 28.6%YoY) after it had narrowed to $12 billion in the month of Feb 2018. Exports fell by 0.7%YoY in March 2018, while imports grew 7.1%YoY, mainly due to rise in oil imports. For FY18, exports grew 9.8%YoY and imports grew by a strong 19.6%YoY, leaving a trade deficit of $156.83 billion.
- Index of Industrial Production (IIP) growth came in at 7.1%YoY in Feb 2018 compared to 7.4%YoY in the previous month—led by Manufacturing sector (78% weight in index), where growth was 8.7%YoY in Feb 2018. IIP for FYTD 18 (April – Feb 2018) improved to 4.3%YoY, compared to 4.7% in the year ago period.
- CPI headline inflation fell to 4.3%YoY in Mar 2018 from 4.4% in Feb 2018, primarily due to fall in food prices. The Consumer Food Price Index inflation fell to 2.8%YoY in Mar 2018 from 3.3%YoY in Feb 2018. However, core inflation (ex food & fuel) rose to ~5.2%YoY in Mar 2018 from 5%YoY in Feb 2018.
- Brent crude price breached the $75 mark and closed the month of April up 7%, at USD 75.17/barrel.
- INR closed the month down 2.3% at INR66.66/USD, on the back of foreign outflows and rising oil prices—raising concerns on current account deficit.

Equity market developments and Outlook

- Equity markets surged during the month of April, after witnessing a correction in the previous month. The benchmark Nifty 50 index fell 6.2%. Mid/small-cap stocks outperformed their large-cap peers, with the Nifty Midcap 50 & NSE Smallcap 100 indices closing with handsome gains of 9.8% and 7.7% respectively.
- On the sectoral front, technology was the top performer during the month, with BSE IT index closing with a gain of 12.1%, with the rupee depreciating, and some good results from some IT majors. The other outperforming sectors in April were FMCG, realty, healthcare and auto. Meanwhile, the Oil & gas, PSU and consumer durables sectors underperformed during the month.
- Foreign portfolio investors (FPIs) registered a net outflow of ₹ 6,468 crore in April, after witnessing a robust inflow in the previous month.
- Domestic Institutional Investors (DIIs) registered a net inflow of ₹ 8,511 crore for the month of April, which was primarily contributed by Mutual Funds, as Life Insurance Funds registered net outflows during the month.
- Global markets closed mixed during the month. The MSCI World index and MSCI Emerging Market indices returned 1.0% and -0.6% respectively. In the US, the S&P 500 index closed flat. Within Europe, the CAC 40 index (France) and the FTSE 100 index (UK) were the top performers and returned 6.8% and 6.4% respectively. Within Asia, India was one of the top performers during the month, followed by Singapore, while China underperformed—with the benchmark Shanghai Composite index returning -2.7%. Meanwhile Russian market saw large losses with the RTSI index falling 7.6% in April, contributed by US sanctions on Russia's top aluminum producer Rusal, and speculation of further sanctions.
- Corporate earnings so far for Q4 FY18 have been reasonably good. Economic growth & corporate earnings growth picking up bodes well for equities. However, with valuations above the long term average, investors need to temper their return expectations in the short term from equities, compared to the past few years. The long term story for equities still remains intact, especially for those investors who are investing in a systematic manner, and they should continue with their investments.
- We prefer large-cap equities to small/mid-cap equities, with valuations being at significant premium in the latter segment presently. Slightly risk-averse investors can also look at asset allocation and hybrid funds.
- An eye needs to be kept on international crude oil prices, and global monetary policy and its impact on global bond yields, as it can cause uncertainty in the future.

Fixed Income market developments and Outlook

- Bond yields were volatile during the month of April. In the beginning April, bond yields fell sharply after the RBI gave dovish comments on inflation, and cut its inflation forecast for both H1 & H2 FY19. The 10 year benchmark bond yield fell to around 7.1% from 7.40% at the end of March 2018. However, bond yields hardened later, substantially on the back of rising crude oil prices, rising US bond yields, depreciating rupee, and hawkish comments in RBI April policy minutes from some monetary policy committee (MPC) members. The Indian 10 year bond yield finally closed the month at 7.77% - up 37 bps.
- Meanwhile in April, the US 10 year bond yield breached the 3% mark (highest level since 2014), and the 2 year bond yield (which is more susceptible to rate hikes) touched a 10-year high.
- In its April monetary policy review, the RBI kept rates unchanged as widely expected. However, it became dovish on inflation, by cutting estimates for H1 & H2 FY19. CPI inflation forecast for H1 FY19 was cut to 4.7-5.1% (from 5.1-5.6% in Feb policy). CPI inflation forecast for H2 FY19 was cut to 4.4% (from 4.5-4.6% in Feb policy). At the same time, RBI also highlighted various upside risks to inflation.
- The central bank also said that that GDP growth for India is forecasted to increase from 6.6% (RE) in FY18 to 7.4% in FY19, helped by revival in investment activity and global growth (which will give boost to exports & fresh investments).
- However, the minutes of the policy released later in April indicated hawkish comments from some of the MPC members, sending conflicting signals, and putting upward pressure on bond yields.
- In early April, the RBI increased the FPI investment limits in central government securities by 0.5%; to 5.5% of outstanding stock of securities in 2018-19, and 6% of outstanding stock of securities in 2019-20. The FPI limit in state development loans (SDLs) would remain unchanged at 2% of outstanding stock, and on corporate bonds, the FPI investment will be fixed at 9% of outstanding stock. This all, should cumulatively result in an increase in FPI debt investment limit of more than ₹1 lakh crore in FY 2018-19. Also, later in the month, the RBI relaxed the FPI investment in corporate bonds to a minimum residual maturity of one year, from three years earlier.
- Foreign Portfolio Investors (FPIs) saw the pace of outflows picking up in April in the debt segment to ₹11,868 crore, compared to a net outflow of ₹7,298 crore in the previous month.
- On the policy front, we expect the RBI to maintain a pause on policy rates in the coming quarter, while being data dependent going forward.
- In the fixed income markets, we see some uncertainties like crude oil, inflation, weaker rupee and global monetary policy tightening. Therefore we prefer the shorter to medium term end of the yield curve.

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