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### Macro-economic developments

- On the global front, non-farm payrolls in the United States rose by 164,000 in April 2018, lower than market expectations of around 192,000. However, the unemployment rate fell to an 18-year low of 3.9% in April, compared to 4.1% in the previous month.
- The US Fed May 2018 meeting minutes released in late May, emphasized the “symmetric” nature of its 2% inflation target in keeping interest rates unchanged. The use of the “symmetric” term was interpreted by market participants that perhaps the rise of inflation above the 2% target, may not elicit a much aggressive pace of monetary tightening. Also, Fed fund futures indicated that expectations of 4 rate hikes in 2018 dropped considerably post the release of the minutes. The US 10 year bond yield fell from an intra-month high of 3.11%, to finally close the month of May at 2.86%.
- India’s GDP growth for Q4 FY18 came in above expectations at 7.7%YoY, on the back of gross fixed capital formation (or investments), which registered a growth of more than 14.4%YoY in Q4FY18, compared to negative growth YoY in the corresponding quarter a year back (Q4 FY17). Private consumption growth also picked up to 6.7%YoY in Q4 FY18. GVA growth for Q4 FY18 picked up to 7.6%YoY, helped by strong growth in manufacturing and construction sectors. With that, GDP and GVA growth for full FY18 came in at 6.7% and 6.5% respectively, compared to CSO’s GDP and GVA forecast for FY18 at 6.6% and 6.4% respectively.
- India’s trade deficit remained stable in the month of April at \$13.7 billion, compared to \$13.2 billion in the year ago period, primarily due to seasonality, as a sequential drop in exports/imports is usually seen in April. Exports were up 5%YoY in April, while imports were up 4%YoY.
- Index of Industrial Production (IIP) growth came in below expectations at 4.4%YoY in March 2018 versus 7.0%YoY in the previous month. This was primarily due to manufacturing sector (has ~78% weight in IIP), where growth fell to 4.4%YoY in March versus a robust 8.5%YoY growth in the previous month. IIP growth for FY18 stood at 4.3%YoY, compared to 4.5%YoY in the previous fiscal year.
- CPI headline inflation rose to 4.6%YoY in April 2018, from 4.3%YoY in March 2018, due to rise in housing and core inflation (ex food & fuel). Core inflation rose to ~6%YoY in April 2018 from 5.2%YoY in March 2018.
- Brent crude price breached the \$80/barrel psychological barrier intra-month, and finally closed the month at USD 77.59/barrel – up ~3%.
- INR breached the 68/USD mark intra-month, but later strengthened on RBI intervention and falling crude oil prices, and finally closed the month at 67.41/USD—down around 1%.

### Equity market developments and Outlook

- Equity markets were volatile during the month amidst rising crude prices, political uncertainty in Karnataka, and some disappointing Q4 results. The benchmark Nifty 50 index closed the month flat, while mid/small-cap stocks fell significantly, with the Nifty Midcap 50 and the Nifty Smallcap 100 indices closing the month with losses of 8.2% and 6.7% respectively. Other sectors which underperformed and closed the month with large losses were pharma, realty and consumer durables. Meanwhile, oil & gas, FMCG and IT sectors relatively outperformed during the month.
- Foreign portfolio investors (FPIs) outflows accelerated to a net outflow of around ₹ 9,000 crore, on the back of rupee volatility and

global risk aversion, esp. in some emerging markets.

- Domestic Institutional Investors (DIIs) registered a strong net inflow of around ₹ 15,000 crore for the month of May, which was primarily contributed by Mutual Funds, and Life Insurance Funds also registered net inflows during the month.
- Global markets closed mixed during the month. The MSCI World index closed the month with a gain of 0.3%, while the MSCI Emerging Market index returned -3.8%, on the back of some global risk aversion and EM currency volatility. In the US, the S&P 500 index closed with a gain of 2.2%. Within Europe the FTSE 100 index (UK) was the top performer and returned 2.3% during the month. Within Asia, Taiwan, China and India were among the top performers in May. Meanwhile, within major emerging markets, Brazil, Mexico, Malaysia and Philippines registered large losses during the month.
- Corporate earnings so far for Q4 FY18 have been above or in-line with expectations in majority cases; but at an aggregate level has been below expectations, mainly dragged down by PSU and Corporate banks. However, we expect FY19 corporate earnings to continue the upward trajectory, and be robust, helped to some extent by lower base, and also recovery in earlier underperforming sectors.
- Even though the micro picture in India is improving, we are seeing some headwinds on the macro-side—due to rising crude oil prices, unwinding of global easy monetary policy and rising interest rates.
- However, economic growth is showing signs of recovery, and this should bode well for equities in the long term. Investors should continue to invest systematically in equities, with our preference being for large-cap funds.

### Fixed Income market developments and Outlook

- Bond yields were volatile, and rose during the month on the back of rising crude oil prices, higher inflation (esp. core inflation) for April 2018, depreciating rupee, and some tightening of liquidity. The Indian 10 year bond yield finally closed the month at 7.83% - up 6 bps. Short term rates hardened more, with Commercial Paper (CP) & Certificate of Deposit (CD) rates rising sharply during the month.
- In early May, yields had fallen, as RBI announced the first Open Market Operation (OMO) purchase of the fiscal year at ₹ 10,000 crore.
- Fiscal deficit data released at the end of the month showed that India managed to achieve its revised fiscal deficit target of 3.5% for FY18. In this year’s Union budget, the government had revised the fiscal deficit target for FY18 to 3.5% from 3.2% earlier. In absolute terms, the fiscal deficit was ₹ 5.9 trillion or 99.5% of the budget estimate. A fiscal surplus of more than a trillion rupees in March 2018 led to this achievement.
- With volatility in the rupee, Foreign Portfolio Investors (FPIs) saw the pace of outflows picking up further in the debt segment, in May, to ₹ 17,822 crore, compared to ₹ 11,868 crore in the previous month.
- In its June 6, 2018 monetary policy review, the RBI hiked rates by 25 bps (with all MPC members voting for a hike), although it maintained its policy stance at ‘Neutral’. CPI Inflation forecast was revised marginally upwards by around 15 bps to 4.8% in FY19—with risks to the upside, although the positive point was that GDP growth forecast for FY19 was maintained at 7.4%, with risks evenly balanced.
- With RBI keeping its policy stance unchanged at ‘neutral’, we feel that future rate action and policy stance will continue to be data dependent, and especially track the course of inflation & oil price trajectory, and global monetary policy events. We continue to prefer the shorter end of the yield curve at this juncture.