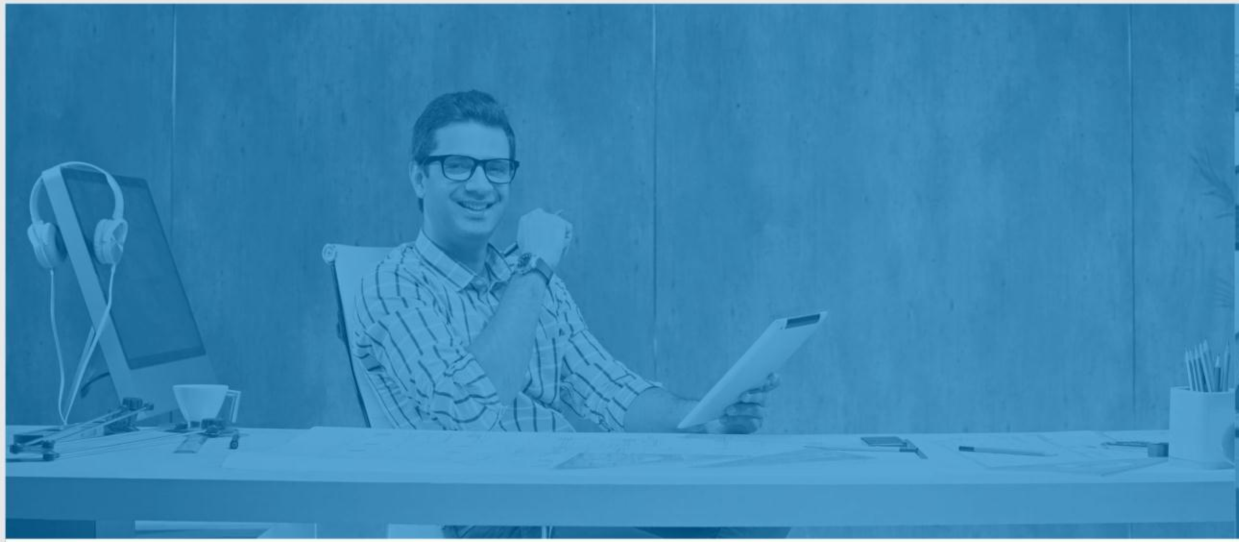
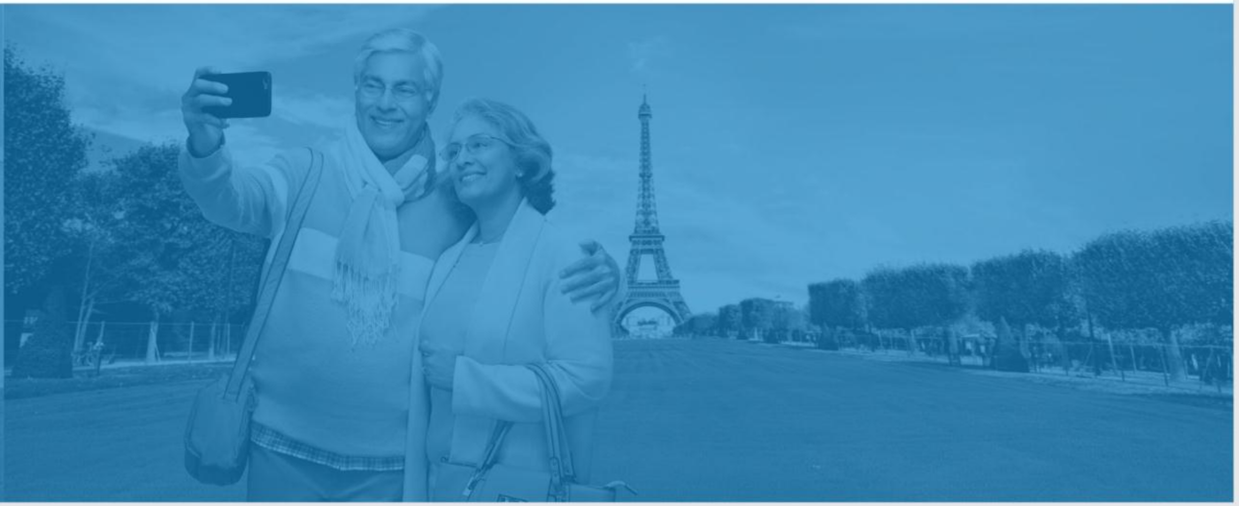



Market & Macro Review: Headwinds turn into Tailwinds lately

November 2018

LIFE GOALS. **DONE.**

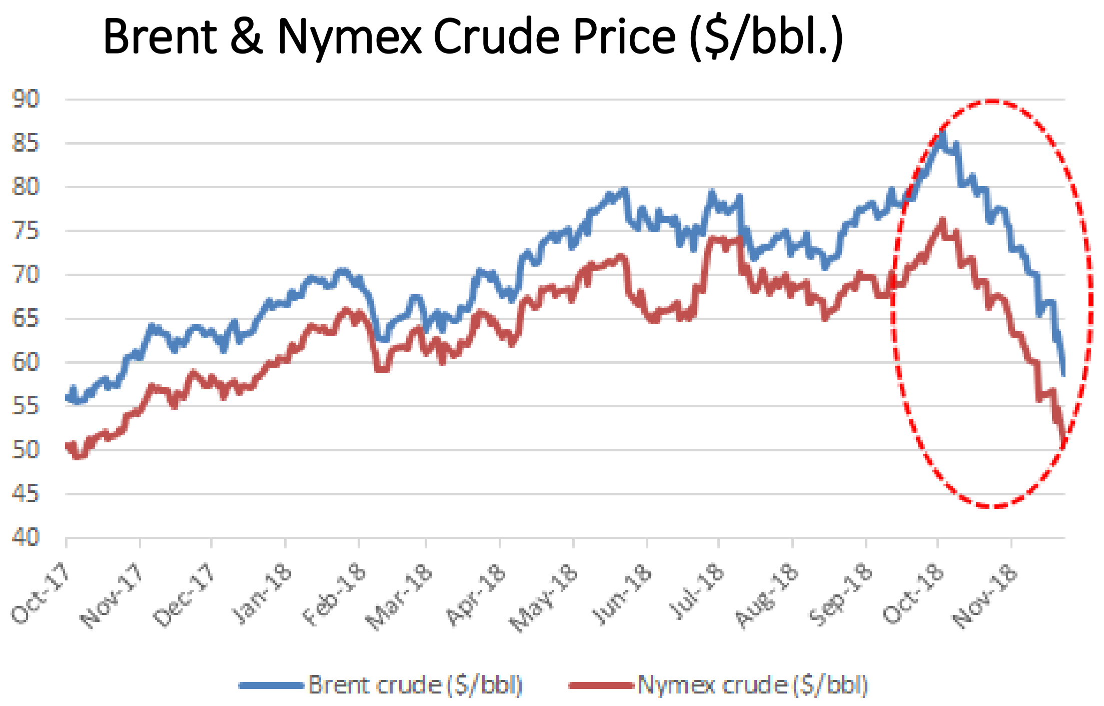
BAJAJ | Allianz

Some of the earlier headwinds have stabilized now

Crude	• Crude oil prices have fallen sharply
Rupee	• Rupee has also stabilized, and appreciated lately
Foreign flows	• After seeing large outflows in the past few months, foreign outflows have slowed down, and become positive lately
Valuations	• After the recent correction, valuations (P/E) have become more reasonable, particularly in the mid/small-cap space
Credit & Liquidity Crunch	• After the IL&FS credit default, the govt. & RBI have taken various measures, and the situation has stabilized now. Fear of contagion risk has reduced
Interest Rates & Bond Yields	• With inflation softening and coming below expectations, and with crude prices falling sharply, the chances of a rate hike by RBI in the near term has reduced. Bond yields have also softened significantly from their highs

Crude has fallen off a cliff recently



Source: Bloomberg

- Crude prices have fallen very sharply, with Brent crude failing from a recent high of around $86/bbl in early October to below the $60/bbl mark recently. This has been helped by easing sanctions on Iran, increasing crude production, and rising inventories.
- This a boon for India, which is a large net oil importer, and oil imports account for around 80% of domestic oil demand. Will help to mitigate earlier concerns on current account deficit & inflation.

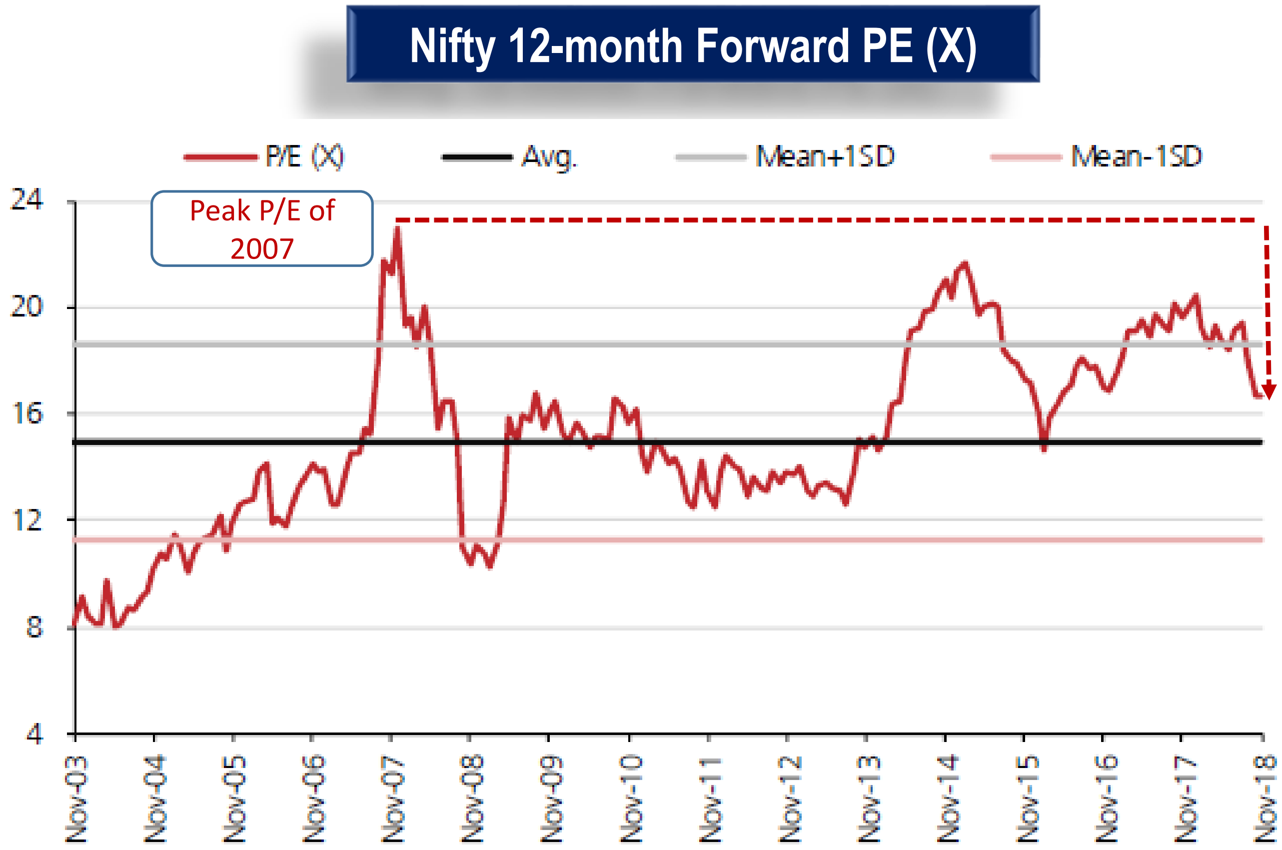
The rupee has also recovered from its life-time lows, and stabilized lately

Peformance of Various Currencies against USD (in %)					
Name	MTD	YTD	1 Yr	3 Yrs	5 Yrs
Hong Kong Dollar	0.2	-0.1	-0.2	-0.3	-0.2
Japanese Yen	0.1	-0.1	-1.4	2.9	-2.1
Thai Baht	0.3	-1.4	-1.1	2.8	-0.7
Singapore Dollar	0.7	-2.8	-2.1	1.0	-1.9
Malaysian Ringgit	-0.2	-3.5	-2.1	0.9	-5.2
Pound Sterling	0.2	-5.3	-3.7	-5.4	-4.6
Euro	0.1	-5.5	-4.2	2.2	-3.5
Yuan Renminbi	0.5	-6.2	-5.2	-2.7	-2.6
Indonesian Rupiah	4.6	-6.7	-7.1	-1.9	-4.3
Australian Dollar	2.0	-7.6	-5.2	0.2	-4.6
Indian Rupee	**4.2**	**-10.0**	**-8.9**	**-2.1**	**-2.4**
South African Rand	6.5	-10.7	0.3	0.5	-6.2
Brazilian Real	-2.7	-13.1	-15.3	-0.9	-9.7
Russian Ruble	-0.8	-13.1	-11.8	-0.4	-13.1
Pakistan Rupee	-1.1	-17.6	-21.2	-7.6	-4.3
Turkish Lira	6.0	-28.3	-25.8	-18.7	-17.6
Argentine Peso	-1.6	-48.7	-52.6	-35.9	-30.2

Source: Morningstar Direct. Data as of 23rd Nov 2018, and sorted on the basis of YTD Return. Returns greater than 1 year are annualised

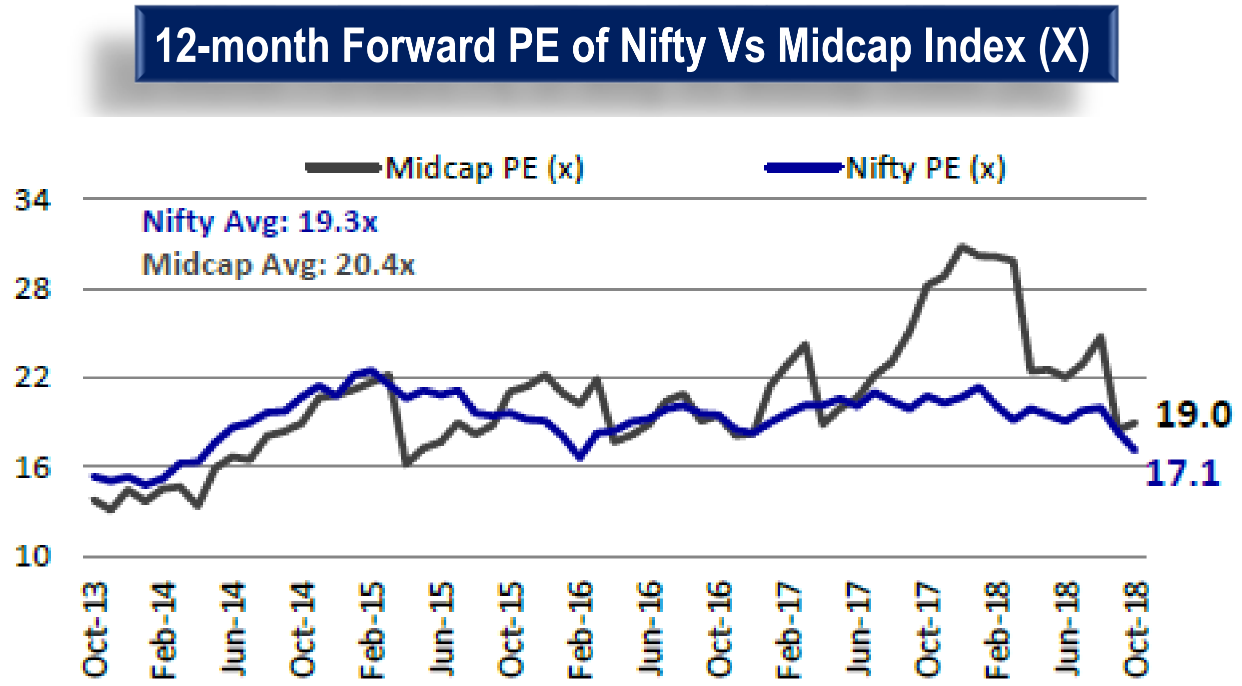
- After touching a life-time low of above 74/USD in early October, the rupee has appreciated recently and is presently hovering around the 70-71/USD mark
- YTD in 2018, the rupee has underperformed, in line with weakness in other emerging market (EM) currencies as well, some of which have seen a sharper depreciation
- However, the rupee is relatively better positioned than during the Taper Tantrum of 2013, when it had lost more than 20% intra-year
- Also, over the long term (5 years), the rupee has fared relatively better than other peer EM currencies

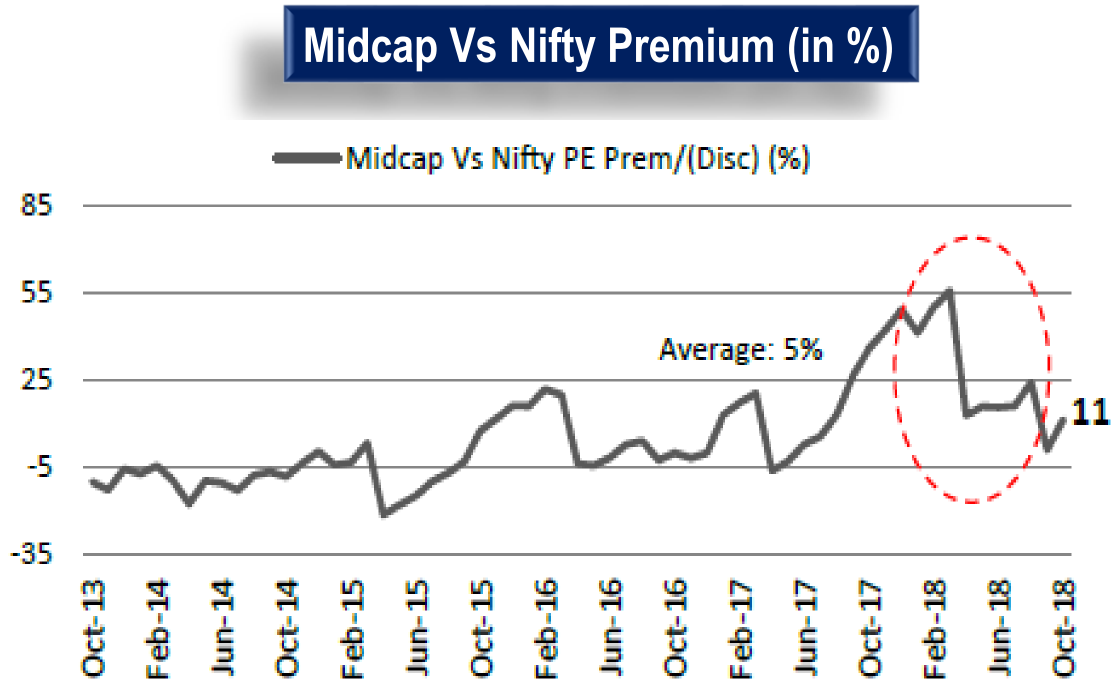
Market Fwd P/E has become more reasonable after the correction, and still quite far away from the peak P/E of 2007



Source: Kotak Institutional Equities

Midcap companies have seen their valuation premium fall considerably, amidst the correction

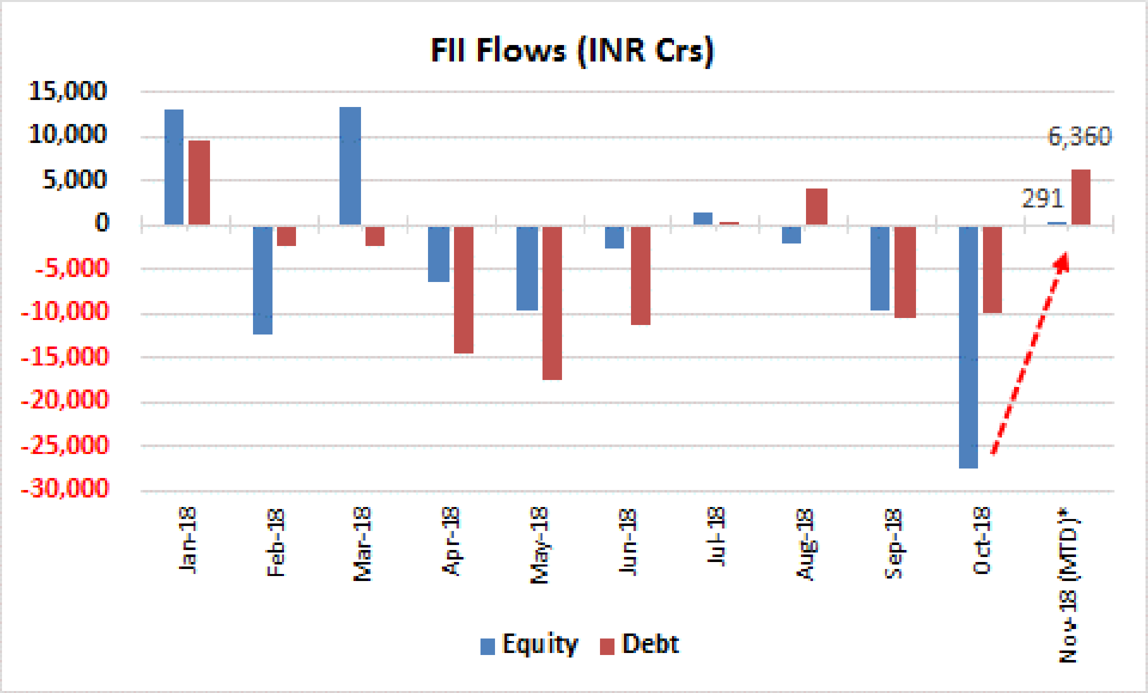


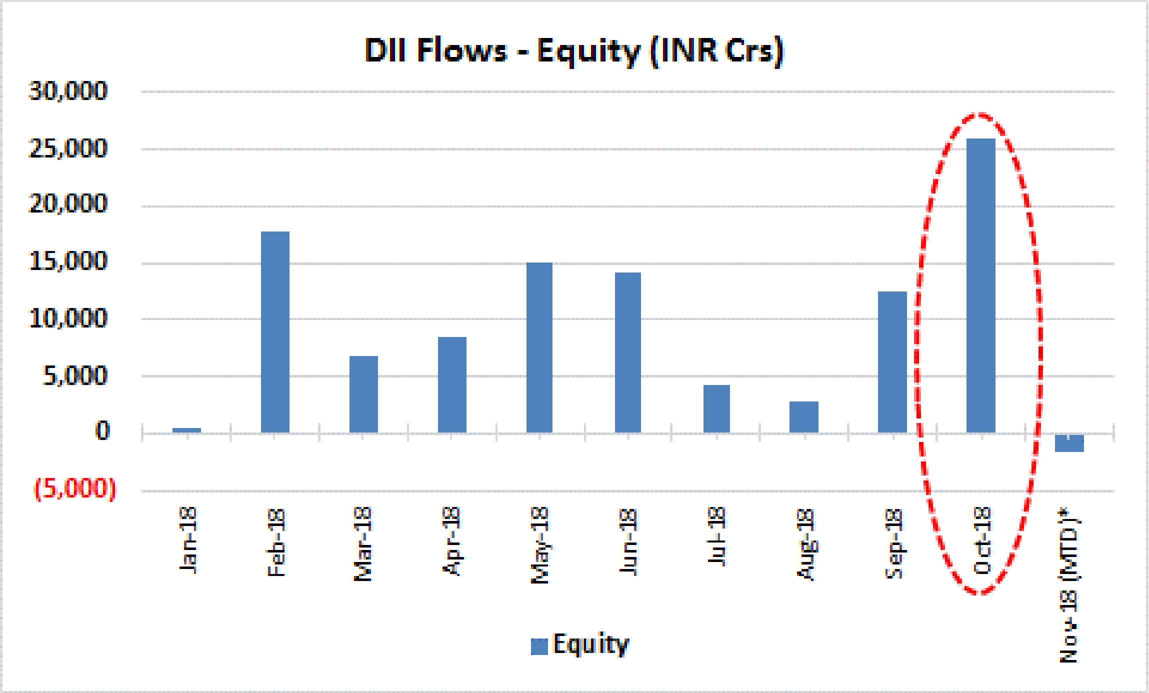


Source: Bloomberg, Motilal Oswal

- After the sharp correction that we have seen in small and midcap space this year, the valuation premium of mid-caps over large-caps has come down significantly
- Although we still prefer large-caps more from a risk-reward perspective, the deep correction in the midcaps and small-caps is starting to present some selective value propositions, and long-term investors can consider partial allocation at this juncture

FII flows have become positive after seeing large outflows in the past months. DII flows have been robust this year, and helped to counter FII outflows



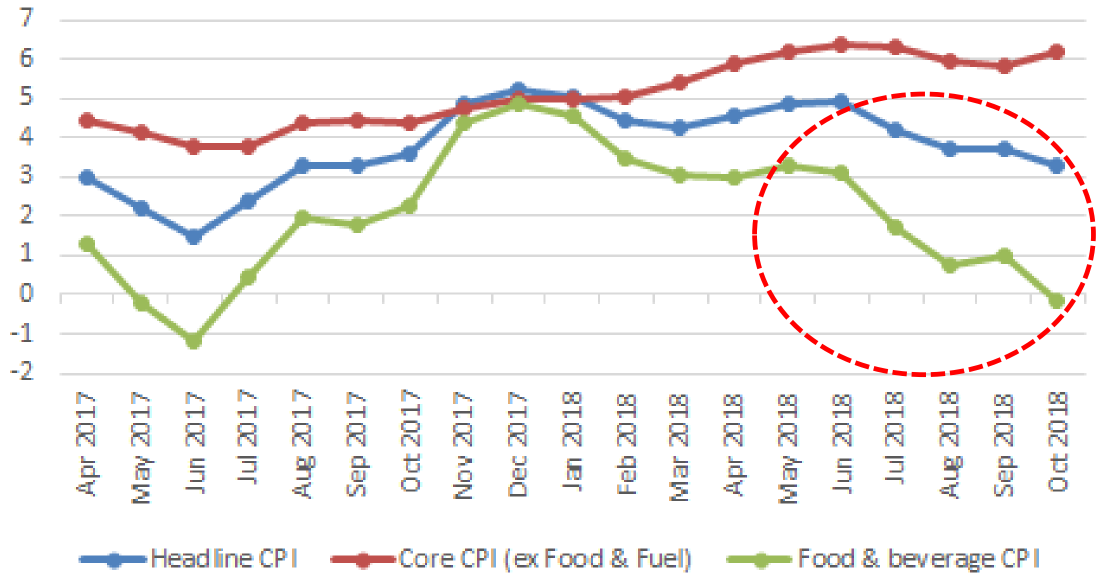


Source: SEBI, NSE, BSE, Axis Capital. *For the month of Nov 2018, data is upto 21st Nov

- Foreign Institutional Investors (FIIs) have registered large outflows in both the equity & debt markets over the past few months. MTD (in November) FII flows have turned positive
- Domestic Institutional Investors (DIIs) have been a strong force (particularly Mutual Funds), and have helped to counter FII equity outflows. In October 2018, we saw a record-high monthly net investment in equities by DIIs to the tune of around Rs. 26,000 crore. However, DII flows slowed down MTD in November

CPI headline inflation has moderated, and came in below expectations

CPI Inflation & its Components



Source: Bloomberg

- CPI headline inflation continued to moderate and came in below expectations at 3.3%YoY in Oct 2018, compare to 3.7%YoY in the previous month. Inflation remains below the RBI's 4%(+/-2%) target
- The fall in headline inflation was helped primarily by fall in food inflation (has highest weightage in CPI), which fell to -0.9%YoY in Oct 2018 from 0.5%YoY in the previous month
- However, core inflation (ex food & fuel) rose a bit to 6.1%YoY in Oct 2018, from 5.8%YoY in the previous month

Debt markets see some relief: Bond yields have softened considerably; chances of RBI rate hike in near term has reduced

India 10 Yr Bond Yield (%)

Source: Bloomberg

- Bond yields have softened considerably due to sharp fall in crude prices, inflation coming in below expectations, rupee appreciating and RBI infusing liquidity into the markets.
- The benchmark 10 year bond yield, after breaching the 8.2% mark in November, has come down to ~7.7% recently.
- RBI had changed in its monetary policy stance to "calibrated tightening" in its October policy review. However, with inflation coming in below expectations, and crude prices correcting sharply, the chances of a rate hike by RBI has reduced—compared to earlier.

Amidst the correction, globally, India has managed to fare relatively well this year

Performance of International Indices						
Index Name	**Country / Region**	**1 Mth**	**YTD**	**1 Yr**	**3 Yrs**	**5 Yrs**
BOVESPA	Brazil	1.1	12.9	15.8	21.4	10.3
Nifty 50	**India**	**2.7**	**0.0**	**1.8**	**10.2**	**11.9**
S&P 500 PR	US	-3.9	-1.5	1.4	8.1	7.8
RTS RTSI PR USD	Russia	0.6	-3.5	-3.9	7.5	-5.1
JSX Composite	Indonesia	3.8	-5.5	-1.0	9.3	7.2
FTSE Bursa Malaysia	Malaysia	-0.1	-5.6	-1.5	0.5	-1.1
MSCI World PR USD	World	-2.9	-6.1	-3.8	5.2	4.0
CAC 40	France	-0.4	-6.9	-8.0	0.4	2.9
FTSE SET	Thailand	-2.3	-7.9	-5.6	4.9	3.2
TSEC TAIEX	Taiwan	2.9	-8.2	-10.0	4.8	3.4
FTSE 100	UK	0.0	-9.6	-6.3	3.3	0.8
FTSE/SGX STI	Singapore	0.7	-10.3	-10.8	1.7	-0.8
Hang Seng	Hong Kong	6.6	-12.0	-11.8	5.4	2.2
FSE DAX TR	Germany	-0.7	-13.4	-14.0	0.3	4.0
MSCI Asia Ex Japan PR USD	Asia Ex Japan	1.5	-16.3	-16.6	5.1	1.7
MSCI EM PR USD	United States	0.9	-16.3	-15.9	4.8	-0.8
KOSPI Korea	South Korea	-2.3	-16.6	-18.9	0.9	0.5
Shanghai Composite	China	-0.6	-22.0	-23.0	-10.6	3.3

Source: Morningstar Direct. Returns are ended 23 Nov 2018 in local currency of index.
Returns greater than 1 year are compounded annualised. Date sorted on the basis of YTD return in descending order

- Despite the correction in global markets YTD in 2018, India has managed to fare well, and has fallen one of the least.
- China has been one of the bottom performing markets this year, and other peer Asian and emerging markets (EMs) have also seen significant correction this year
- Over the long term (5 years) too, India has been one of the top performing markets globally

Factors to look out for

Corporate Earnings	• Q2 FY19 corporate earnings were slightly below expectations. But we expect corporate earnings to pick-up in H2 FY19 and in FY20, and that should help to drive the markets
Elections	• We may see some volatility and uncertainty in markets with the upcoming state elections and the general elections later in 2019
Global markets & Risk appetite	• We have seen a decent correction in global markets this year, and esp. in emerging markets. An eye needs to be kept on global markets and risk appetite, as it may have an impact on Indian markets as well
Global monetary policy	• Although US monetary policy has been broadly been along expected lines, any pick-up in pace of monetary tightening by global central banks may cause some volatility in emerging markets (including India)
Trade tariffs	• The trade tensions between US & China have stabilized somewhat, but there is uncertainty on the future course of action

THANK YOU

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