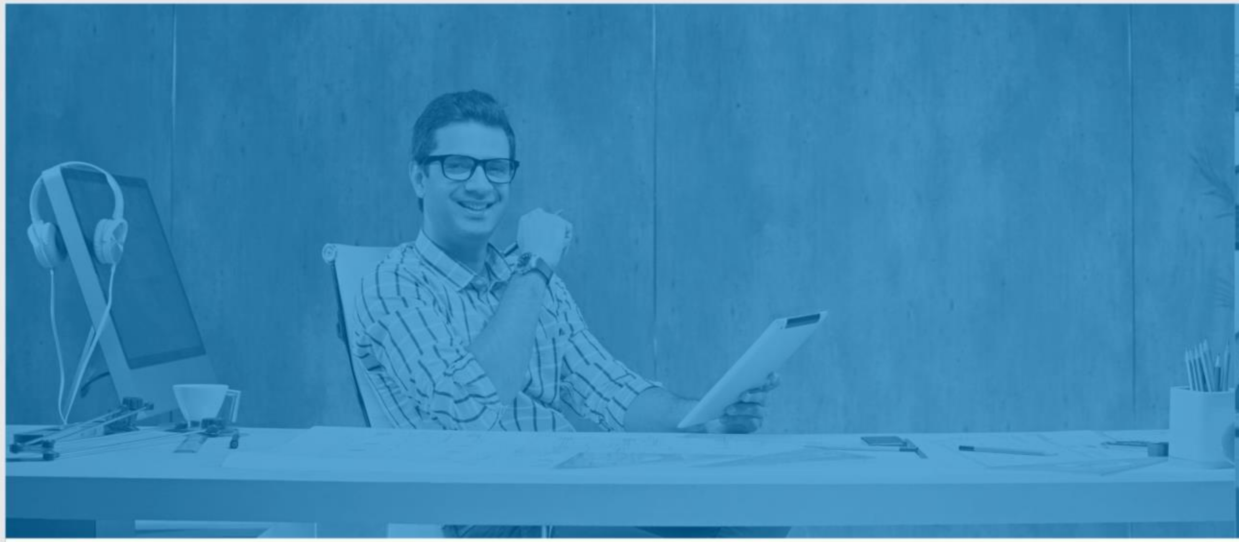
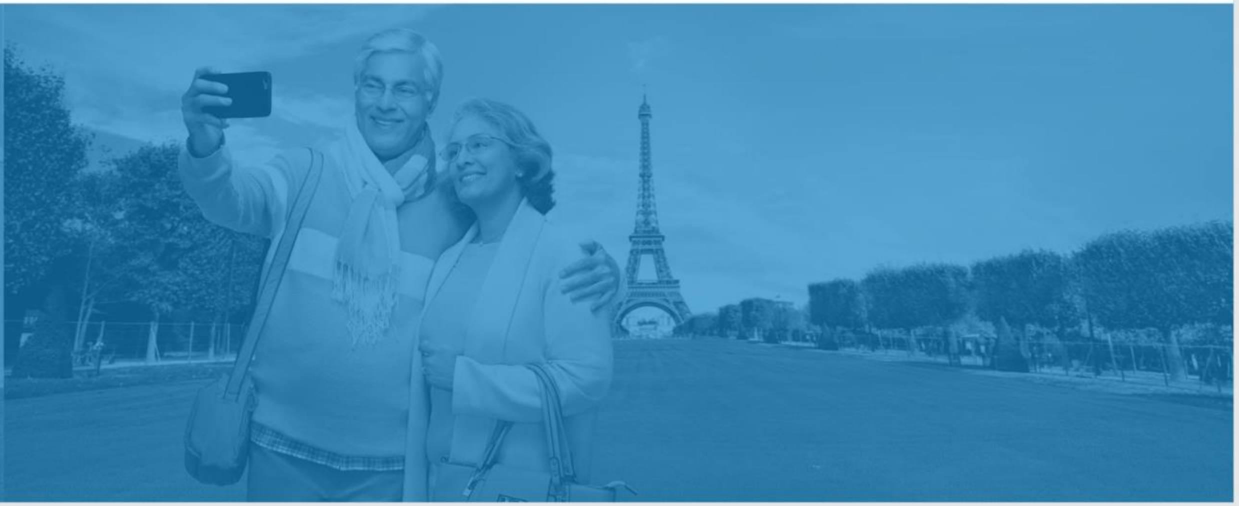


Quarterly Market & Macro Review

April 2019

LIFE GOALS. **DONE.**

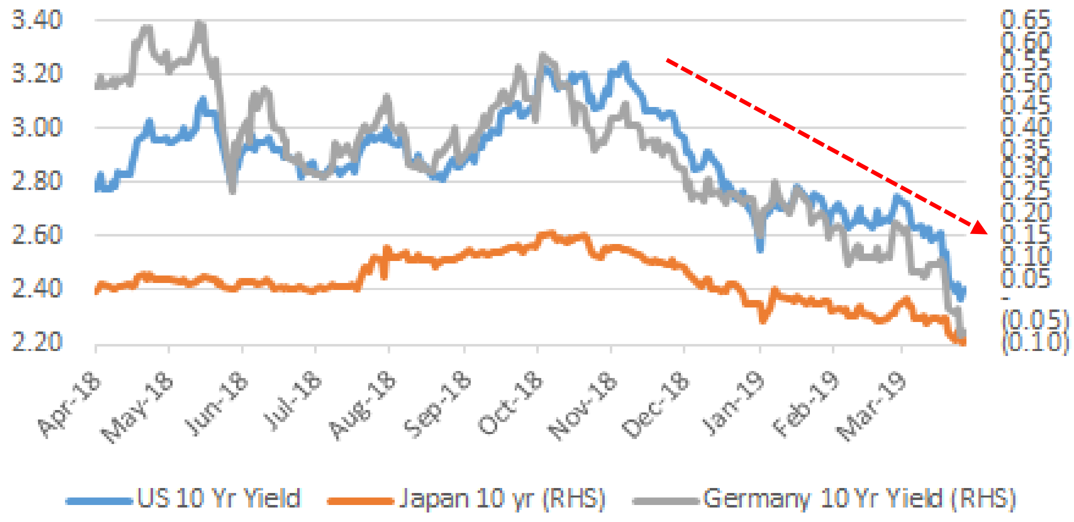
BAJAJ | Allianz



Global Macro & Markets

Some major central banks turn dovish – led to softening of global bond yields; also been beneficial for Emerging Markets

Global 10 Yr Bond Yields (in %)



US Fed – March 2019 meeting

Percent

Variable	Median[1] 2019	2020	2021
Change in real GDP	2.1	1.9	1.8
December projection	2.3	2.0	1.8
Unemployment rate	3.7	3.8	3.9
December projection	3.5	3.6	3.8
PCE inflation	1.8	2.0	2.0
December projection	1.9	2.1	2.1
Core PCE inflation[4]	2.0	2.0	2.0
December projection	2.0	2.0	2.0
Federal funds rate	2.4	2.6	2.6
December projection	2.9	3.1	3.1

- US Fed's dovish undertone increased in its March 2019 policy, as it indicated no rate hike for CY2019 (compared to 3 hikes in late 2018), and also cut the median rate for both 2020 & 2021 substantially. GDP growth forecasts were also cut.
- Simultaneously, the Fed announced that it will start to moderate its balance sheet normalisation from May 2019, and end it in September 2019.
- ECB also turned quite dovish in its March policy--cut inflation & growth forecasts, and said that rates would be unchanged at least through end of 2019.
- As a result global bond yields have softened considerably.

Source: US FOMC, Bloomberg

Some global growth slowdown expected in 2019, although India still projected to be the fastest growing major economy—albeit a bit slower than before

IMF GDP growth forecast (in %)

		Projections		Difference from January 2019 *WEO Update*[1]	
	2018	2019	2020	2019	2020
World Output	**3.6**	**3.3**	**3.6**	**–0.2**	**0.0**
Advanced Economies	**2.2**	**1.8**	**1.7**	**–0.2**	**0.0**
United States	2.9	2.3	1.9	–0.2	0.1
Euro Area	1.8	1.3	1.5	–0.3	–0.2
Germany	1.5	0.8	1.4	–0.5	–0.2
France	1.5	1.3	1.4	–0.2	–0.2
Italy	0.9	0.1	0.9	–0.5	0.0
Spain	2.5	2.1	1.9	–0.1	0.0
Japan	0.8	1.0	0.5	–0.1	0.0
United Kingdom	1.4	1.2	1.4	–0.3	–0.2
Canada	1.8	1.5	1.9	–0.4	0.0
Other Advanced Economies[2]	2.6	2.2	2.5	–0.3	0.0
Emerging Market and Developing Economies	**4.5**	**4.4**	**4.8**	**–0.1**	**–0.1**
Commonwealth of Independent States	2.8	2.2	2.3	0.0	0.0
Russia	2.3	1.6	1.7	0.0	0.0
Excluding Russia	3.9	3.5	3.7	–0.2	0.0
Emerging and Developing Asia	6.4	6.3	6.3	0.0	–0.1
China	6.6	6.3	6.1	0.1	–0.1
India[3]	7.1	7.3	7.5	–0.2	–0.2
ASEAN-5[4]	5.2	5.1	5.2	0.0	0.0
Emerging and Developing Europe	3.6	0.8	2.8	0.1	0.4
Latin America and the Caribbean	1.0	1.4	2.4	–0.6	–0.1
Brazil	1.1	2.1	2.5	–0.4	0.3
Mexico	2.0	1.6	1.9	–0.5	–0.3
Middle East, North Africa, Afghanistan, and Pakistan	1.8	1.5	3.2	–0.9	0.2
Saudi Arabia	2.2	1.8	2.1	0.0	0.0
Sub-Saharan Africa	3.0	3.5	3.7	0.0	0.1
Nigeria	1.9	2.1	2.5	0.1	0.3
South Africa	0.8	1.2	1.5	–0.2	–0.2

- IMF cut global growth forecast by 0.2% (from Jan 2019 forecast) for 2019 to 3.3%--making it a cumulative downgrade of 0.4% in global growth forecast from Oct 2018.
- This was primarily due to growth slowdown expected in advanced economies especially the US & European area.
- IMF cut India's GDP growth forecast for FY20 & FY21 by 0.2% each to 7.3% and 7.5% respectively. However, it still makes India the fastest growing major economy.
- IMF forecasts China's GDP growth to slow down from 6.6% in 2018, to 6.3% in 2019 and 6.1% in 2020.

Source: IMF World Economic Outlook, April 2019. For India, fiscal year ended March is considered, so 2019 = FY20 and 2020 = FY21. For other countries it is calendar year.

India has fared relatively well, and been one of the top performing markets over the past year, and also over the long term

Index Name	Country / Region	3 Mths	1 Yr	3 Yrs	5 Yrs
Performance of International Indices (ended March 2019, in %)					
Nifty 50	**India**	**7.0**	**14.9**	**14.5**	**11.6**
BOVESPA	Brazil	8.6	11.8	24.0	13.6
S&P 500	United States	13.1	7.3	11.2	8.6
S&P/ASX 200	Australia	9.5	7.3	6.7	2.8
JSX Composite	Indonesia	4.4	4.5	10.1	6.3
CAC 40	France	13.1	3.5	6.9	4.0
FTSE 100	UK	8.2	3.2	5.6	2.0
MSCI World PR USD	World	11.9	2.0	8.5	4.7
Nikkei 225	Japan	6.0	-1.2	8.2	7.4
Shanghai Composite	China	23.9	-2.5	1.0	8.7
TSEC TAIEX	Taiwan	9.4	-2.6	6.8	3.8
Hang Seng	Hong Kong	12.4	-3.5	11.8	5.6
RTSI PR USD	Russia	12.1	-4.1	11.0	-0.5
FSE DAX TR	Germany	9.2	-4.7	5.0	3.8
FTSE/SGX STI	Singapore	4.7	-6.3	4.2	0.2
MSCI Asia Ex Japan PR USD	Asia Ex Japan	11.2	-7.4	9.3	4.0
FTSE SET All Share	Thailand	4.9	-7.4	4.9	3.2
MSCI EM PR USD	Emerging Markets	9.6	-9.6	8.1	1.2
FTSE Bursa Malaysia KLCI	Malaysia	-2.8	-11.8	-1.5	-2.3
KOSPI Korea	Korea	4.9	-12.5	2.4	1.5

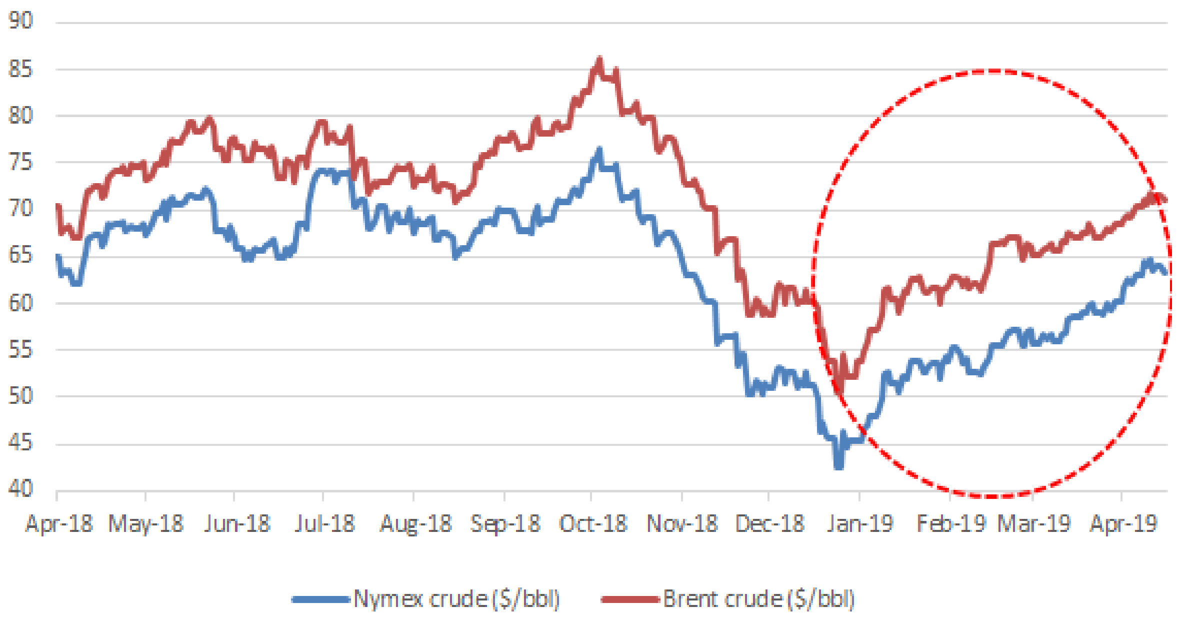
Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR
Date sorted on the basis of 1 Yr return in descending order

- Despite the correction in global markets in 2018, India has managed to fare relatively well over the past year.
- Over the long term (5 years) too India has been one of the top performing global markets.
- Some of the Asian markets like Korea, Malaysia and Thailand were among the bottom performers over the past year.
- Developed markets fared better than emerging markets over the past year.
- China, which was one of the bottom performing markets in 2018, saw a strong recovery over the past 3 months (+23.9%).

Domestic Macro-economic Scenario

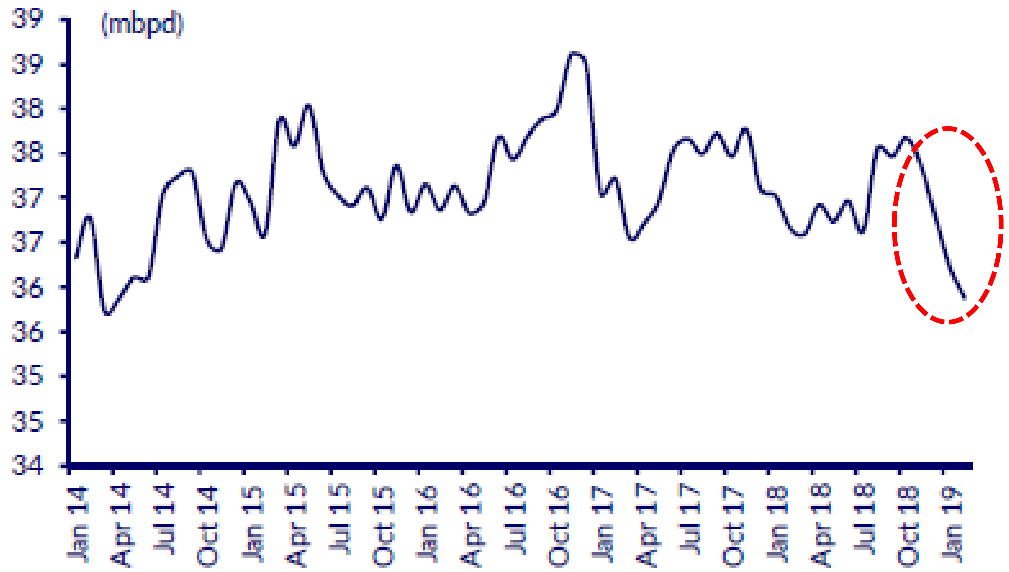
Crude prices rebound to some extent in 2019, after seeing a sharp fall in late 2018

Brent & Nymex Crude Price ($/bbl.)



Source: Bloomberg

OPEC Crude Production (Mill. Barrels per day)



Source: Bloomberg, CLSA

- Brent crude fell sharply in late 2018, to a low of $50/bbl in Dec 2018, but has rebounded to some extent in 2019. This rebound was on the back of OPEC production cuts, Venezuela sanctions, and recently also because of fall in US oil inventories.

- This has again raised some concerns on the current account deficit front--with India oil imports accounting for ~80% of domestic oil demand & ~50% of merchandise trade deficit. Also, we may see some lag effect on inflation, although fuel has only ~7% weight in consumer inflation.

The rupee has recovered from its lows, and stabilized lately

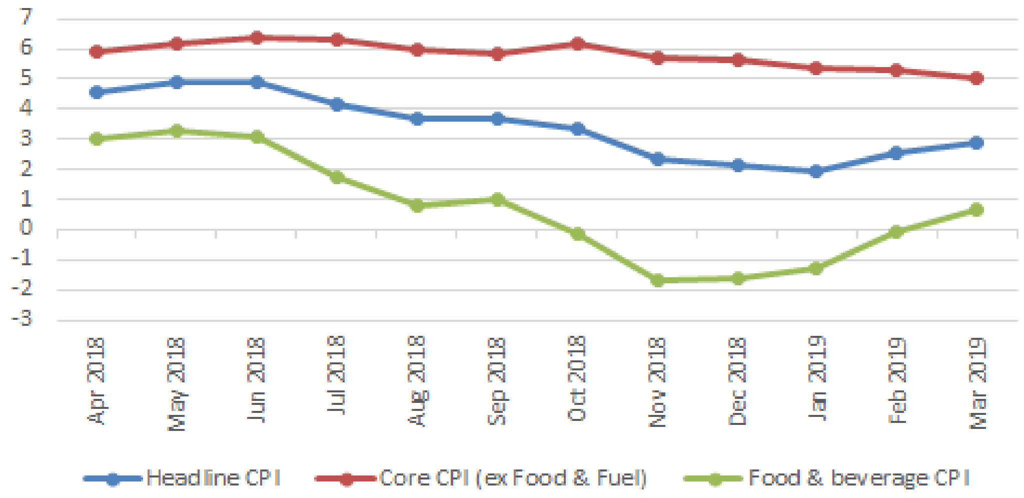
Peformance of Various Currencies against USD (in %, as of March 2019)				
Name	3 mths	1 Yr	3 Yrs	5 Yrs
Thai Baht	2.6	-1.5	3.5	0.4
Singapore Dollar	0.6	-3.2	-0.2	-1.5
Indonesian Rupiah	1.0	-3.3	-2.3	-4.4
Swiss Franc	-1.0	-3.8	-1.3	-2.4
Japanese Yen	-0.9	-3.9	0.5	-1.4
Malaysian Ringgit	1.2	-5.3	-1.5	-4.4
Taiwan Dollar	-0.3	-5.4	1.5	-0.2
Indian Rupee	**0.8**	**-5.9**	**-1.5**	**-2.9**
Yuan Renminbi	2.2	-6.4	-1.3	-1.5
Pound Sterling	2.3	-7.1	-3.2	-4.8
Australian Dollar	0.9	-7.4	-2.6	-5.2
Euro	-1.8	-8.7	-0.5	-4.0
Russian Ruble	5.6	-12.5	0.6	-11.8
Brazilian Real	-0.4	-14.6	-3.1	-10.3
South African Rand	-0.3	-17.8	0.7	-6.1
Pakistan Rupee	-1.4	-18.0	-9.4	-6.9
Turkish Lira	-5.8	-29.9	-20.7	-17.7
Argentine Peso	-13.2	-53.6	-30.5	-28.7

Source: Morningstar Direct. Data sorted on the basis of 1 Yr Return.
Returns greater than 1 year are CAGR

- After touching a life-time low of ~74.5/USD in early October 2018, the rupee has recovered significantly.
- This recovery in the rupee has been on the back of strong foreign fund inflows, fall in crude oil prices, and a general recovery in most emerging market currencies.
- Over the past year, some of the other emerging market (EM) currencies like Argentine Peso, Turkish Lira, Pakistan Rupee, South African Rand, Brazilian Real, and Russian Ruble have seen a much sharper depreciation.
- Also, over the long term (5 years), the rupee has fared relatively better than most other peer EM currencies.

Inflation remains benign, and below the forecast trajectory

CPI Inflation & its Components (% YoY)



Source: Bloomberg

- CPI headline inflation rose to 2.9%YoY in Mar 2019 from 2.6% Y-o-Y in the previous month—primarily due to rise in food inflation. Core inflation (ex food & fuel) continued to moderate, but still remains a bit elevated.
- In its April policy, RBI further cut CPI headline inflation forecast to 2.9-3.0% Y-o-Y in for H1 FY20 (from 3.2-3.4% Y-o-Y earlier). For H2 FY20, the RBI projects inflation at 3.5-3.8%Y-o-Y (down from 3.9% for Q3 FY20 projected earlier). However, the RBI highlighted various uncertainties like:
  - Hazy outlook on crude oil prices
  - Some probability of below average monsoon
  - Risk of reversal in vegetable prices esp. in summer months
  - Global growth and trade uncertainty

Rising crude oil prices to put pressure on CAD again

India CAD & BOP Trend ($ in billion)

	FY16	FY17	FY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Current account balance (CAB)	3.3	5.5	6.9	-13.7	-13.0	-15.9	-19.1	-16.9
% of GDP	2179.8	66.1	26.2	-2.1	-1.8	-2.3	-2.9	-2.5
Merchandise	-60.4	-44.1	-82.5	-44.0	-41.6	-45.8	-50.0	-49.5
Of which:								
POL	-31.8	-27.5	-33.7	-18.8	-22.4	-22.5	-23.0	-24.5
Gold imports	0.4	-0.3	-0.4	-9.6	-7.1	-8.4	-9.2	-7.1
Services	7.4	15.7	7.9	20.7	20.2	18.7	20.3	21.3
Income	72.5	72.2	73.3	9.6	8.4	11.2	10.7	11.3
Financial account#	41.1	36.4	91.3	22.5	25.0	4.9	16.7	13.7
FDI	36.0	35.6	30.3	4.3	6.4	9.8	7.5	7.5
FPI	-4.5	7.6	22.1	5.3	2.3	-8.1	-1.6	-2.1
Foreign exchange reserves*	-17.9	-21.6	-43.6	-9.4	-13.2	11.3	1.9	4.3
Memo: CAB excl. gold	-22.1	-14.4	-48.7	-13.7	6.1	4.6	2.8	5.7
% of GDP	-1.0	-0.6	-1.8	0.7	0.9	0.7	0.4	0.9

* (-) implies accretion/(+) implies withdrawal

Source: RBI, MOFSL

- Current Account Deficit (CAD) moderated to $16.9 bln (2.5% of GDP) in Q3 FY19 from $19.1 bln (2.9% of GDP) in the previous quarter, but was 2.1% of GDP—a year ago.
- The trade deficit remained elevated; but the invisibles component improved—helping the overall CAD.
- <u>For FY19, CAD projected at 2.1-2.3% vs 1.8% in FY18.</u>
- However, the capital / financial account balance deteriorated, due to drop in foreign portfolio flows and short term loans.
- As a result, the Balance of Payment (BoP) deficit widened to $4.3 bln in Q3 FY19, from $1.9 bln in the previous quarter, and was a surplus of $9.4 bln--a year ago.
- Rising crude oil prices to put pressure on CAD, and BoP expected to be in deficit in FY19—despite the recent rise in foreign portfolio flows in Q4 FY19.

GDP growth has slowed down a bit in past few quarters

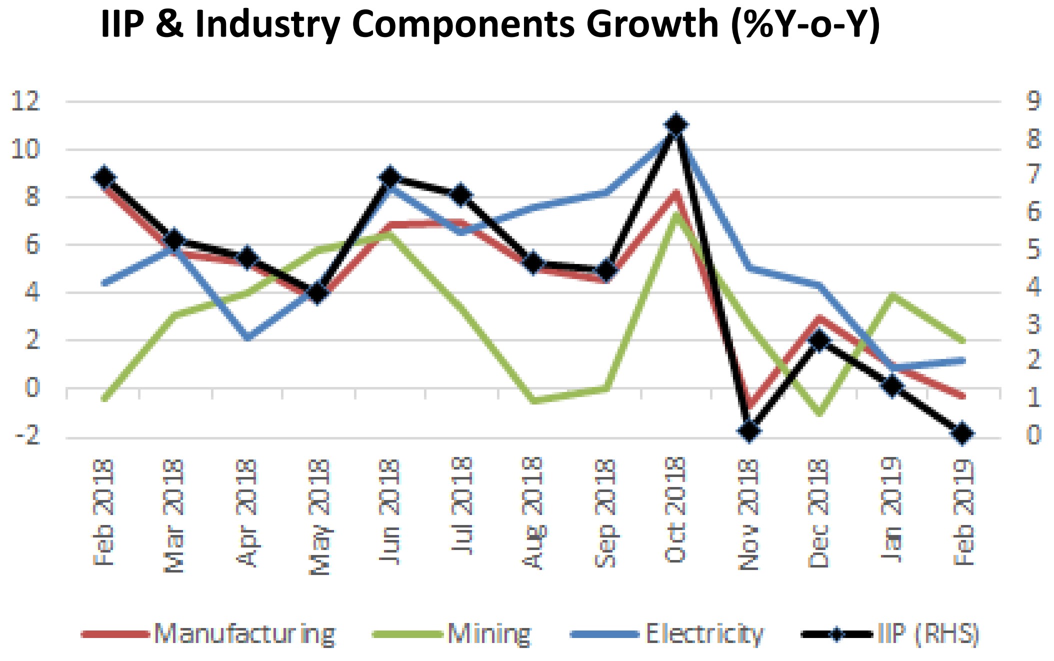
India Quarterly GDP (and components) Growth trend (%, Y-o-Y)

	YoY growth rate				
	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Private Final Consumption Exp.	5.0	6.7	6.9	9.8	8.4
Government Final Consumption Exp.	10.8	16.8	6.5	10.8	6.5
Gross Capital Formation	12.5	14.9	9.5	9.9	10.5
Gross Fixed Capital Formation	12.2	14.4	11.7	10.2	10.6
Change in Stock	24.3	7.8	9.5	4.2	3.9
Valuables	10.9	29.1	-25.8	9.5	13.3
Exports of Good & Services	5.3	3.6	11.2	13.9	14.6
Imports of Goods & Services	15.8	10.9	10.8	21.4	14.7
GDP	7.7	7.7	8.0	7.0	6.6

Source: CSO, Phillip Capital

- GDP growth for Q3 FY19 further slowed down to 6.6%YoY from 7.0%YoY in the previous quarter
  - Primarily due to slowdown in govt. expenditure.
  - Growth in private consumption, which is the largest component of GDP (~>55% weight), also slowed down.
  - However, investments (Gross Fixed Capital Formation) remained healthy.
- CSO's second estimate projects <u>FY19 GDP growth at 7.0%YoY</u>—down from 7.2%YoY in the first estimate, and RBI's earlier forecast of 7.4%YoY.
- However, GDP growth for FY19 has still risen from 6.7%YoY in FY18.
- <u>RBI recently revised down the GDP growth estimate for FY20 to 7.2% (from 7.4% earlier).</u>

Industrial Production slows down



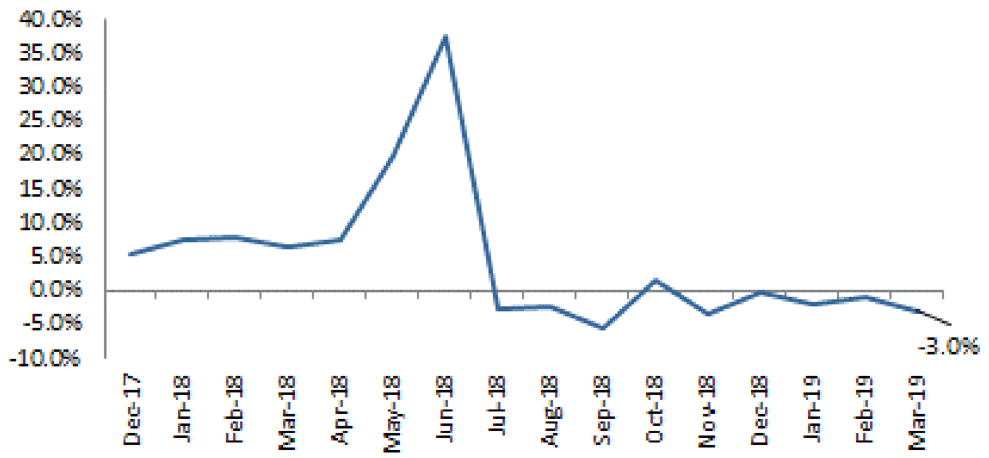
Source: Bloomberg

- Index of Industrial Production (IIP) has slowed down over the past few months, primarily due to slowdown in manufacturing sector (has highest weight of ~78% in IIP). Other sectors like electricity and mining have also seen a slowdown.

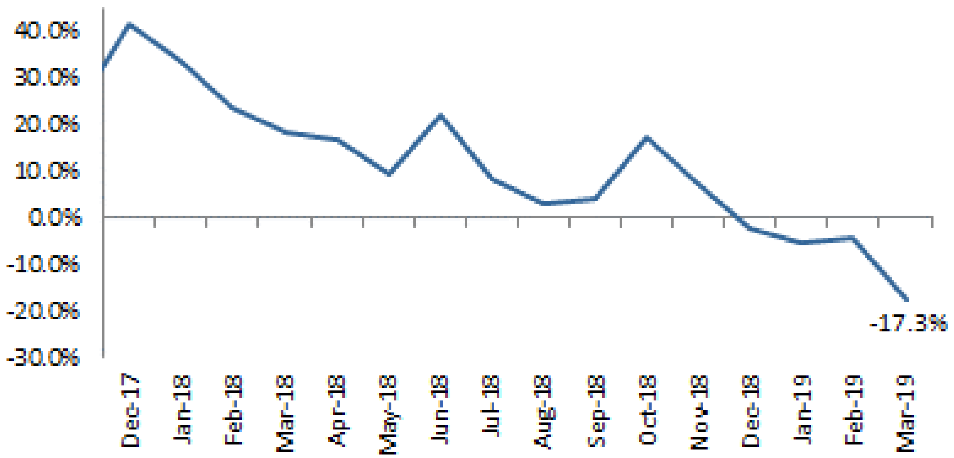
- For FYTD19 (up to Feb) IIP growth was lower at 4.0%Y-o-Y, compared to 4.9%Y-o-Y in the corresponding period, a year ago.

High Frequency Indicators: Auto sector sees slowdown

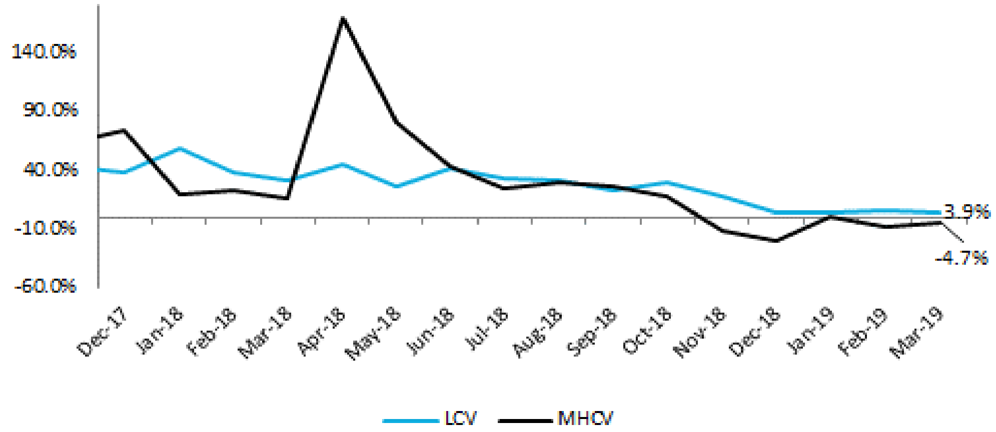
Monthly Passenger Vehicles Sales Growth(%Y-o-Y)



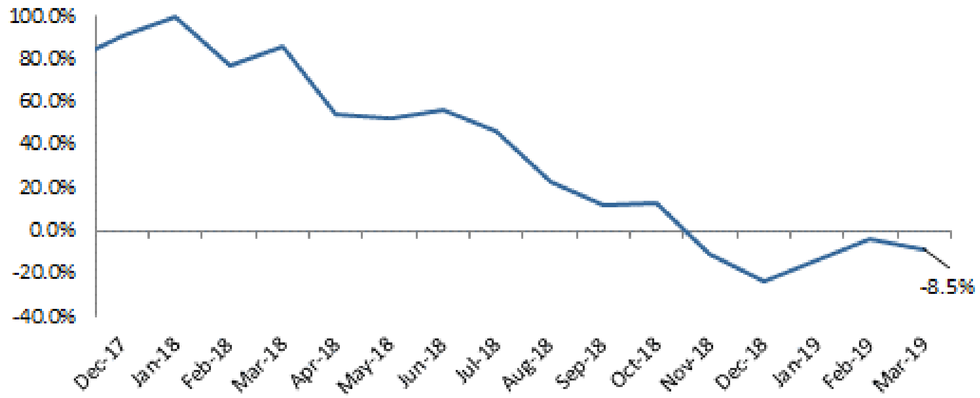
Monthly 2-Wheeler Sales Growth(%Y-o-Y)



Monthly Commercial Vehicles Sales Growth(%Y-o-Y)



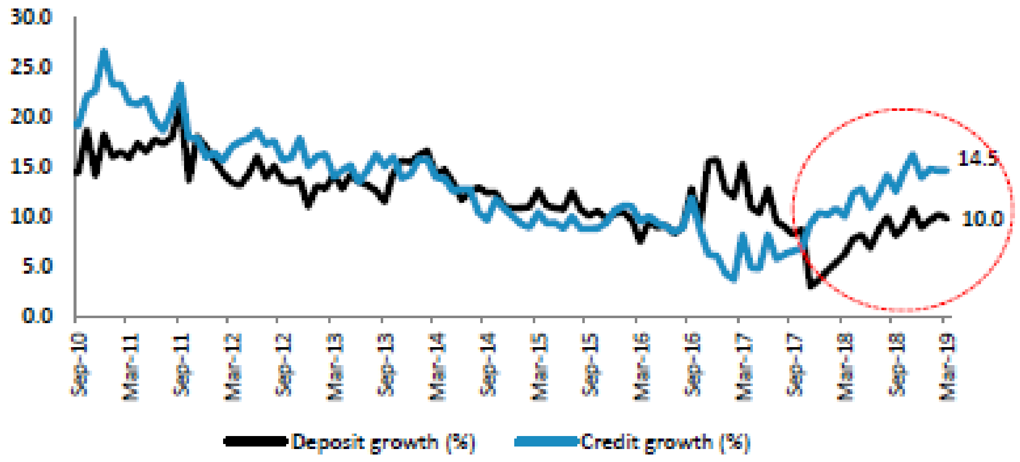
Monthly 3-Wheeler Sales Growth(%Y-o-Y)



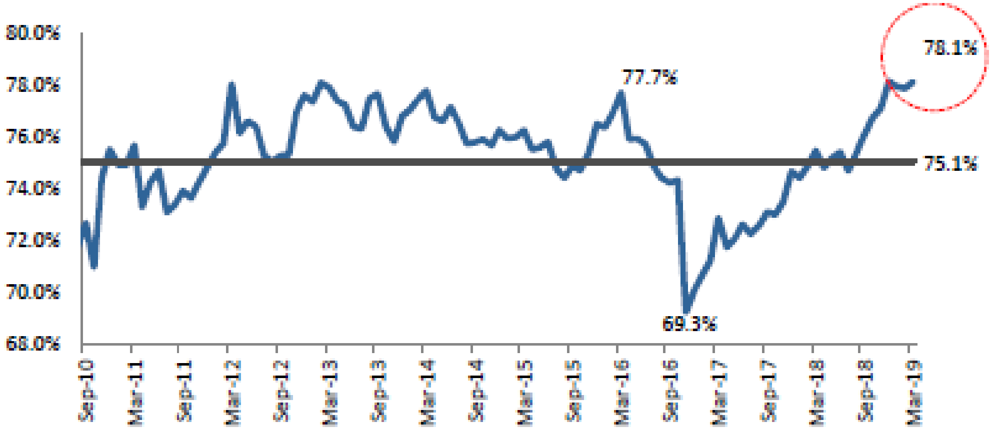
Source: SIAM, Spark Capital. LCV – Light Commercial Vehicle, MHCV = Medium & Heavy Commercial Vehicle

High Frequency Indicators: Credit growth picks up. Steel & Cement output registers moderate growth, while coal & refinery products output dips

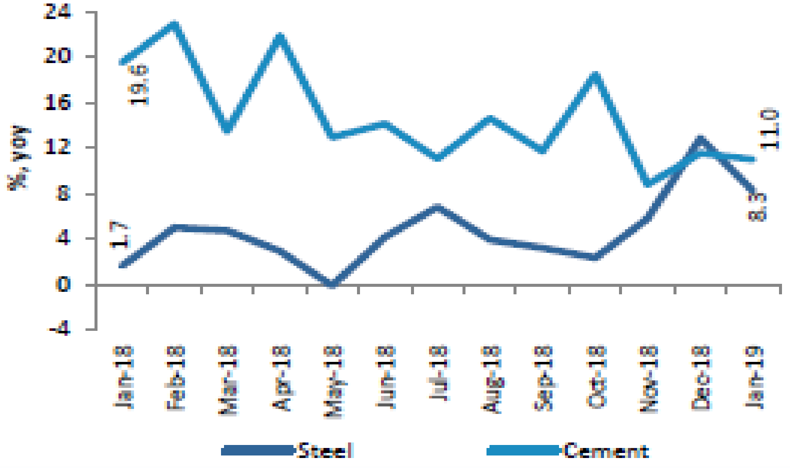
Credit & Deposit Growth (%Y-o-Y)



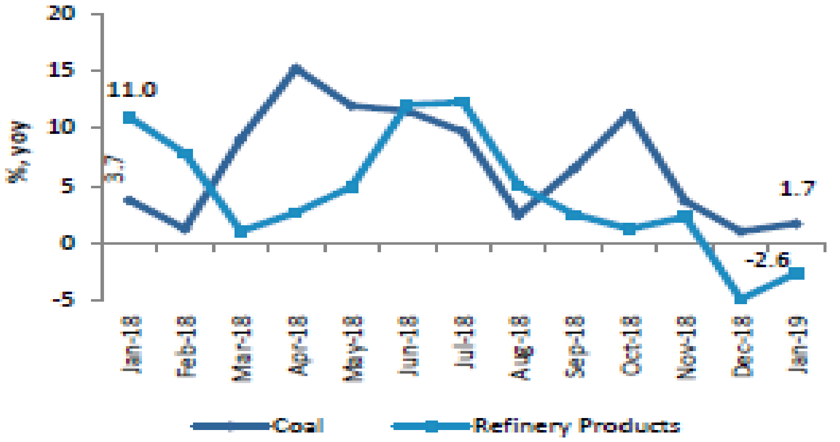
Credit to Deposit Ratio – Elevated, with deposit growth lagging credit growth



Monthly Steel & Cement Output (%Y-o-Y)



Monthly Coal & Refinery products Output (%Y-o-Y)



Source: Spark Capital

Equity Markets, Valuations, Earnings & Flows

Domestically it was a narrow market over the past year. IT, banking, and FMCG were the top sectors; large-caps outperform the broader markets

Performance of Domestic Indices in % (ended March 2019)				
Index Name	**3 mths**	**1 Yr**	**3 Yrs**	**5 Yrs**
S&P BSE IT	8.5	26.3	10.3	11.7
S&P BSE BANKEX	12.4	25.5	22.9	18.6
Nifty 50	7.0	14.9	14.5	11.6
S&P BSE FMCG	-0.7	14.1	15.1	11.0
S&P BSE Healthcare	3.5	9.5	-1.7	7.4
Nifty 500	5.4	8.4	14.4	13.1
S&P BSE Consumer Durables	15.3	7.2	27.6	29.6
S&P BSE Oil and Gas	11.1	4.5	18.6	10.0
Nifty Midcap 50	3.0	2.1	16.6	15.5
S&P BSE Capital Goods	-1.9	0.0	12.8	9.0
S&P BSE Power	1.8	-4.3	4.6	3.4
S&P BSE Realty	15.5	-6.9	19.1	7.2
NIFTY Smallcap 100	3.5	-14.4	11.0	12.6
S&P BSE Metal	-4.1	-14.8	14.6	2.5
S&P BSE Auto	-9.6	-21.7	1.5	7.2
Nifty Media	-2.7	-24.0	2.5	6.8

Source: Morningstar Direct. Data sorted in descending order on the basis of 1 Yr return. Returns more than 1 year is CAGR

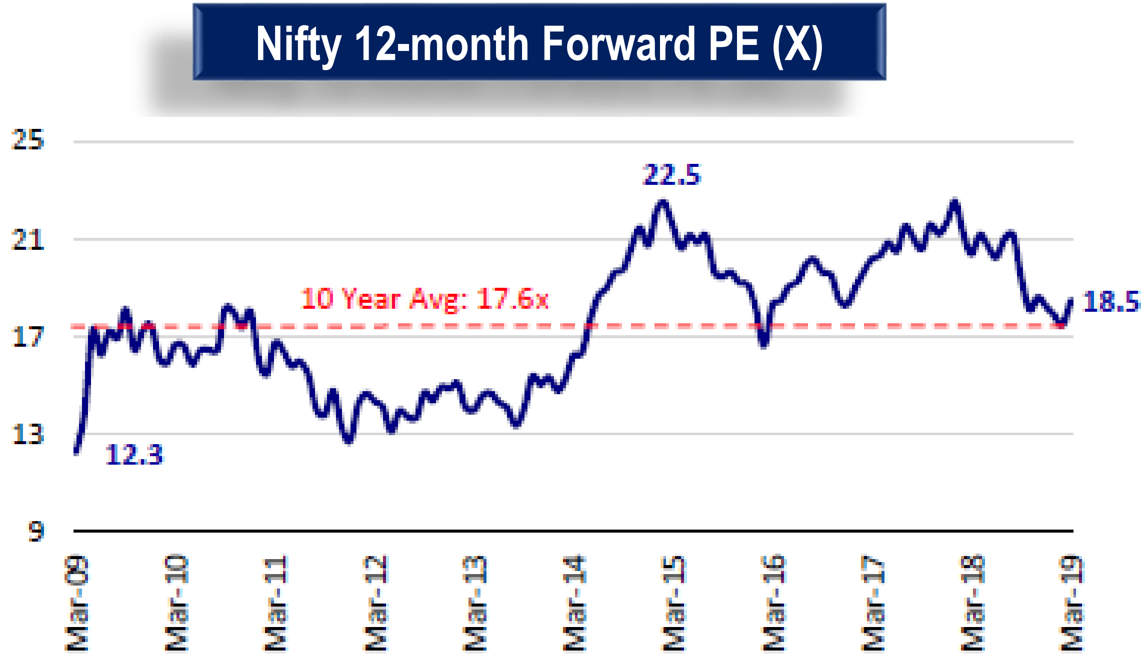
Nifty 50 Index contribution analysis for period 1 Year (ended March 2019)		
Name	**% Chg**	**Index Points Contribution**
Reliance Industries Ltd	52.44%	412
HDFC Bank Ltd	23.31%	235
ICICI Bank Ltd	41.70%	190
Infosys Ltd	34.25%	184
Tata Consultancy Services Ltd	42.64%	156
Top 5 contributing stocks		**1176**
Remaining 45 index stocks		**334**
Nifty 50 index	**14.9%**	**1510**

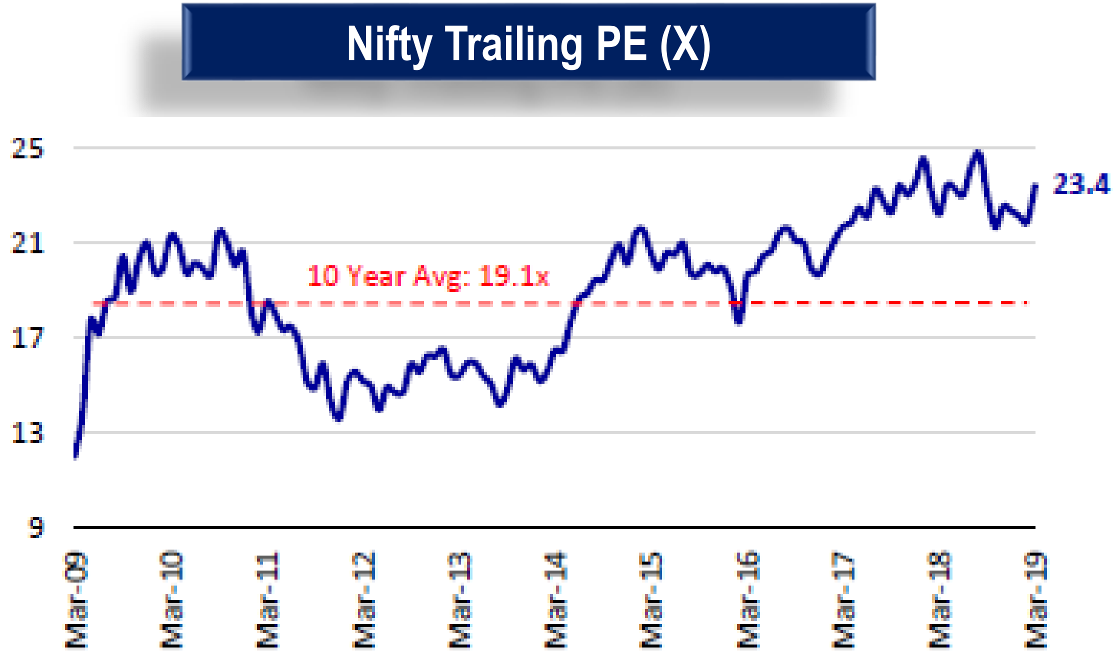
Source: Bloomberg

- It was a narrow market over the past year, with bulk of the Nifty returns being contributed by a handful of stocks.
  - Top 5 contributing stocks of Nifty 50 index contributed 1176 points, while remaining 45 stocks contributed 334 points.
  - However, the narrowness has reduced in the recent rally, with broader markets outperforming

- Large-caps outperformed their small/mid-cap counterparts over the past year
- The top performing sectors were IT, banking and FMCG over the past year.
- The bottom performing sectors were media, auto and metals over the past year.

Market Fwd P/E still reasonable—due to expected recovery in corporate earnings, but trailing P/E is elevated

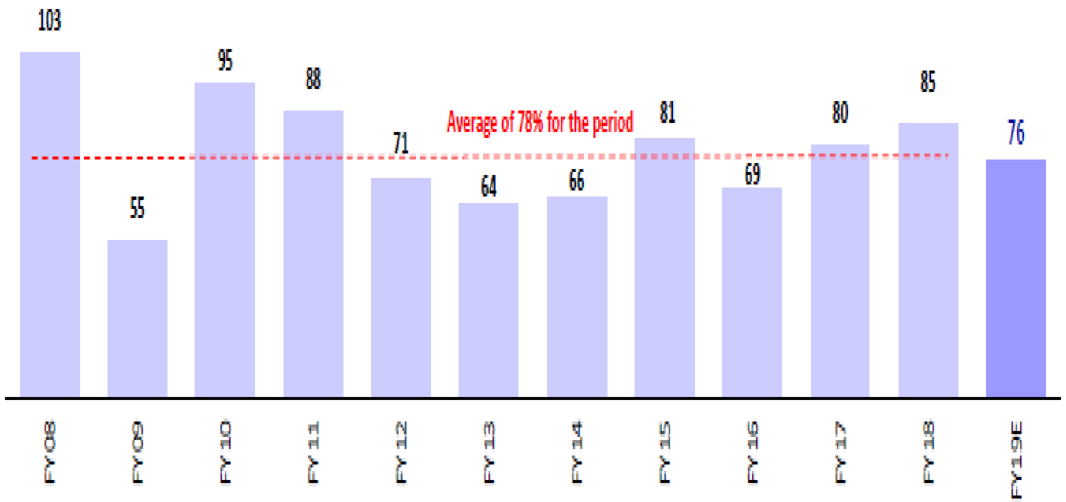




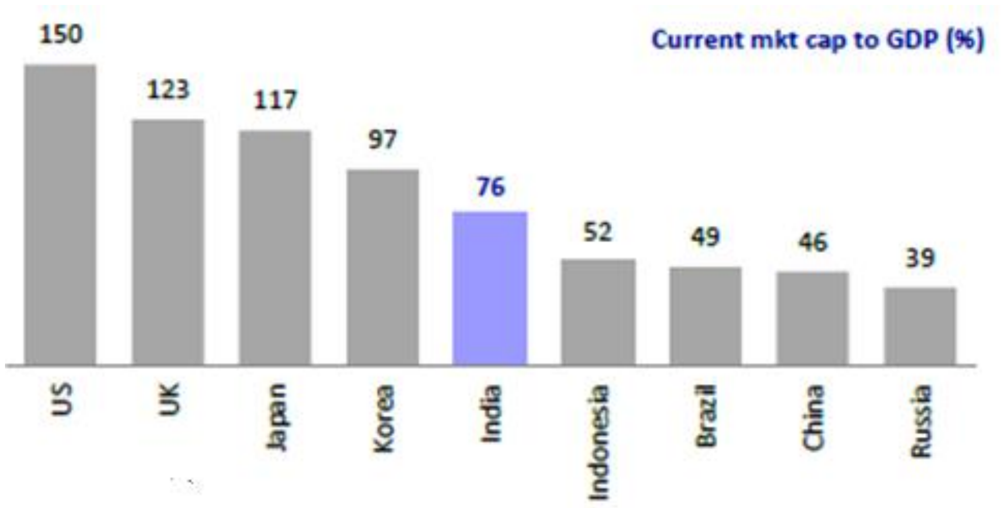
Source: Bloomberg, Motilal Oswal

Market Cap to GDP has become more reasonable after the correction

India's Market Cap to GDP Ratio below the long term average



India's Market Cap to GDP Ratio as compared to other countries

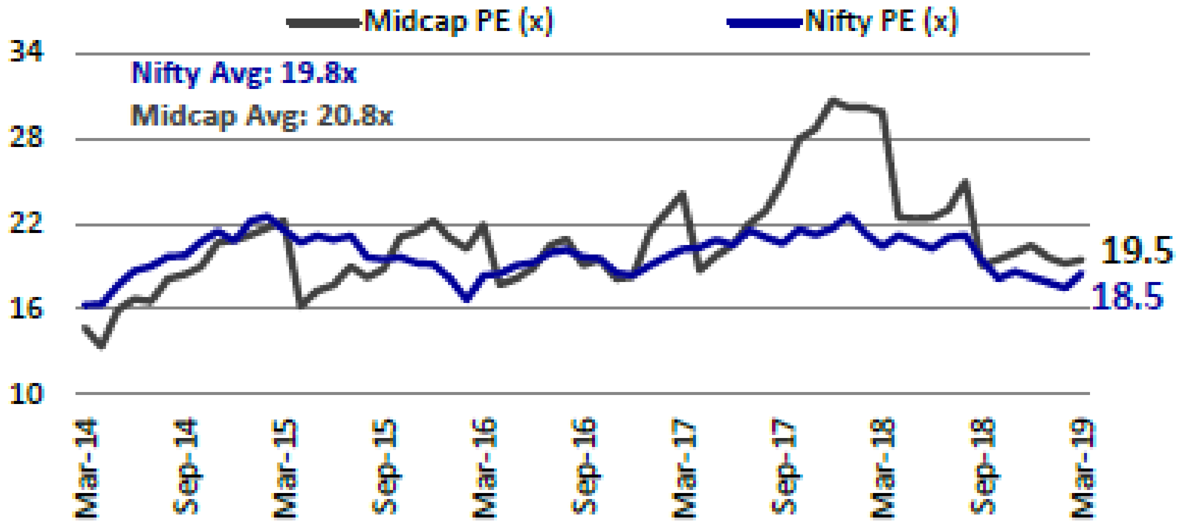


- Market cap to GDP ratio is at ~76% versus an average of 78%

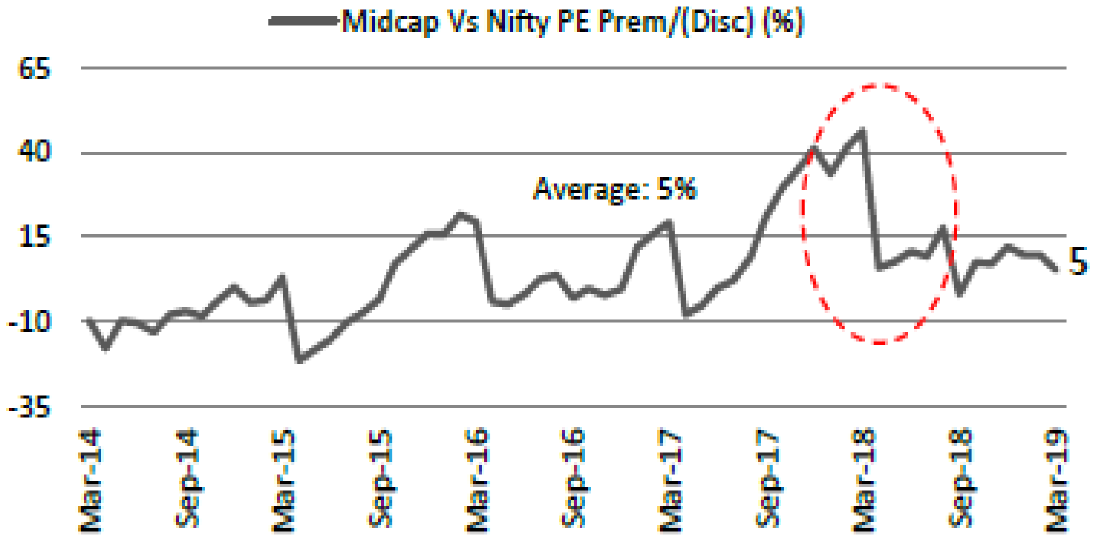
Source: Motilal Oswal

Midcap companies have seen their valuation premium compress, after the correction

12-month Forward PE of Nifty Vs Midcap Index (X)



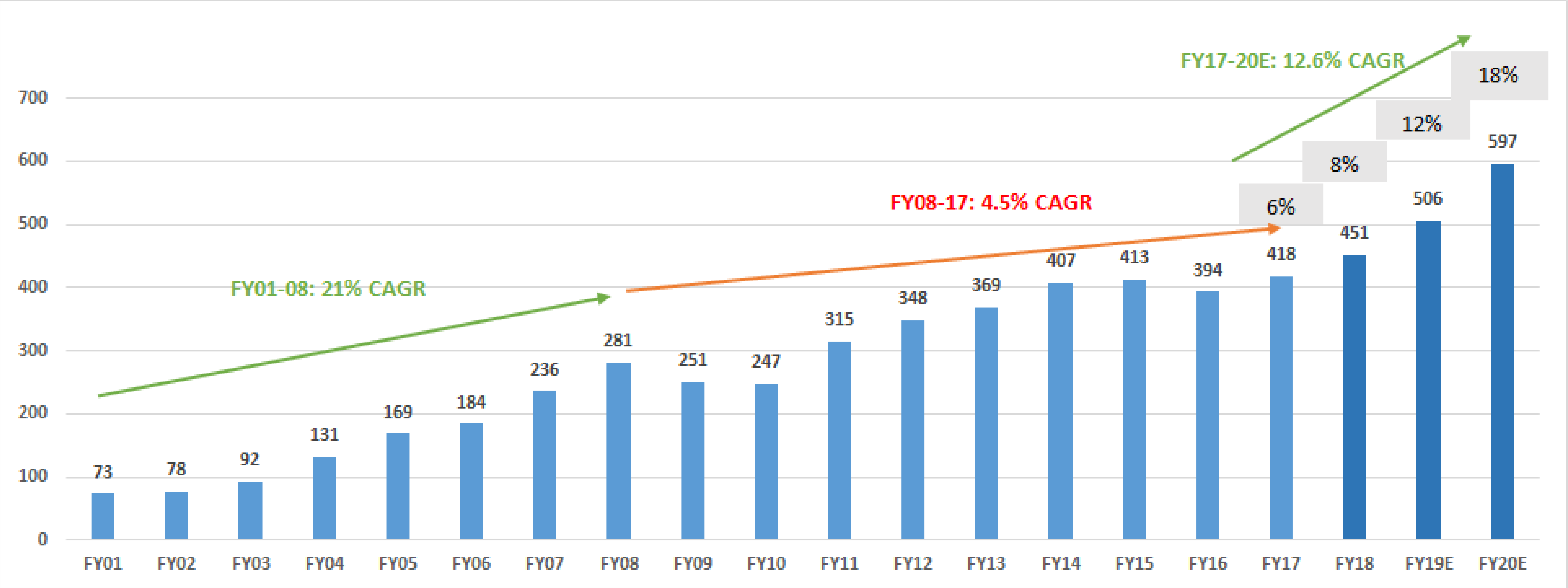
Midcap Vs Nifty Premium (in %)



Source: Bloomberg, Motilal Oswal

Corporate earnings growth expected to pick-up, after subdued growth over the past few years

Nifty Earnings Per Share (EPS) Trend



Source: Bloomberg, Bajaj Allianz Research

FIIs have been net sellers in equities, but countered by strong buying by DIIs

Source: SEBI, BSE	Rs in Crore			
Year	FIIs	DIIs	MFs	Insurance
FY2008	52,572	47,794	15,948	31,846
FY2009	(48,250)	60,040	6,962	53,078
FY2010	110,752	24,211	(10,235)	34,446
FY2011	110,121	(18,709)	(19,974)	1,265
FY2012	43,738	(5,347)	(1,384)	(3,963)
FY2013	140,032	(69,069)	(22,008)	(47,061)
FY2014	79,709	(54,161)	(21,069)	(33,092)
FY2015	111,445	(21,446)	40,087	(61,533)
FY2016	(14,171)	80,416	66,143	14,273
FY2017	60,196	30,787	56,209	(25,422)
FY2018	21,074	113,258	140,517	(27,259)
FY2019	(90)	72,115	87,462	(15,036)

Source: SEBI, BSE	Rs in Crore			
Month-end	FIIs	DIIs	MFs	Insurance
30 April 2018	(6,468)	8,511	11,294	(2,782)
31 May 2018	(9,660)	15,055	13,619	1,436
30 June 2018	(2,577)	14,146	9,231	4,915
31 July 2018	1,429	4,213	3,995	218
31 August 2018	(2,029)	2,823	3,808	(673)
30 September 2018	(9,623)	12,505	11,638	867
31 October 2018	(27,623)	26,034	24,047	1,987
30 November 2018	6,223	801	5,243	(4,443)
31 December 2018	2,299	376	2,918	(2,543)
31 January 2019	(505)	2,147	7,161	(5,014)
28 February 2019	15,328	(566)	2,173	(2,739)
31 March 2019	33,116	(13,930)	(7,665)	(6,265)

- DIIs have been a strong force (helped by robust MF flows), and have helped to counter FII equity outflows. However, <u>net buying by DIIs have slowed down over the past few months</u>.
- FIIs have been net sellers this fiscal year, <u>but flows turned strongly positive over the past few months</u>.

FII equity flows pick up strongly in 2019, after the large outflow in 2018. India receives the highest FII inflow CYTD in 2019, within peer EM Asian markets

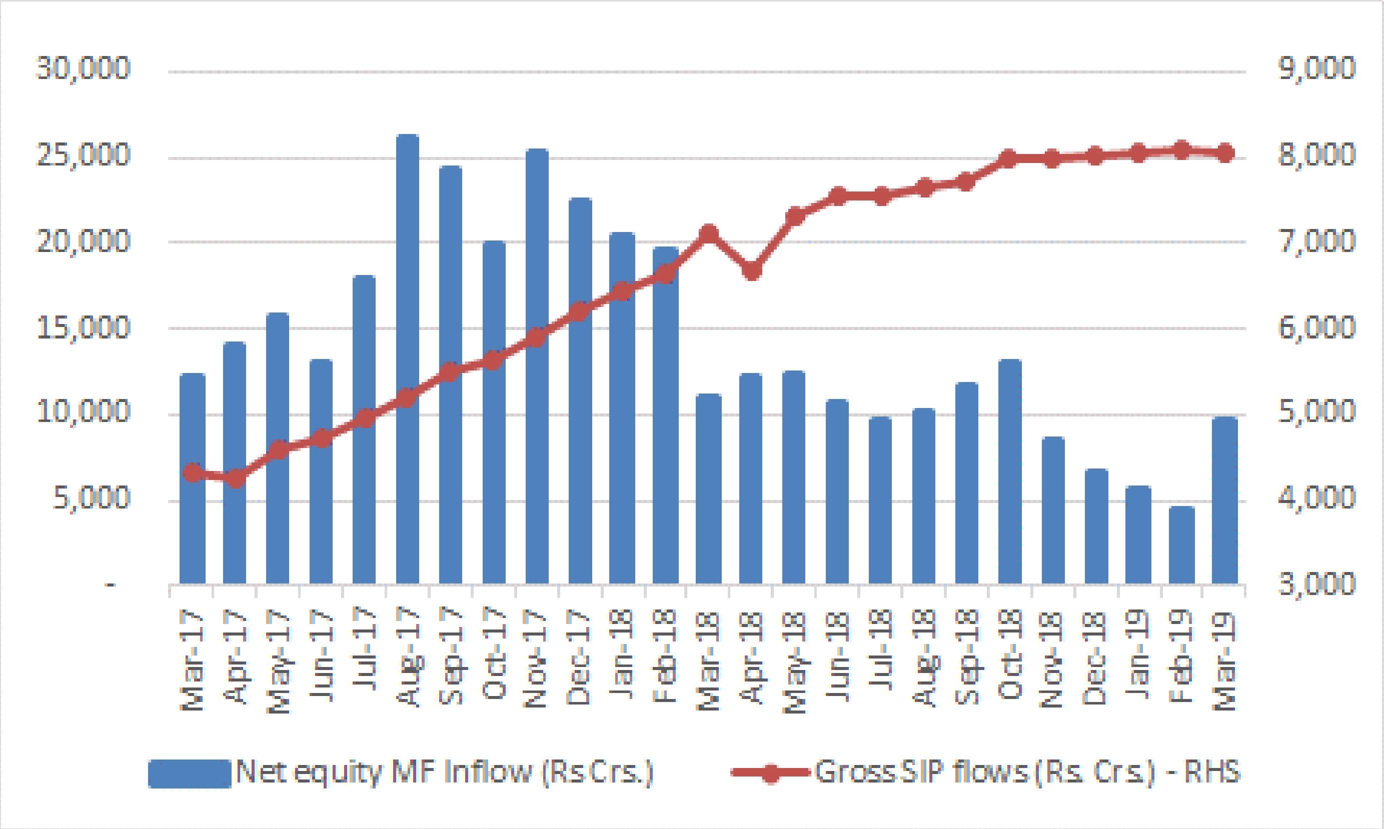
Foreign Equity Flows within Emerging Asian region ($ in bln)

Country	2015	2016	2017	2018	YTD
India	3.3	2.9	8.0	(4.6)	8.9
Korea	(3.6)	10.4	8.1	(5.7)	6.8
Taiwan	3.3	11.0	6.1	(12.2)	5.9
Philippines	(1.2)	0.1	1.1	(1.1)	0.7
Indonesia	(1.6)	1.2	(3.0)	(3.5)	1.0
Thailand	(4.4)	2.2	(0.8)	(8.9)	(0.3)
Malaysia	(5.1)	(0.6)	2.5	(2.9)	(0.5)
ASEAN	(12.2)	2.9	(0.2)	(16.4)	0.9
Emerging Asia	-$9.2	$27	$22	-$39	$22

Source: Goldman Sachs, Bloomberg. YTD 2019 data as of 18th April 2019

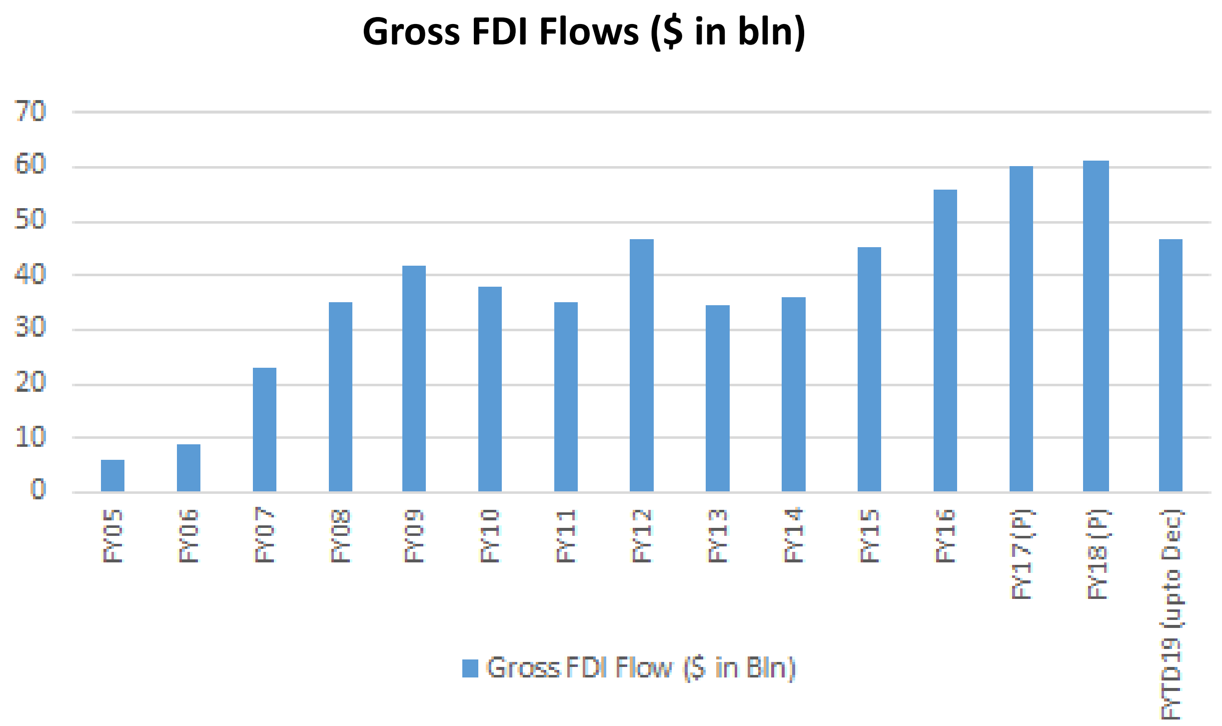
- Due to global risk-reversion, EM Asian markets (including India) had registered large FII outflows to the tune of $39 billion in 2018, compared to a net inflow of $22 billion in 2017.
- However, with the dovish stance of major global central banks, flows into emerging markets picked up in 2019.
- India has received one of the highest FII equity inflow CYTD in 2019, within the peer EM Asian region.

Domestic MF SIP flows have been growing, and are largely sticky in nature. MF lump-sum equity flows have seen some slowdown lately.



Source: AMFI. MF Equity flows include Equity funds, ELSS, 65% equity portion of balanced funds

FDI flows have also been strong due to ease of doing business, growth potential; but have seen some slowdown lately

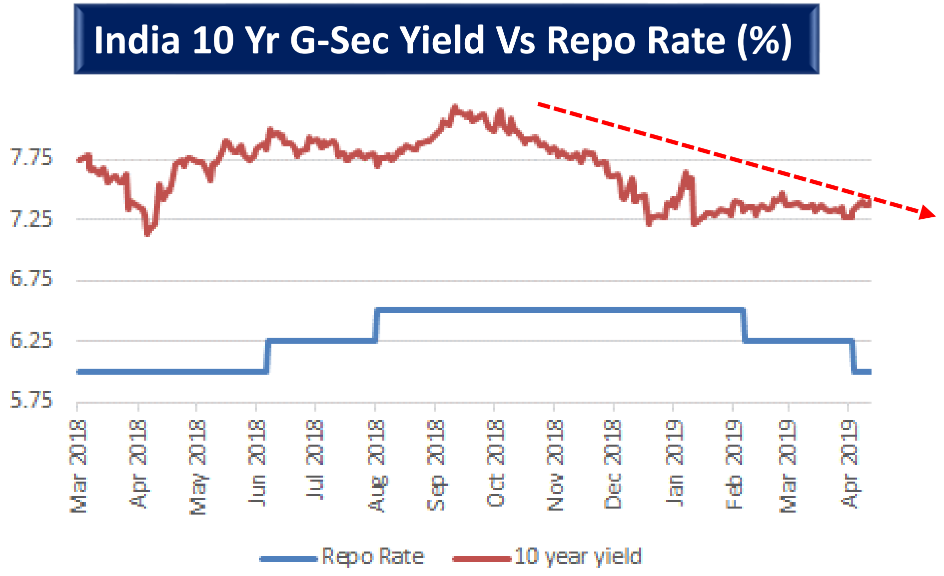


Source: DIPP

- India has seen healthy pick-up in FDI flows over the past few years, but there has been some slowdown lately
- Sectors with highest FDI flows in FYTD19 are Financial Services, IT (E-commerce) & Telecom
- India's ranking in "Ease of Doing Business" has moved up to 77 in 2018 (out of 190 countries), from 100 in 2017 and 130 in 2016

Fixed Income Markets

Bond yields have softened since late 2018; RBI engages in monetary easing



Source: Bloomberg

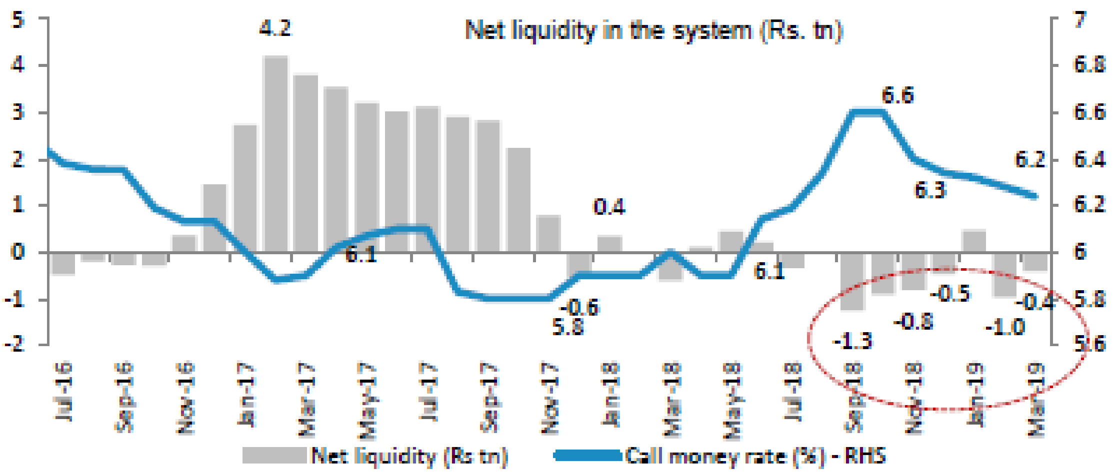
- Bond yields have softened since Oct 2018, due to softer crude oil prices, lower inflation, RBI turning dovish and cutting its inflation forecasts, recovery in rupee, and liquidity infusion by RBI. Bonds yields have fallen more at the shorter end of the yield curve.

- The RBI has turned dovish and cut rates twice in 2019 (Feb & April), and also cut the inflation trajectory. The central bank has also not ruled out further rate cuts, and said that it will be data-driven.

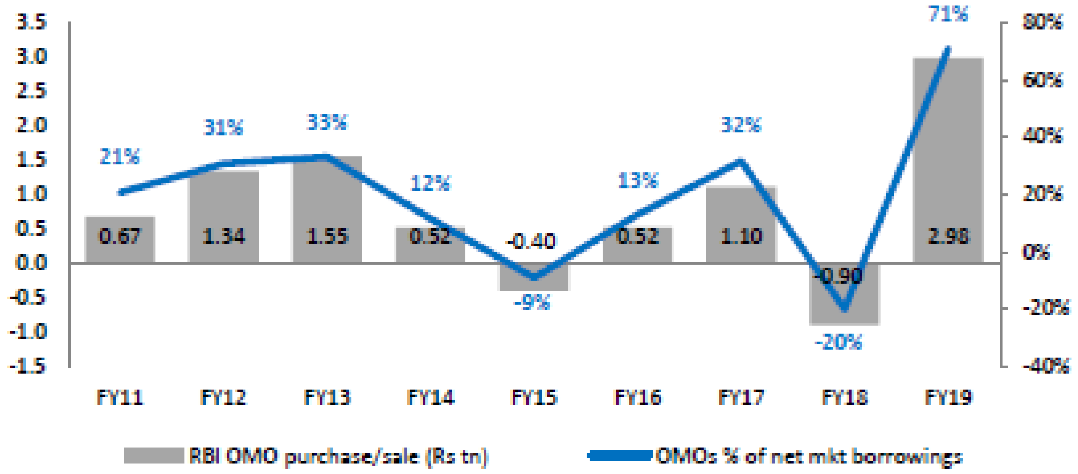
- However, bond yields hardened a bit post the April 2019 policy, as some segments were also expecting a change in policy stance to "accommodative" from "neutral". FII debt outflows, rising crude oil prices, and higher bond supply have also been putting pressure on bond yields lately.
- Corporate bond spreads continue to remain a bit elevated.

RBI has been infusing liquidity through the OMO route & recently through FX swaps, but liquidity still remains a bit tight

Net Liquidity in the system



OMO Purchase / (Sale) Trend

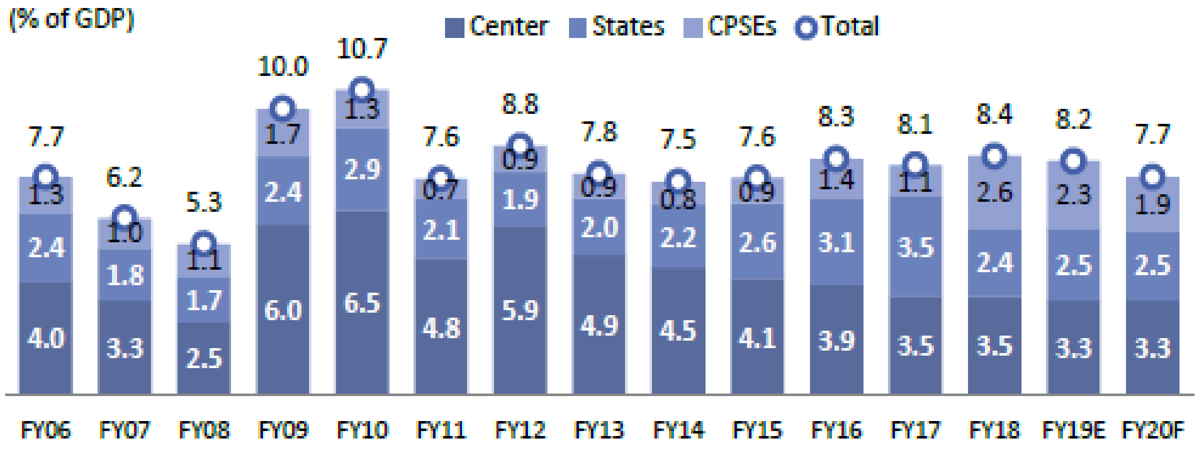


Source: RBI, Spark Capital

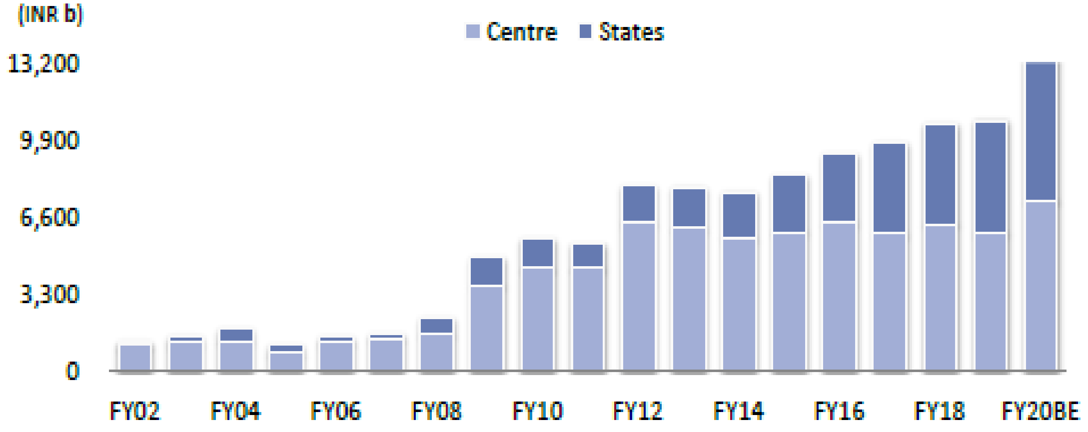
- With liquidity being tight within the system, the RBI has been proactive, by announcing liquidity infusion through OMO (Open Market Operation) purchases. Liquidity conditions have eased, but still remains a bit tight.
- RBI conducted OMO purchases of Rs. 3 trillion in FY19 & also announced $10 bilion FX swap so far in 2019 (March & April).
- The central bank said that it will continue to take steps to bring back liquidity to neutral levels.

Central fiscal deficit showing healthy consolidation, but combined fiscal deficit still elevated. Higher bond supply also putting pressure on bond yields.

Combined Fiscal Deficit/Borrowing Break-up Trend (% of GDP)



Gross Market Borrowing Trend (INR in billion)



Source: Motilal Oswal

- Central government fiscal deficit has come down over the years (although below expectations), but combined deficit/borrowing including state governments & CPSEs borrowing, is still high. The central govt. has managed to achieve the revised fiscal deficit target of 3.4% of GDP for FY19.

- Currently, the total borrowings of the government is crowding out the private investments. We expect post 2019, govt. to consolidate fiscal deficit further.

- Higher central & state govt. market borrowing / bond supply in FY20, is putting pressure on bond yields.

Market Outlook & Strategy

Corporate Earnings	• The markets will primarily be driven by how corporate earnings shape up. We expect acceleration in corporate earnings growth in FY20.
Elections	• The general elections may cause some short term volatility, but we expect it to be more transient in nature.
Dovish global monetary policy	• Dovish stance by major global central banks has been beneficial for emerging markets like India in terms of flows, currencies, stock market performance etc.
Sector & Market Cap Outlook	• We are positive on private banks, cement & metals; neutral on IT & pharma, and underweight on auto & FMCG sectors. • We still prefer large-caps from a relative valuation perspective, but have been recommending partial allocation to mid-caps over past few months.
Debt Markets	• While, we remain cautious on corporate bonds, G-Sec yields might remain range bound. We continue to prefer the short to medium term part of the yield curve, with a view to add duration if the opportunity arises.
Factors to watch out for	• Eye needs to be also kept on crude oil prices, US-China trade tariff developments, extent of global growth slowdown—and its impact on global risk appetite.

THANK YOU

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