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### Macro-economic developments

- The Non-farm payrolls in the United States bounced back to 196,000 in March 2019 (ahead of expectations), after slowing down to a revised 33,000 in the previous month. The unemployment rate remained steady at 3.8%.
- US Q1 2019 GDP growth (first estimate) came in higher at a healthy 3.2%YoY, compared to expectations of around 2.3% growth. However, consumer spending (biggest component of GDP) grew only 1.2%YoY. The major contributors to GDP growth during the quarter were higher inventories and net trade (due to lower imports).
- Recently, President Trump announced that the trade tariff on $200 billion of Chinese imports into US would go up from the current 10% to 25% from 10th May 2019. The US had put the increase in tariff on hold in December 2018, with trade negotiations underway between the US and China. President Trump also warned of tariffs on an additional ~$325 billion of Chinese imports into the US.
- Domestically, India's trade deficit rose to $10.9 billion in the month of March 2019, from $9.6 billion in the previous month, primarily on the back of rise in gold imports, even as export growth was healthy.
- The Index of Industrial Production (IIP) growth further slowed down to 0.1%YoY in Feb 2019, from 1.4%YoY in the previous month. Manufacturing sector (having 78% weight in IIP) growth dipped to -0.3%YoY in Feb 2019, from 1.0%YoY in the previous month. For FYTD19 (upto February) IIP growth was lower at 4.0%YoY, compared to 4.9%YoY in the corresponding period, a year ago—indicating that industrial activity remains sluggish.
- Consumer Price Index (CPI) headline inflation rose to 2.9%YoY in March 2019, from 2.0%YoY in the previous month, as food prices move into inflation territory (from disinflation earlier). Food inflation (biggest component of CPI, with 39% weight), came in at 0.3%YoY in March, vs -0.7%YoY in the previous month. However, core inflation (ex food & fuel) moderated to 5.1%YoY from 5.4%YoY in the previous month.
- Crude prices, continued to rise in April, with US removing earlier sanction waivers on Iran. Brent crude rose from $68.5/bbl at the end of March to ~$75/bbl mark in late April, before falling in the last week of the month—on the back of President Trump's comments requesting OPEC to raise oil output. Brent crude finally closed the month of April up 6.3%, at $72.8/bbl, and has further dipped post the close of the month.
- The rupee closed the month marginally down 0.6%, at 69.57/US dollar, on the back of rising crude oil prices, and some foreign debt outflows.

### Equity market developments and Outlook

- Indian markets delivered moderate returns in April, with the benchmark Nifty index closing the month up ~1%. The broader market underperformed during the month, with the Nifty Midcap 50 index and Nifty Smallcap 100 index returning -4.2% and -3.7% respectively. Sectors that outperformed during the month included IT and metals. The sectors that underperformed during the month were realty, power, capital goods and banking.
- Global markets mostly closed in the green, with the MSCI World index, MSCI Asia ex-Japan index and MSCI Emerging Markets index returning +3.4%, +1.9% and +2.0% respectively. Developed markets mostly outperformed in April.
- In the US, the S&P 500 index rose by 3.9% in April. Most of the European markets also fared well during the month, with Germany's DAX index being one of the top performers and returning +7.1%. Within Asia, Singapore (+5.8%) and Japan (+5.0%) were among the top performers, while China (-0.4%) and Indonesia (-0.2%) were relative underperformers during the month.
- Foreign portfolio investor (FPI) flows remained healthy at ₹ 20,280 crore in April, compared to a strong net inflow of ₹33,116 crore in the previous month.
- Domestic Institutional Investor's (DIIs) net investment in equities continued to be negative, and registered a net outflow of ₹ 4,219 crore in April after registering a large net outflow of ₹ 13,930 crore in the previous month.
- Markets will focus on and draw cues from how corporate earnings shape up over the next few quarters, with trailing valuations presently being relatively elevated. We expect a pick-up in earnings growth in FY20 to around 18% for Nifty 50 index, and the future trajectory of markets will primarily be guided by that.
- From a sectoral perspective, we are presently positive/overweight on private banks, cement, capital goods, and pharma; neutral on IT, and underweight on auto & FMCG sectors.
- From a market-cap perspective, we still prefer large-caps, but have been recommending partial allocation to mid-caps over past few months—where we see select bottom-up opportunities. Investors should continue to invest systematically in equities.

### Fixed Income market developments and Outlook

- Bond yields hardened during the month on the back of lower than expected dovish signal from the RBI, rising crude oil prices, higher bond supply, FPI debt outflows, tight liquidity conditions, and some credit events. However, bond yields softened a bit in late April, on the back of some correction in crude oil prices, and OMO purchase announcement. The new 10 year benchmark yield finally closed the month at 7.41% - up 6 bps.
- The RBI cut policy rates by 25 bps in its April 2019 policy, as expected. It retained the policy stance at "neutral", and bond yields hardened post the policy announcement, as some market segments were expecting a change in stance to "accommodative". The central bank also continued to trim the inflation projection—with CPI headline inflation forecast being cut to 2.9-3.0% for H1 FY20 (from 3.2-3.4% earlier), and for H2 FY20 to 3.5-3.8% (down from 3.9% for Q3 FY20 projected earlier). The RBI, however, highlighted various uncertainties to the inflation projection, with risks broadly balanced. It also cut the GDP growth forecast for FY20 to 7.2%YoY (from 7.4% earlier)--with risks evenly balanced.
- RBI maintains that future monetary policy action will be data-driven. The RBI governor again indicated that central bank's focus will remain on the evolving macro & growth situation, in guiding monetary policy.
- On the liquidity front, the RBI announced OMO purchases of ₹ 25,000 crore for the month of May, which was a positive, as expectations of OMOs had dwindled, with the central bank using forex swaps lately to infuse rupee liquidity.
- India was able to achieve its revised fiscal deficit target of 3.4% of GDP for FY19, by cutting expenditure, and crossing the divestment target, while GST collections remained below the targeted amount, and remained a drag on the fiscal deficit. However, GST collections for the month of April 2019 (indicating activity in March) reached a record high of ₹1.14 trillion versus an average of ₹981 billion in FY19.
- Foreign Portfolio Investors (FPIs) in debt markets registered a net outflow of ₹5,857 crore in April, compared to a strong net inflow of ₹15,352 crore in the previous month.
- 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.