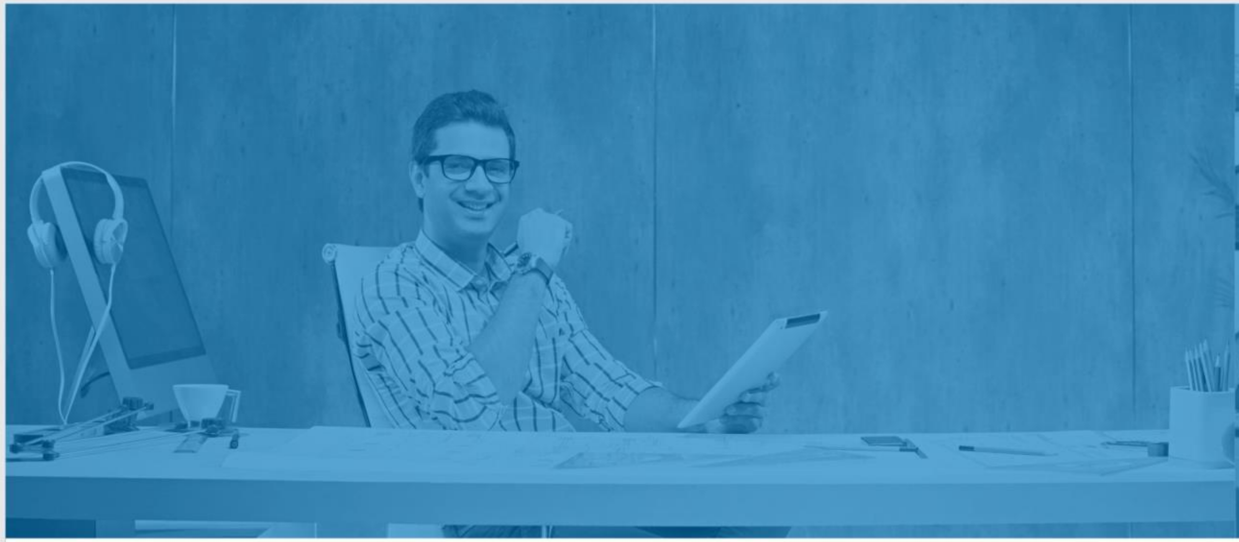
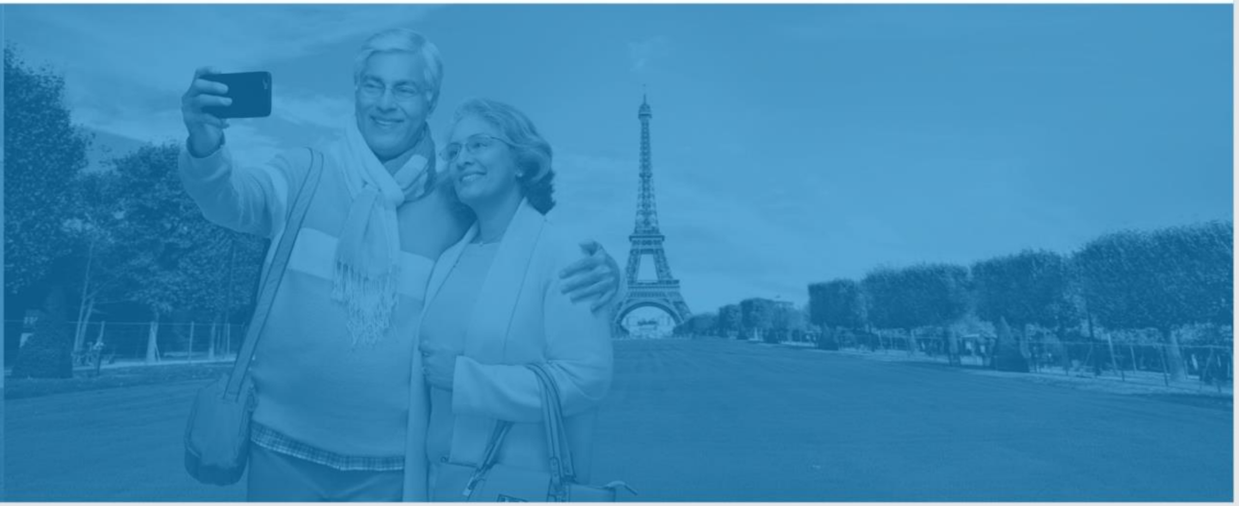



Elections 2019 and Market & Macro Review

May 2019

LIFE GOALS. **DONE.**

BAJAJ | Allianz

General Elections 2019

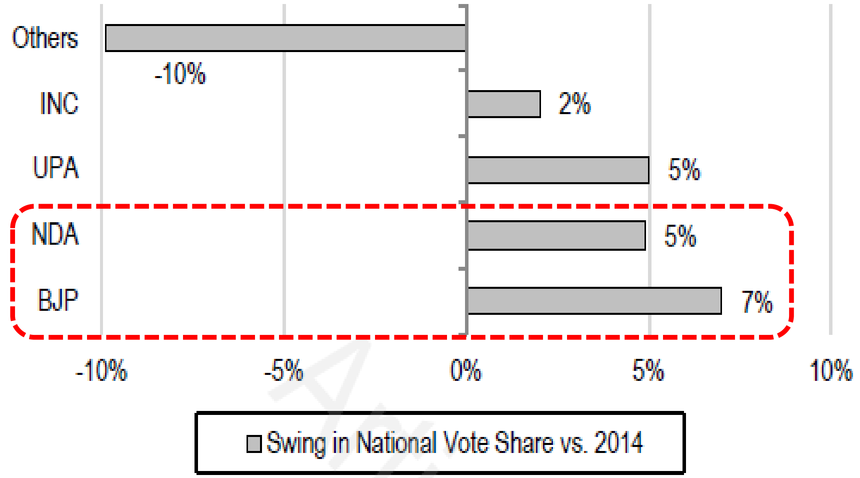
NDA wins with a strong majority, and also increases its vote share

General Elections Outcome 2019 Vs 2014 – No. of Seats

Parties	2014	2019
Bharatiya Janata Party (BJP)	282	303
Other NDA parties	54	50
BJP led alliance – National Democratic Alliance	**336**	**353**
Indian National Congress (INC)	45	51
Other UPA parties	24	40
Congress led alliance – United Progressive Alliance	**69**	**91**
Others	138	99
Total Seats	**543**	**543**

Source: Election Commission, Macquaire Research

Vote Share change – 2019 Vs 2014



Source: Credit Suisse

- The incumbent NDA alliance won the 2019 general elections with a strong majority, and improved performance from even the 2014 general elections.
- The NDA & BJP saw an improvement in their vote share (% of total votes secured) in the 2019 elections, as compared to 2014.

Elections impact – Key factors

A strong mandate will help in continuity in economic & other reforms

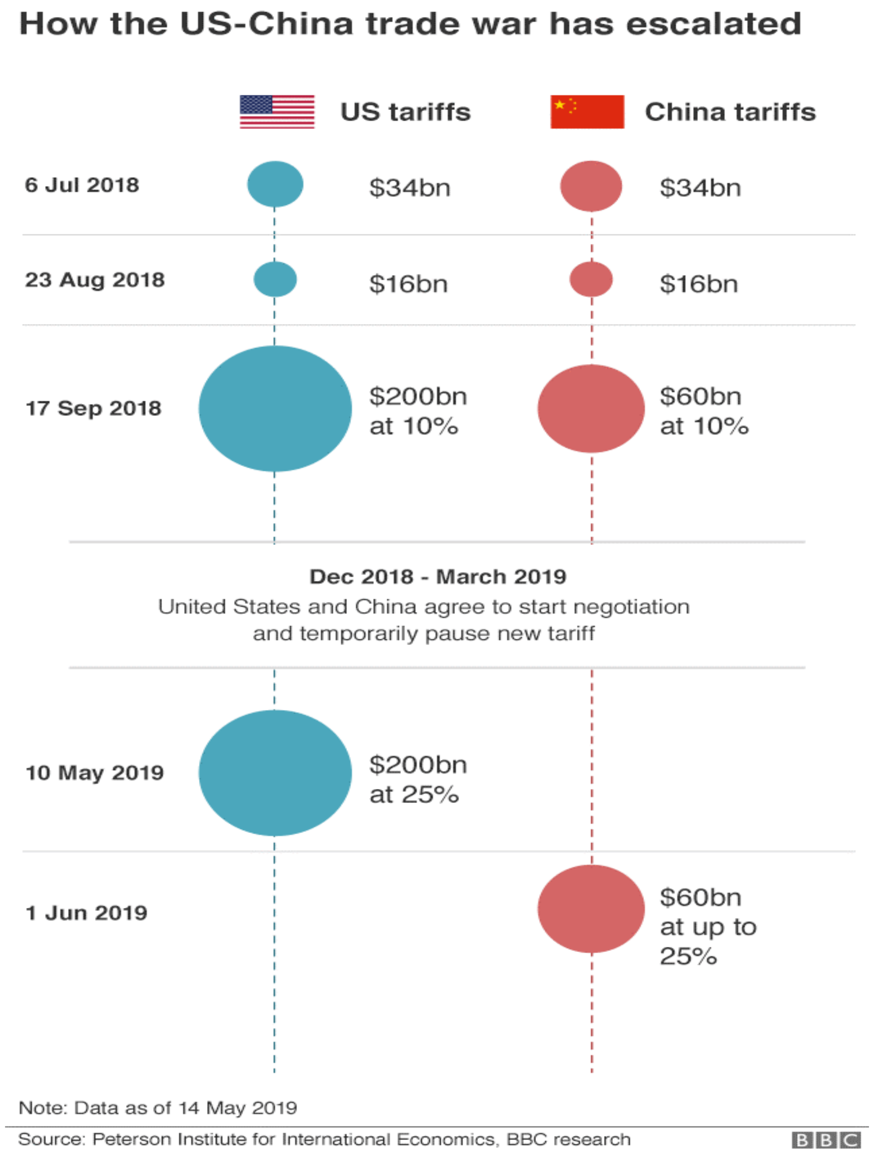
Govt. expected to focus on infrastructure / investment and help in reviving the capex cycle (esp. provide some impetus to revive pvt. investment / capex)

Help fulfil manifesto promise to the rural / agriculture sector

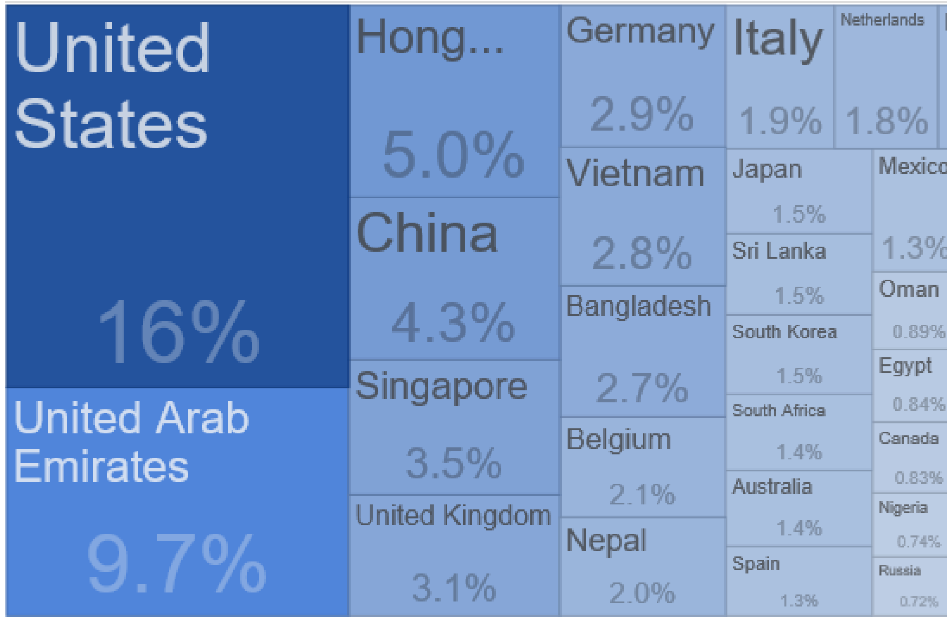
Further streamline GST and widen the tax net. Also continue towards working to improve governance reforms (ease of doing business rankings)

Global Macro & Markets

US-China Trade War Escalation



India Merchandise Exports (% of Overall Exports)



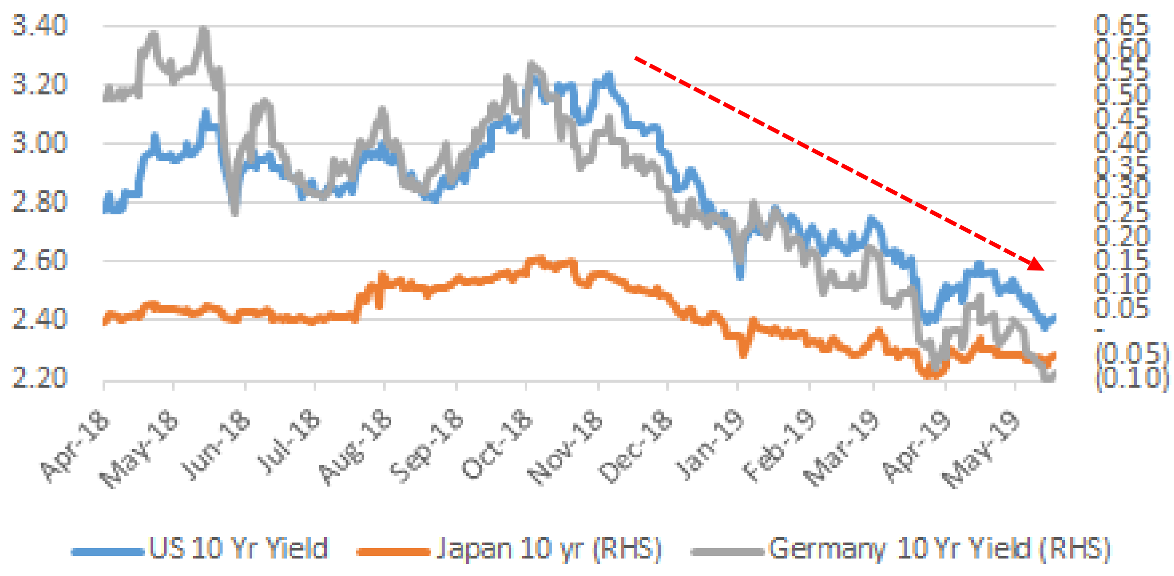
Source: TradingEconomics

- The US–China trade war has escalated, with the US increasing import duty on $200 bln of China imports from 10% to 25%, effective 10th May 2019. President Trump also warned of imposing duty on remaining ~320 bln of China imports.
- China retaliated by increasing duty on $60 bln of US imports from 10% to 25% effective 1st June 2019.
- India's merchandise exports to China is ~16% of overall merchandise exports, so the impact will be relatively limited, if the trade war escalates & spreads to other countries.

Source: BBC

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

Global 10 Yr Bond Yields (in %)



US Fed – Mar 2019 meeting projections

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 normalization from May 2019, and end it in Sep 2019. Dovish undertone continued in April policy too, as it left rates unchanged.
- ECB also turned quite dovish in its March policy--cut inflation & growth forecasts, and said that rates would be unchanged 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 esp. the US & Euro Area.
- Global growth slowdown being accentuated by escalating US-China Trade war.
- 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.
  - ➢ India's CSO expects GDP growth at 7.0%YoY in FY19 vs first estimate of 7.2%.
  - ➢ RBI project GDP growth at 7.2% for FY20 (vs 7.4% earlier)
- 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.

Indian equity market has fared relatively well over the past year, and also over the long term

Performance of International Indices (ended 23rd May 2019, in %)					
Index Name	Country / Region	YTD	1 Yr	3 Yrs	5 Yrs
BOVESPA	Brazil	6.9	16.1	23.9	12.3
Nifty 50	**India**	**7.3**	**11.8**	**14.7**	**9.6**
RTS RTSI PR USD	Russia	19.3	8.6	13.2	-0.8
S&P/ASX 200	Australia	15.0	7.6	6.9	3.4
JSX Composite	Indonesia	-2.6	4.2	8.3	3.9
S&P 500 PR	US	12.6	3.3	11.3	8.2
MSCI World PR USD	World	10.8	-1.7	8.5	4.2
CAC 40	France	11.6	-5.1	6.9	3.3
TSEC TAIEX	Taiwan	6.0	-5.3	7.3	2.7
Nikkei 225	Japan	5.7	-6.8	8.3	7.9
FTSE 100	UK	7.5	-7.2	5.6	1.2
FTSE SET All Share	Thailand	3.0	-7.5	5.2	2.6
FSE DAX TR	Germany	13.2	-7.9	6.7	4.1
FTSE/SGX STI	Singapore	3.0	-9.6	4.5	-0.7
Shanghai Composite	China	14.4	-10.0	0.1	7.0
Hang Seng	Hong Kong	5.5	-11.1	11.2	3.5
FTSE Bursa Malaysia KLCI	Malaysia	-5.2	-11.2	-0.7	-3.0
MSCI EM PR USD	Emerging Markets	2.0	-13.1	7.7	-1.1
MSCI Asia Ex Japan PR USD	Asia Ex Japan	2.9	-13.7	8.6	1.5
KOSPI	South Korea	0.9	-16.7	1.7	0.4

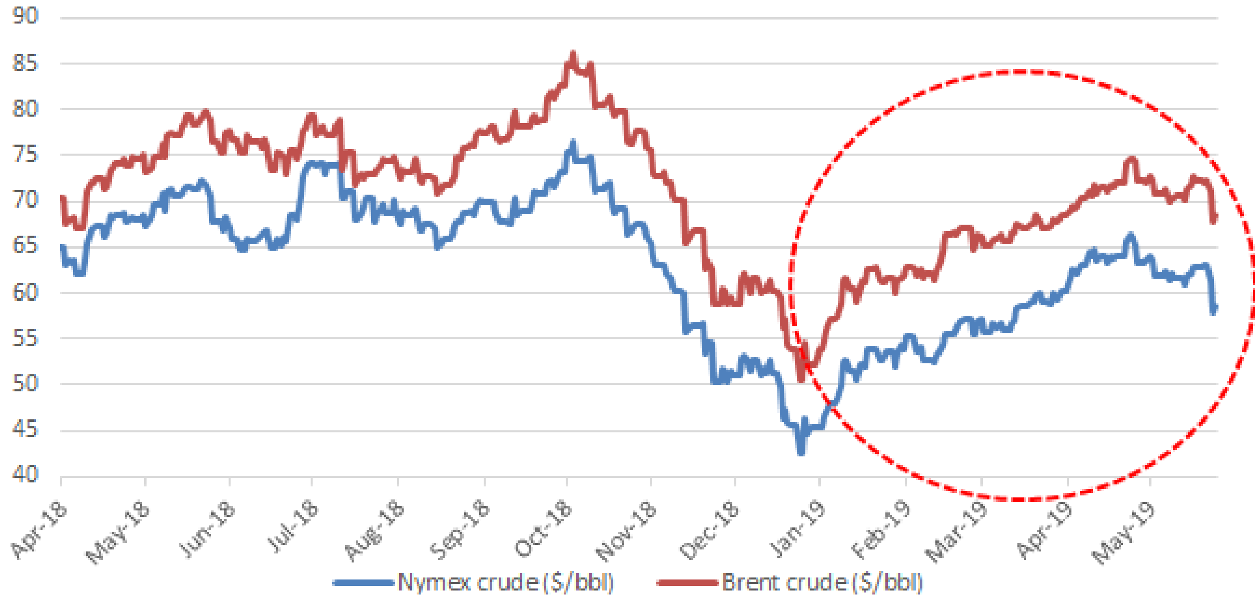
Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR
Date sorted on the basis of 1 Yr return in descending order

- 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.
- 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 in Q1 2019 (+23.9%), but has seen a sharp correction over the past month or so – due to escalation of US-China Trade war.
- Other Asian markets like Korea, Malaysia, Hong Kong, Singapore and Thailand have also underperformed over the past year.

Domestic Macro-economic Scenario

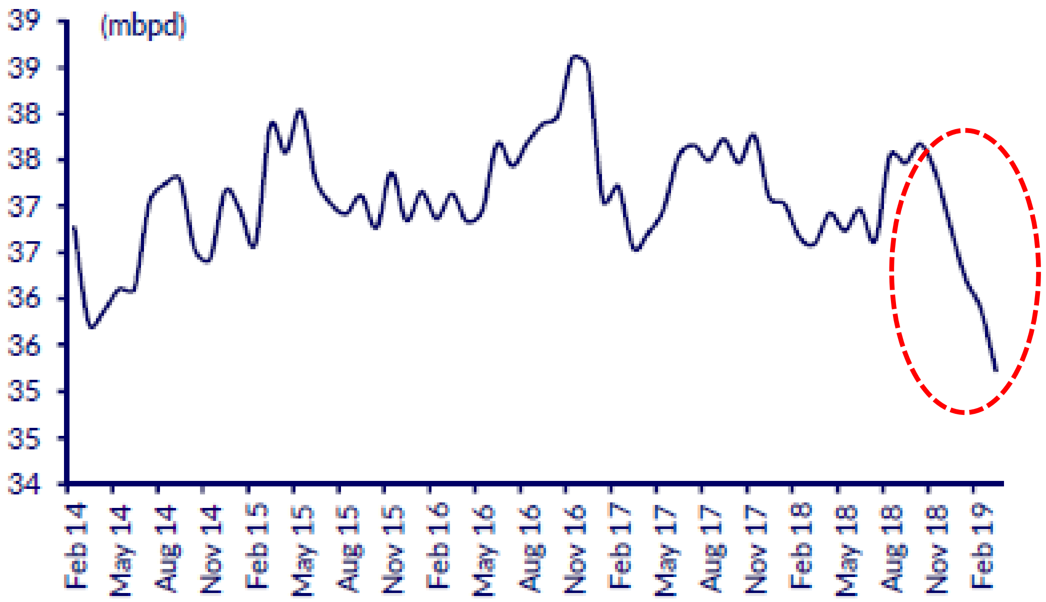
Crude prices rebound to some extent in 2019, after seeing a sharp fall in late 2018

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 fall in US oil inventories. Recently, crude saw some correction, with Trump asking OPEC to increase production, and also on the back of trade tensions.
- This has again raised some concerns on the current account deficit (CAD) front--with India oil imports accounting for ~80% of domestic oil demand & ~50% of merchandise trade deficit. CAD expected at 2.1-2.3% in FY19 vs 1.8% in FY18. Also, we may see some lag effect on inflation to some extent.

The rupee has recovered considerably from its lows, and stabilised lately

Peformance of Various Currencies against USD (in %, as of 23rd May 2019)				
Name	3 mths	1 Yr	3 Yrs	5 Yrs
Thai Baht	3.3	0.5	3.7	0.4
Japanese Yen	2.8	0.2	-0.1	-1.5
Swiss Franc	-0.9	-1.3	-0.5	-2.3
Indonesian Rupiah	0.6	-1.7	-2.1	-4.3
Indian Rupee	**1.3**	**-2.3**	**-1.2**	**-3.6**
Singapore Dollar	-0.4	-2.6	0.0	-1.9
Euro	-1.7	-4.7	-0.1	-3.9
Russian Ruble	2.3	-5.0	1.1	-12.0
Malaysian Ringgit	0.0	-5.0	-0.9	-5.2
Pound Sterling	-1.1	-5.0	-4.3	-5.5
Taiwan Dollar	-2.1	-5.1	1.2	-0.9
Yuan Renminbi	0.3	-7.7	-1.8	-2.1
Australian Dollar	-4.7	-8.8	-1.5	-5.7
Brazilian Real	-5.4	-9.5	-4.0	-11.3
South African Rand	-4.3	-13.2	2.9	-6.6
Turkish Lira	-13.4	-20.2	-21.2	-19.4
Pakistan Rupee	-11.6	-23.7	-11.5	-8.2
Argentine Peso	-18.5	-45.7	-32.3	-29.1

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, correction in crude oil prices from 2018 highs, 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, and Brazilian Real 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 mostly benign, and below the forecast trajectory

CPI Inflation & its Components (% YoY)

% y-o-y	Weight (%)	Feb-19	Mar-19	Apr-19
Headline CPI	**100.0**	**2.6**	**2.9**	**2.9**
Food	39.1	(0.7)	0.3	1.1
Intoxicants	2.4	5.5	4.6	4.3
Beverages	1.3	3.9	3.6	3.2
Prepared meals	5.6	3.5	3.2	2.7
Fuel	6.8	1.2	2.3	2.6
Clothing	6.5	2.7	2.5	2.0
Housing	10.1	5.1	4.9	4.8
Miscellaneous	28.3	6.0	5.7	5.1
H'hold Goods & services	3.8	6.3	6.0	5.1
Health	5.9	8.8	8.9	8.4
Transport & Communication	8.6	3.1	3.0	2.5
Recreation	1.7	5.5	5.6	5.6
Education	4.5	8.1	7.5	6.9
Personal Care	3.9	5.0	4.1	3.1
Core CPI (CPI ex-food & fuel)	**47.3**	**5.4**	**5.1**	**4.5**

- CPI headline inflation has risen marginally —primarily due to rise in food inflation (as expected); but is still well below the target. Core inflation (ex food & fuel) continued to moderate.
- In its April policy, RBI further cut CPI headline inflation forecast to 2.9-3.0%YoY in for H1 FY20 (from 3.2-3.4% YoY earlier). For H2 FY20, the RBI projects inflation at 3.5-3.8%YoY (down from 3.9% for Q3 FY20 projected earlier). However, the RBI highlighted various uncertainties.

Source: Nomura

Industrial Production …..some way to go before recovery

IIP components, yoy growth rate, %

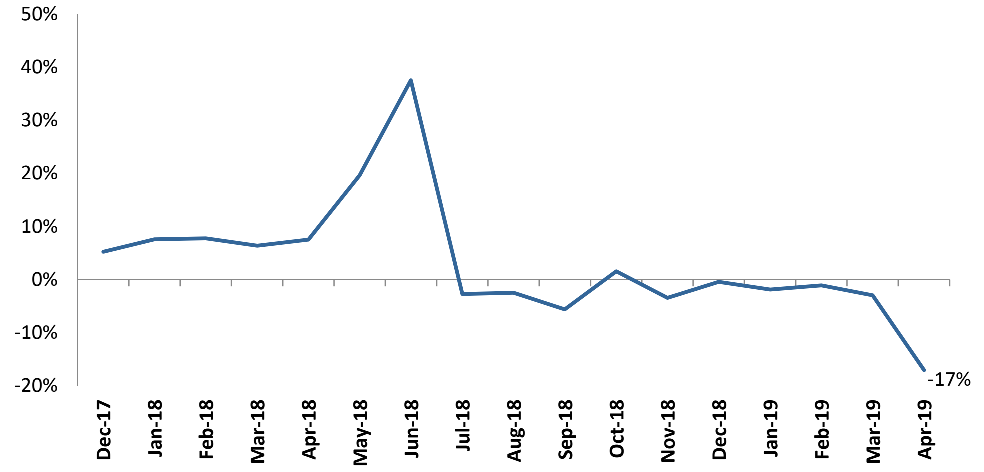
	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sept-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
IIP	5.3	4.5	3.8	7.0	6.5	4.8	4.6	8.4	0.2	2.5	1.4	0.1	-0.1
Mining (wt. 14.37)	3.1	3.8	5.8	6.5	3.4	-0.6	0.1	7.3	2.7	-1.0	3.9	2.2	0.8
Manufacturing (wt. 77.63)	5.7	4.9	3.6	6.9	7.0	5.2	4.8	8.2	-0.7	2.9	1.0	-0.4	-0.4
Electricity (wt. 8)	5.9	2.1	4.2	8.5	6.6	7.6	8.2	10.8	5.1	4.5	0.9	1.3	2.2

Source: MOSPI, Phillip Capital

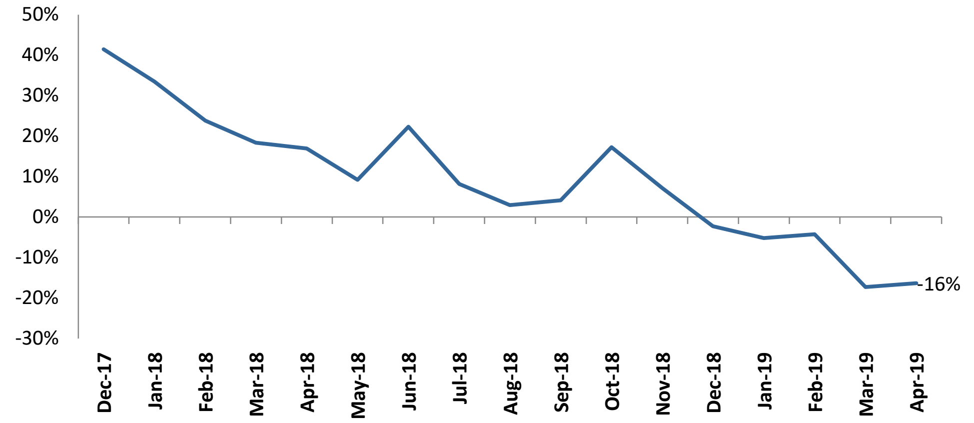
- Index of Industrial Production (IIP) has decelerated over the past few months, primarily due to slowdown in manufacturing sector (has highest weight of ~78% in IIP). Other sectors like electricity and mining have also seen a slowdown.
- For FY19, IIP growth was lower at 3.6%YoY, compared to 4.4%YoY in the corresponding period, a year ago.

High Frequency Indicators: Auto sector sees slowdown

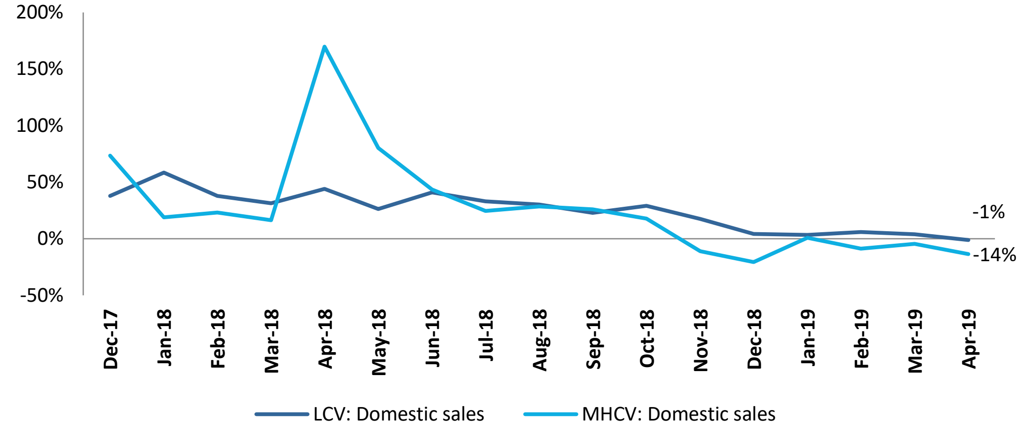
Monthly Passenger Vehicles Sales Growth(%YoY)



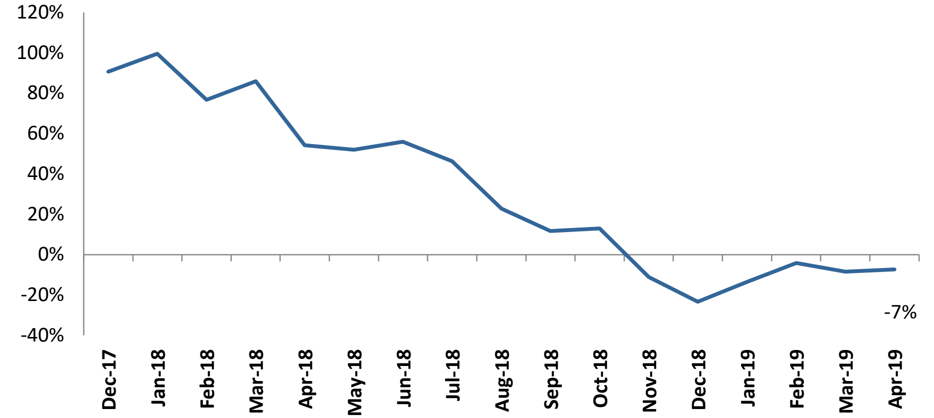
Monthly 2-Wheeler Sales Growth(%YoY)



Monthly Commercial Vehicles Sales Growth(%YoY)



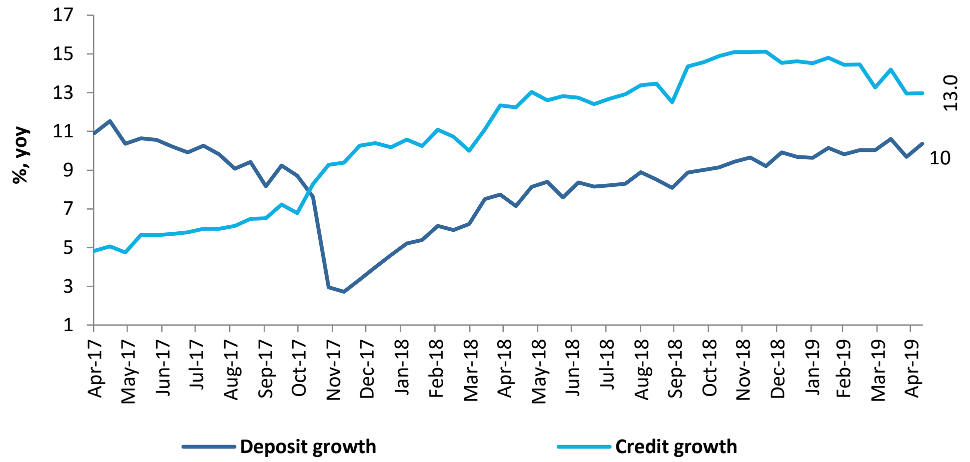
Monthly 3-Wheeler Sales Growth(%YoY)



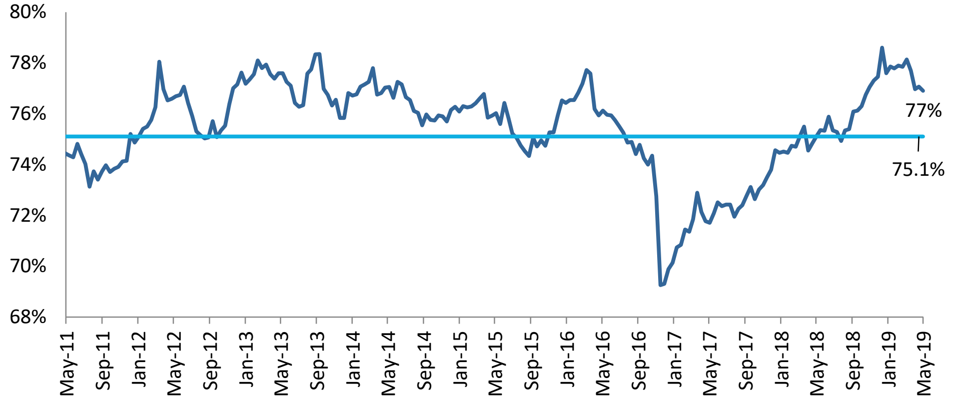
Source: SIAM, Spark Capital. LCV – Light Commercial Vehicle, MHCV = Medium & Heavy Commercial Vehicle

High Frequency Indicators: Credit growth in recovery phase. Cement output growth is healthy while steel output is moderate. Coal & refinery products output picks up.

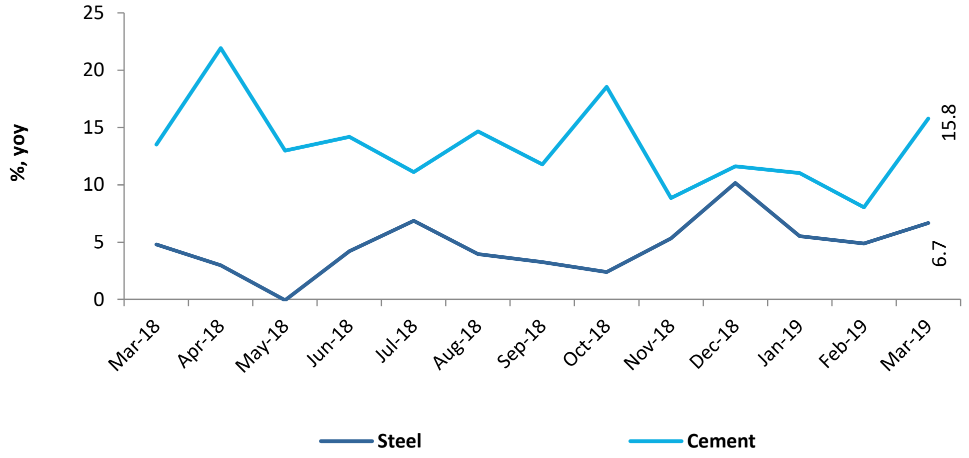
Credit & Deposit Growth (%YoY)



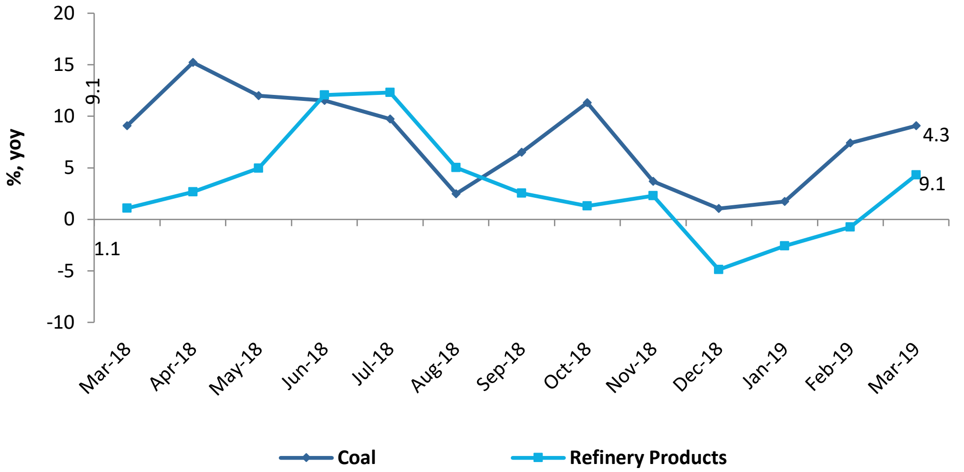
Credit to Deposit Ratio – Elevated, with deposit growth lagging credit growth; but falls marginally lately



Monthly Steel & Cement Output (%YoY)



Monthly Coal & Refinery products Output (%YoY)



Source: Spark Capital

Equity Markets, Valuations, Earnings & Flows

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

Domestic indices

Index	Trailing P/E	Trailing P/B	Price performance (%) 1D	1M	3M	12M
Sensex	28.4	3.0	(0.8)	0.6	8.5	12.0
Nifty	26.0	3.0	(0.7)	0.7	8.6	10.6
BSE Mid Cap	30.1	2.4	(0.1)	(3.3)	4.7	(6.9)
BSE Small Cap	NA	2.2	(0.1)	(2.9)	8.1	(15.9)
BSE Auto	171.1	2.8	(0.5)	(5.4)	1.5	(23.8)
BSE Banks	41.4	2.6	(0.4)	3.3	13.6	18.5
BSE Capital Goods	23.9	3.4	0.2	4.3	13.6	2.7
BSE FMCG	38.8	8.2	0.7	(3.1)	2.0	2.2
BSE Healthcare	30.5	3.0	(1.1)	(8.2)	(1.1)	3.2
BSE IT	20.1	4.5	(1.8)	(4.0)	(0.2)	13.9
BSE Metal	9.1	1.1	(0.4)	(7.4)	1.0	(22.9)
BSE Oil & Gas	10.8	1.6	(0.9)	3.5	13.0	6.3
BSE Power	21.1	1.4	(1.6)	(3.8)	8.1	(7.5)

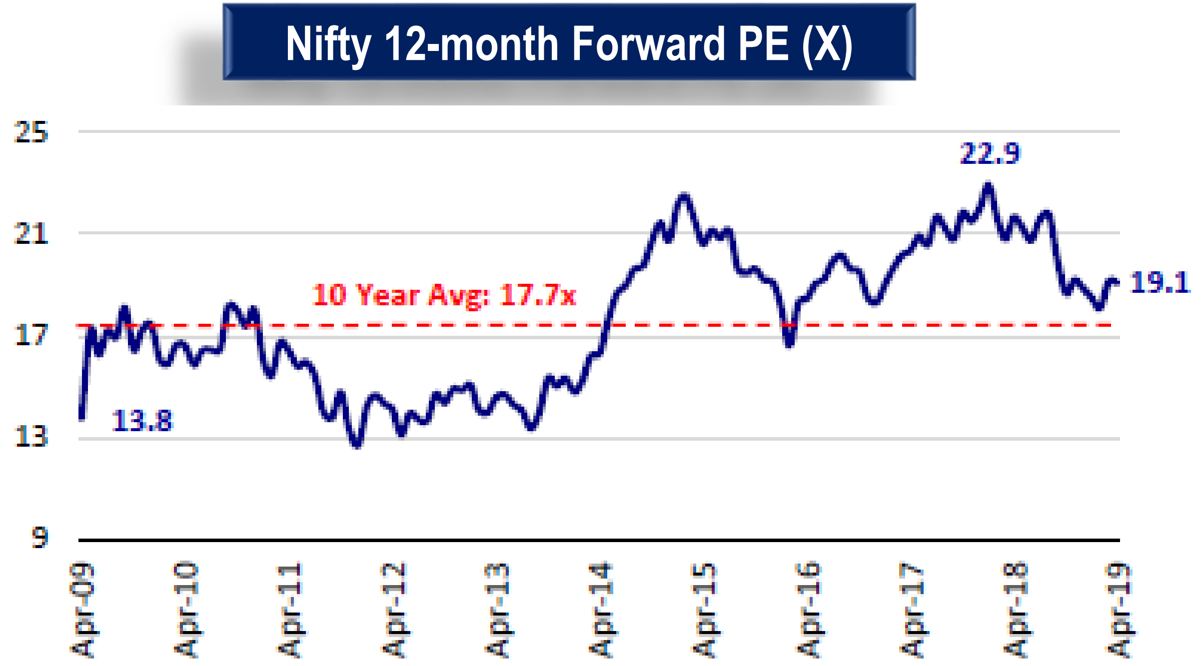
Source: Bloomberg, Credit Suisse. As of 23 May 2019

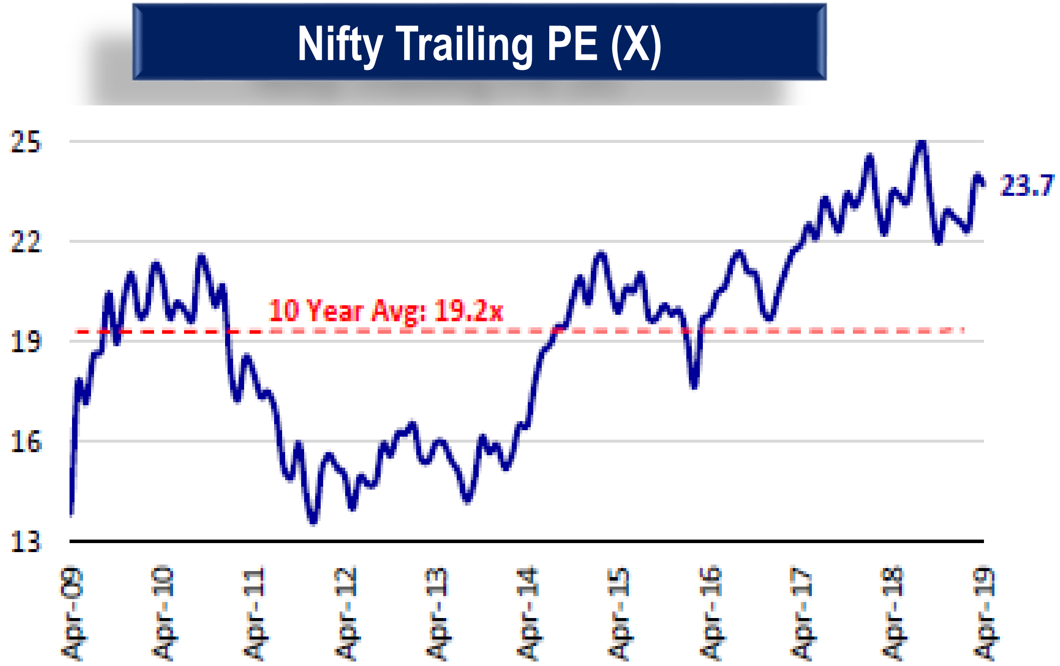
Nifty 50 Index contribution analysis for period Dec 2017 end to April 2019 end		
Name	**% Chg**	**Index Points Contribution**
Bajaj Finance Ltd	76.7%	1344
Tata Consultancy Services Ltd	75.0%	969
Tech Mahindra Ltd	72.0%	350
Reliance Industries Ltd	51.6%	474
Infosys Ltd	51.5%	255
Top 5 contributing stocks		**3392**
Remaining 45 index stocks		**-2175**
Nifty 50 index	**11.6%**	**1217**
Source: Bloomberg		

- It has been a narrow market since end of 2017, with bulk of the Nifty returns being contributed by a handful of stocks.
  - ➢ Top 5 contributing stocks of Nifty 50 index contributed (+) 3392 points, while remaining 45 stocks contributed (-)2175 points.
  - ➢ However, the narrowness has reduced in the recent rally, with broader markets faring better.

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

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

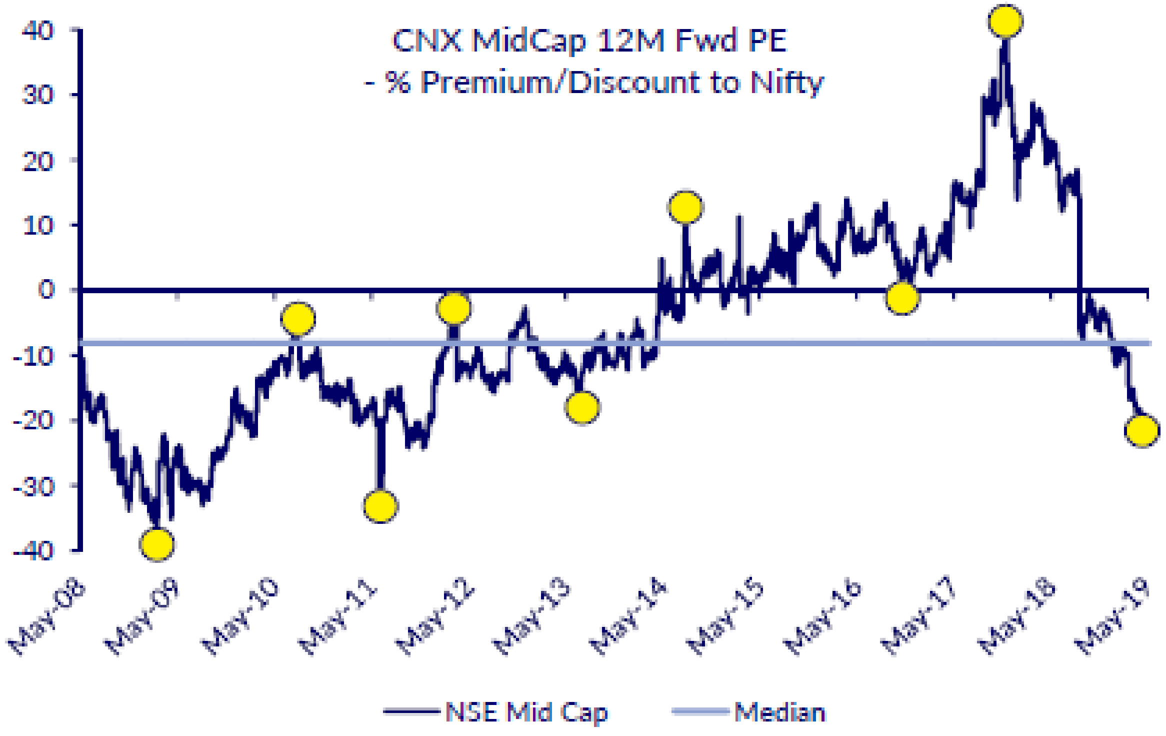




Source: Bloomberg, Motilal Oswal

Midcap companies have seen their valuation premium to large-caps compress, after the correction

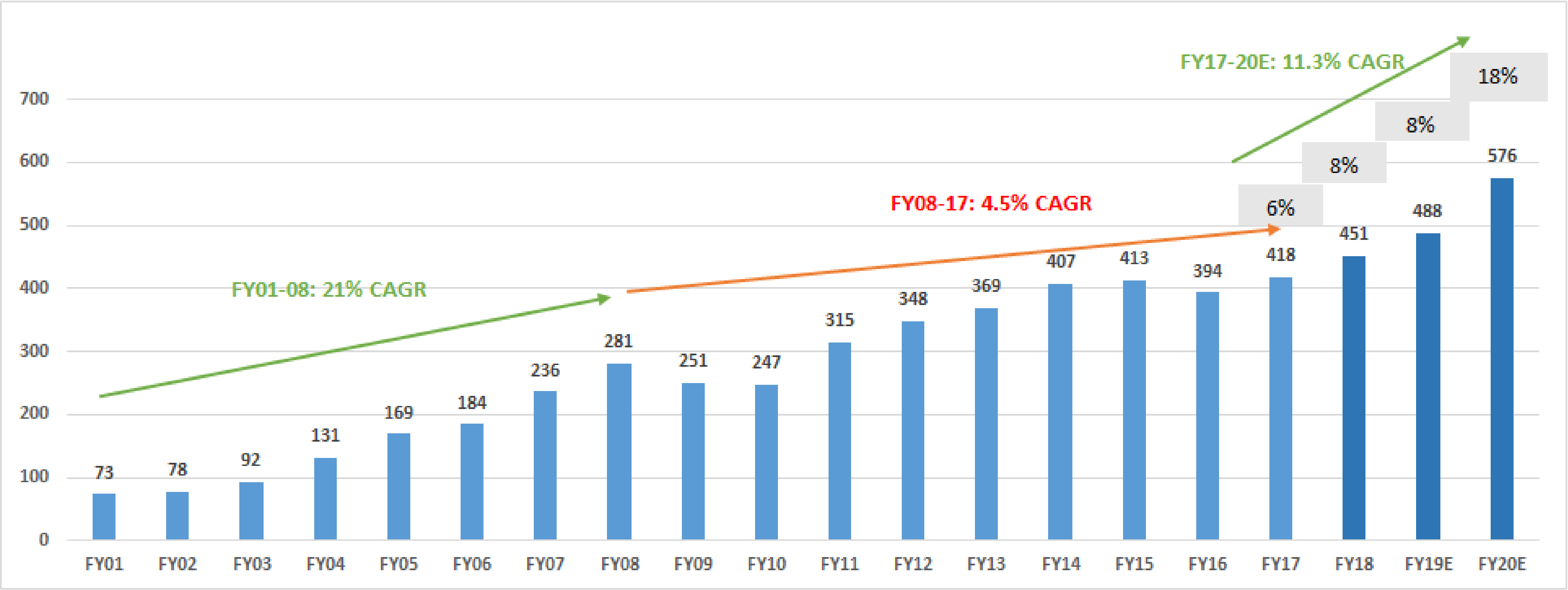
Nifty Midcap index 12 Mth Fwd PE % Premium/Discount to Nifty 50 index



Source: Bloomberg, CLSA

Corporate earnings growth expected to pick-up in FY20, after subdued growth over the past few years. Recently, Q4 FY19 results (so far) have been broadly lackluster.

Nifty Earnings Per Share (EPS) Trend



Source: Bloomberg, Bajaj Allianz Research

FIIs have been net sellers in equities in FY19, 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)
30 April 2019	20,280	(4,219)	(4,600)	380

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

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

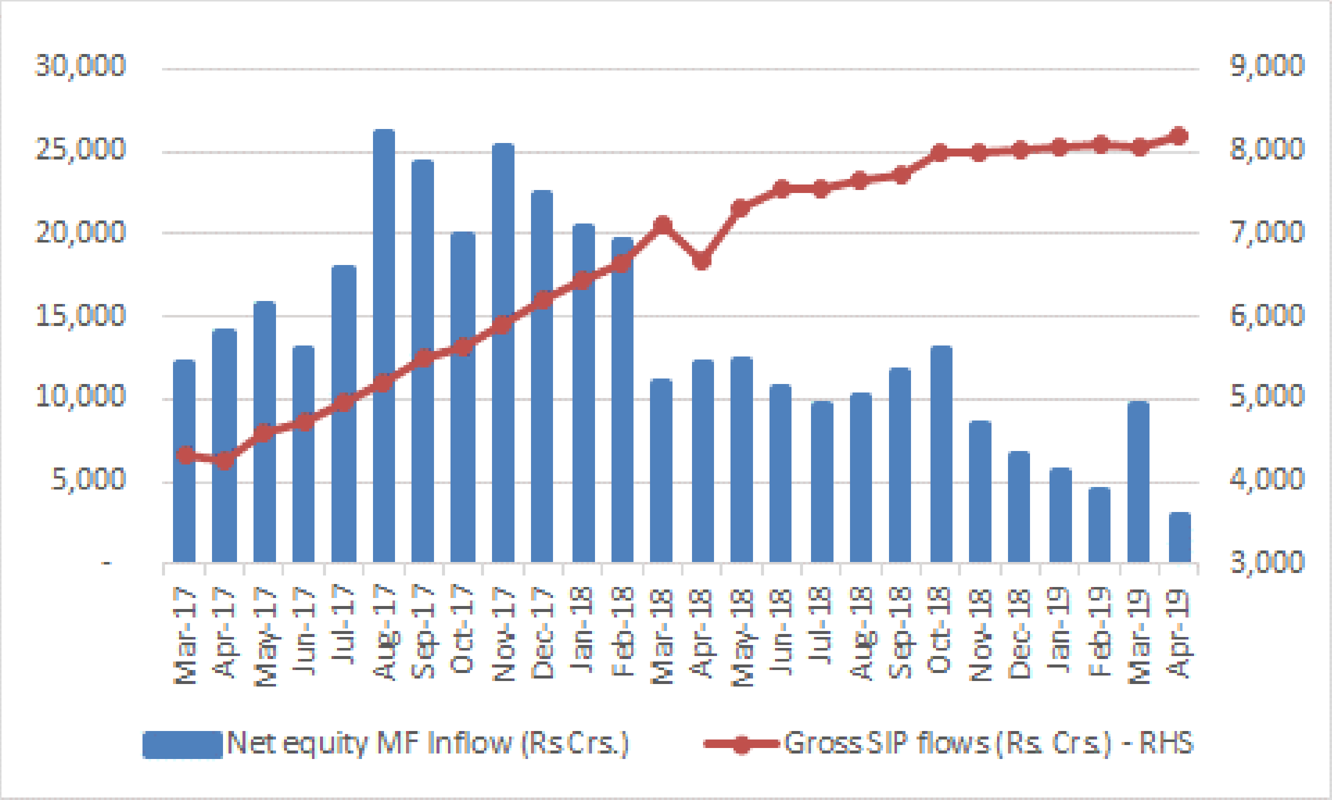
Foreign Equity Flows within Emerging Asian region ($ in bln)

Country	2015	2016	2017	2018	YTD
India	3.3	2.9	8.0	(4.6)	9.4
Korea	(3.6)	10.4	8.1	(5.7)	5.8
Taiwan	3.3	11.0	6.1	(12.2)	4.6
Philippines	(1.2)	0.1	1.1	(1.1)	0.7
Indonesia	(1.6)	1.2	(3.0)	(3.5)	4.1
Thailand	(4.4)	2.2	(0.8)	(8.9)	(0.8)
Malaysia	(5.1)	(0.6)	2.5	(2.9)	(1.0)
ASEAN	(12.2)	2.9	(0.2)	(16.3)	3.1
Emerging Asia	-$9.2	$27	$22	-$39	$23

Source: Goldman Sachs, Bloomberg. YTD 2019 data as of 17th May 2019

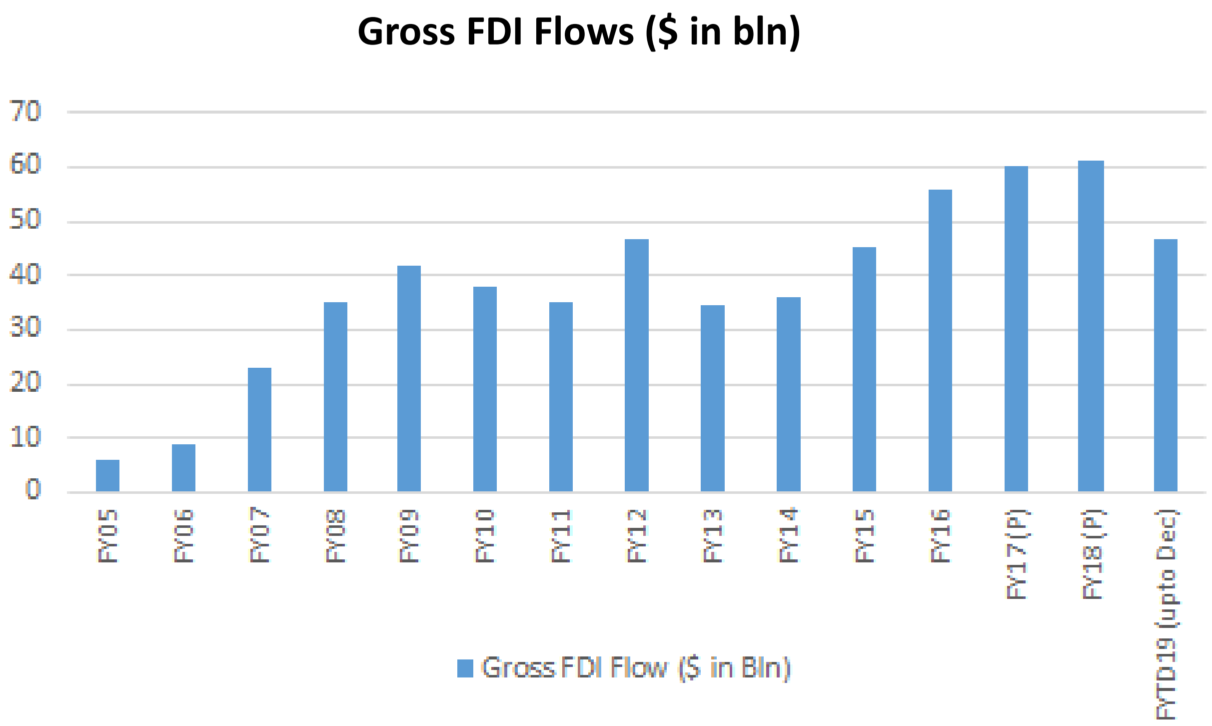
- Due to global risk-reversion, EM Asian markets (incl. India) had registered large FII outflows to the tune of $39 billion in 2018, compared to a net inflow of $22 billion in 2017.
- However, with the dovish stance of major global central banks, flows into emerging markets picked up in 2019.
- India has received one of the highest FII equity inflow CYTD in 2019, within the peer EM Asian region.
- However, the inflow in March-April 2019 has been quite high. We don't expect the same run-rate of inflows going forward, and we may see FII inflows moderating/stabilizing, going forward.

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

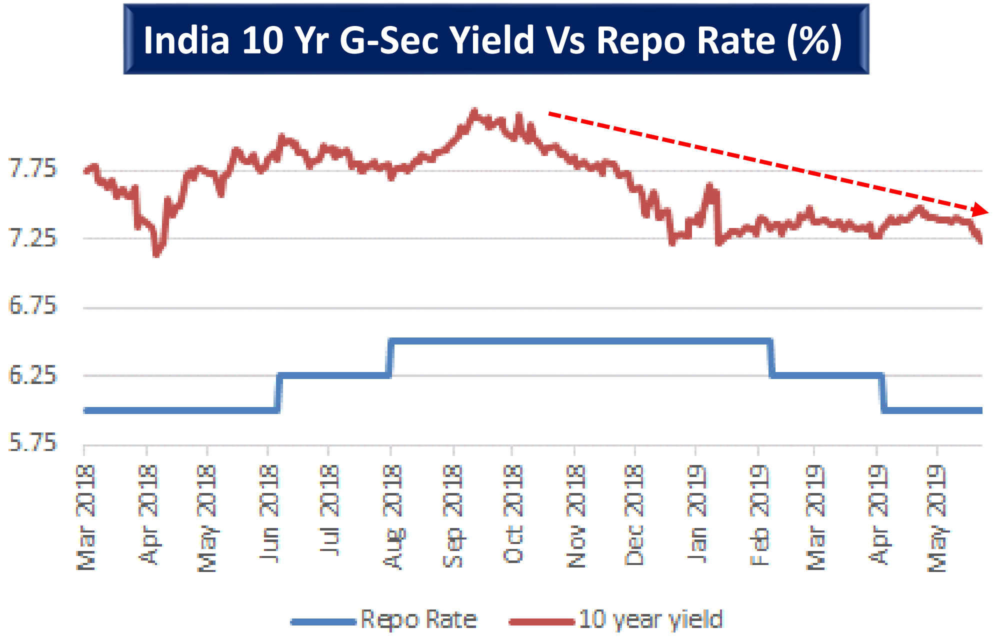


Source: DIPP

- 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

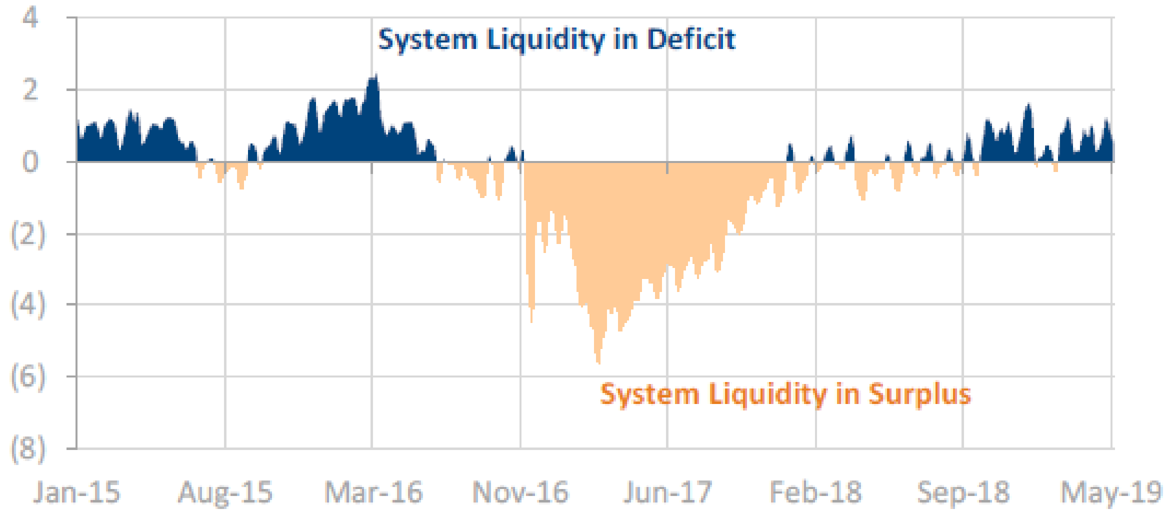


Source: Bloomberg

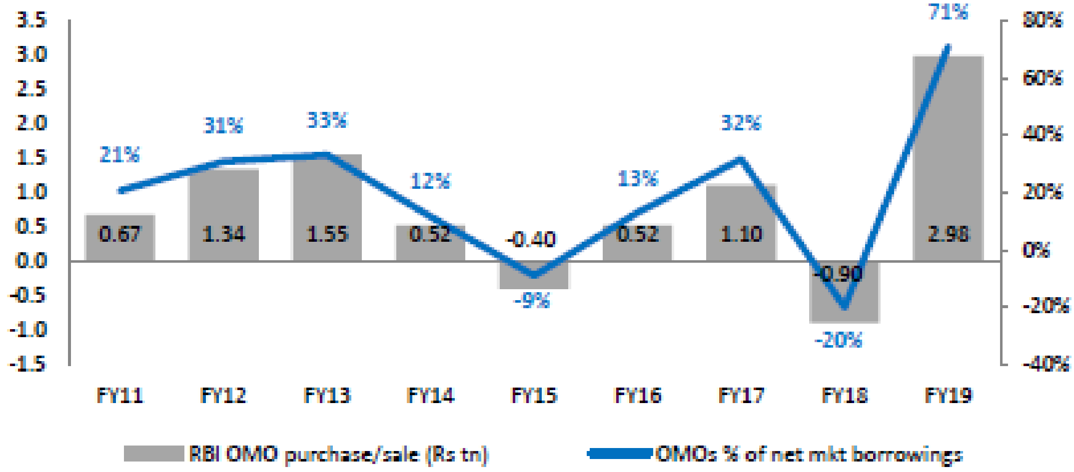
- Bond yields have softened since Oct 2018, due to softer crude oil prices, lower inflation, RBI turning dovish and cutting its inflation forecasts, recovery in rupee, and liquidity infusion by RBI.
- The RBI has turned dovish and cut rates twice in 2019 (Feb & April), and also cut the inflation trajectory. <u>The central bank has also not ruled out further rate cuts, and said that it will be data-driven.</u>
- 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 had also been putting pressure on bond yields.
- <u>Recently, bond yields have softened a bit again</u>, with crude prices correcting, rupee strengthening, and a positive election outcome (with strong mandate).

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 (INR in trln)



OMO Purchase / (Sale) Trend



Source: RBI, IIFL, 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 bln 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.

Market Outlook & Strategy

Elections	• Election impact on markets will be more transient in nature, and focus will shift to fundamental and global factors soon. However, a strong mandate to help in continuity of reforms.
Corporate Earnings	• The markets are expecting a healthy recovery in corporate earnings in FY20, and will be disappointed if it doesn't pan out. We expect Nifty earnings growth to pick up from ~8-9% in FY19 to ~18% in FY20.
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. Future global monetary policy will determine flows into EMs.
Sector & Market Cap Outlook	• We are <u>positive</u> on private banks, cement, capital goods & pharma; <u>neutral</u> on IT, and <u>underweight</u> on auto & FMCG sectors. • 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.
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 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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