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Macro-economic developments

- •The Non-farm payrolls in the United States (US) continued to grow to a robust 263,000 in April 2019, ahead of expectations of around 190,000. The unemployment rate fell to 3.6% (lowest since December 1969) in April vs 3.8% in the previous month.
- US Q1 2019 GDP growth (second estimate) was a healthy 3.1%YoY vs first estimate of 3.2%YoY growth. However, with the escalation in trade tensions, and concerns of global growth slowdown, global bond yields fell sharply during the month. The US 10 year bond yield closed the month down 38 bps, and German and Japan 10 year bond yields pushed deeper into negative territory. The US Fed, in its May 2019 beginning meeting, kept rates unchanged (as expected), and signaled patience on rate moves. The Fed chairman also indicated that the recent dip in inflation was probably temporary.
- Domestically, India's GDP growth dropped to a 20-quarter low of 5.8%YoY in Q4 FY19 vs 6.6%YoY in the previous quarter—bringing the full year FY19 GDP growth to a 5-year low of 6.8%YoY. The slowdown in GDP growth in Q4 FY19 could be mainly attributed to Investments / Gross Fixed Capital Formation (GFCF) slowing down to 3.6%YoY from 11.7%YoY in the previous quarter. Private consumption expenditure (biggest component of GDP) also slowed down to 7.2%YoY during the quarter, from 8.1%YoY in the previous quarter.
- Meanwhile, GVA growth for Q4 FY19 also slumped to 5.7%YoY vs 6.3%YoY in the previous quarter, primarily due to growth slowdown in manufacturing and agriculture sectors. This brings the full year FY19 GVA growth to 6.6%YoY vs 6.9%YoY in the previous fiscal year.
- India's trade deficit widened to $15.3 billion in the month of April 2019, from $10.9 billion in the previous month, primarily due to fall in export growth.
- The Index of Industrial Production (IIP) growth further slowed down to -0.1%YoY in March 2019, from 0.1%YoY in the previous month. Manufacturing sector (having 78% weight in IIP) growth dipped to -0.4%YoY during the month. For FY19, IIP growth was lower at 3.6%YoY, compared to 4.4%YoY in the corresponding period, a year ago—indicating that industrial activity remains sluggish.
- Consumer Price Index (CPI) headline inflation remained steady at 2.9%YoY in April 2019, and well below the RBI target. Food inflation (biggest component of CPI, with 39% weight) rose a bit (as expected) to 1.1%YoY in April, from 0.3%YoY in the previous month. However, core inflation (ex food & fuel) continued to moderate to 4.5%YoY from 5.1%YoY in the previous month.
- Crude prices fell sharply during the month on the back of escalation of trade tensions and concerns of global growth slowdown. Brent crude finally closed the month of April down 11.4%, at $64.5/bbl, and has further dipped post the close of the month.
- The rupee closed the month marginally down 0.2%, at 69.70/US dollar, faring better than most of its other peer emerging market currencies.

Equity market developments and Outlook

- The incumbent NDA alliance won the 2019 general elections with a strong majority, and improved performance from the 2014 general elections. Indian markets fell in the first half of the month, but recovered in the second half, with the benchmark Nifty 50 index finally closing the month up 1.5%-despite the correction in global markets.
- Domestically, the broader markets also closed with moderate gains, with the Nifty Midcap 50 index and Nifty Smallcap 100 index returning +2.1% and +1.3% respectively. Cyclical sectors outperformed during the month--including capital goods, realty, banks and consumer durables. The sectors that underperformed during the month were pharma, metals, IT, FMCG and auto.
- Global markets registered a healthy correction during the month, with the MSCI World index, MSCI Asia ex-Japan index and MSCI Emerging Markets index returning -6.1%, -8.9% and -7.5% respectively.
- In the US, the S&P 500 index fell by 6.6% in May. Most of the major European markets also closed with similar losses during the month. Within Asia-India, Malaysia and Thailand were relative outperformers and closed in the green, while the bottom performers within the region included Hong Kong (-9.4%), Singapore (-8.3%) and Japan (-7.5%). Other emerging markets like Russia and Brazil also closed the month with moderate gains.
- Foreign portfolio investor (FPI) flows slowed down to ₹ 9,826 crore in May, compared to ₹ 20,280 crore in the previous month.
- Domestic Institutional Investor's (DIIs) net investment in equities turned positive in May at ₹ 5,316 crore compared to a net outflow of ₹ 4,219 crore in the previous month.
- With the incumbent government returning with a strong mandate in the general elections, we are likely to see continuity in reforms. With elections out of the way, we expect a gradual recovery in the capex cycle going forward, led by government expenditure and infrastructure spending. Also, the government may provide some impetus to help revive private capex, which has been languishing for a while
- 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 ~11% in FY19 to ~18% in FY20, and that will primarily guide the trajectory of markets.
- 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.
- 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 fell sharply during the month, on the back of expectation of further monetary easing by the RBI, positive election outcome, sharp fall in global bond yields (due to growth concerns and escalating trade tensions), recent fall in crude oil prices, benign inflation, FII debt inflows, stable/appreciating rupee, and some improvement in the liquidity scenario. The 10 year benchmark yield closed the month at 7.03% - down 38 bps.
- Post the close of the month, the RBI cut the policy rate by 25 bps, and changed the policy stance to 'accommodative' from 'neutral' in its 6th June 2019 policy review. The central bank raised its inflation projection marginally to 3.0-3.1%YoY from 2.9-3.0% in H1 FY20; and lowered it to 3.4-3.7% from 3.5-3.8% in H2 FY20--with risks 'broadly balanced'.
- On the economic front the RBI acknowledged the global and domestic growth slowdown and cut the GDP growth forecast for FY20 to 7.0% from 7.2% earlier. However, on a positive note— it said that there is scope for the central bank to support growth, by aiding aggregate demand and private investment activity.
- The RBI also said that it has set up a committee to comprehensively review the liquidity management framework by mid-July, and this will be important for transmission of the rate cuts in the system. The central bank conducted OMO purchases of ₹ 25,000 crore in the month of May, to infuse liquidity.
- India was able to achieve its revised fiscal deficit target of 3.4% of GDP for FY19, by cutting expenditure (both capital & revenue), and achieving the divestment target. Meanwhile, tax revenues (especially GST collections) were below the targeted amount, and remained a drag on the fiscal deficit.
- Foreign Portfolio Investors (FPIs) in debt markets registered a net inflow of ₹ 3,789 crore compared to a net outflow of ₹ 5,857 crore in the previous month.
- From an investment perspective, we presently prefer the short to medium term end of the yield curve.

Ver: May 2019