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Macro-economic developments

- US non-farm payrolls rose by 128,000 in the month of October, beating expectations quite significantly. The unemployment rate rose marginally to 3.6%, from a 50-year low of 3.5% in the previous month.
- US GDP growth (second estimate) for Q3 2019 got revised upwards to 2.1%YoY vs initial estimate of 1.9%YoY growth. The upward revision to GDP reflected more inventory accumulation, as well as a less steep pace of contraction in business investment than the first estimate data.
- Domestically, India's GDP growth slowed down to more than a 6-year low of 4.5%YoY in Q2 FY20, from a growth of 5.0%YoY in the previous quarter. The slowdown was primarily led by gross fixed capital formation (or investments), where growth slipped to 1.0% in Q2 FY20 from 4.0%YoY in the previous quarter. Private consumption expenditure growth (the largest component in GDP) improved to 5.1%YoY in Q2 FY20 from 3.1%YoY in the previous quarter. Meanwhile, government expenditure came in ahead of estimates at 15.6%YoY in Q2 FY20, compared to 8.8%YoY in the previous quarter.
- GVA growth also slowed down to 4.3%YoY in Q2 FY20, from a growth of 4.9%YoY in the previous quarter. The slowdown was primarily led by manufacturing sector, which contracted by 1.0% in Q2 FY20, compared to a growth of 0.6%YoY in the previous quarter. Services sector growth was stable at 6.4%YoY during the quarter, compared to a growth of 6.7%YoY in the previous quarter. Agriculture sector growth also remained stable at 2.1%YoY vs 2.0%YoY in the previous quarter.
- The government continued to announce stimulus measures to deal with troubled sectors of the economy. In early November 2019, for the real estate sector, the government approved a plan to set up a ₹ 25,000 crore alternative investment fund (AIF) to revive stalled housing projects. The Finance Minister said that while the government will invest ₹10,000 crore in the fund, the remaining ₹15,000 crore will come in from State Bank of India, Life Insurance Corporation of India and other such institutions. As per government estimates, 1,600 housing projects and 458,000 housing units are stalled due to lack of funds. This is a positive development for the sector in general and more specifically for HFCs.
- The government's privatization push gathered steam, with the Cabinet Committee on Economic Affairs (CCEA) recently approving the divestment of 5 PSUs. This included the strategic sale of government's 53.3% stake in BPCL (excluding govt. stake in Numaligarh refinery and few other investments like IGL, Petronet LNG), 63.8% stake in Shipping Corporation of India and partial stake sale in Container Corporation of India (govt. to sell 30.8% stake and retain balance 24% stake). Government also announced the sale of THDC and NEEPCO to NTPC, which is more like the government selling its stake to another PSU.
- Consumer Price Index (CPI) headline inflation rose to 4.6%YoY in Oct 2019 from 4.0%YoY in the previous month. This was primarily due to rise in food inflation (weight of 39% in CPI) to 7.9%YoY in Oct 2019, from 5.1%YoY in the previous month. Meanwhile, core inflation (ex food & fuel) fell to 3.4%YoY in Oct 2019 from 4.2%YoY in previous month.
- Index of Industrial Production (IIP) growth fell sharply to -4.3%YoY in Sep 2019, from -1.4%YoY in the previous month. The heavy-weight manufacturing sector (78% weight in IIP) growth dipped to -3.9%YoY, from -1.6%YoY in the previous month. Other sectors like mining and electricity also registered a contraction during the month of Sep 2019. For FYTD20 (upto September) IIP growth was considerably lower at 1.3%YoY, compared to 5.2%YoY in the corresponding period, a year ago.
- During the month, crude prices rose on hopes of some US-China trade deal and on some positive US economic data, breaching the $64/bbl mark. However, it later softened to close the month at $62.23/bbl, compared to $60.23/bbl at the end of the previous month.
- The rupee closed the month down around 1% against the dollar at INR 70.93 / USD, on the back of some global strength in the US dollar, and concerns of economic slowdown. The rupee depreciated despite strong foreign portfolio inflows into India during the month.

Equity market developments and Outlook

- Indian markets delivered moderate returns during the month of November, with the benchmark Nifty 50 index returning +1.5%. Within the broader markets, the Nifty Midcap 50 index and Nifty Smallcap 100 index returned +1.8% and +1.2% respectively. Sectors that outperformed during the month included banking, metal, realty and pharma. The sectors that underperformed during the month were capital goods, consumer durables, auto, FMCG and IT.
- Globally, developed markets outperformed during the month, with the MSCI World index returning +2.6%. Emerging markets and Asian markets relatively underperformed, with the MSCI Emerging Markets index and MSCI Asia ex-Japan index returning -0.2% and +0.2% respectively.
- In the US, the S&P 500 index rose by 3.4%, and was among the top performing markets during the month. Among European markets, France and Germany were the top performers. Within Asia—Taiwan, Japan and India were the out-performers, while the under-performers within the region were Indonesia, Malaysia, Hong Kong and China (all closing in the red during the month).
- Foreign portfolio investors (FPIs) registered a robust net equity inflow of ₹ 22,489 crore in the month of November, compared to a net inflow of ₹ 14,657 crore in the previous month. This was the strongest monthly net inflow by FPIs since March 2019.
- Domestic Institutional Investors (DIIs) registered a net outflow of around ₹8,000 crore in November, compared to a net inflow of ₹4,675 crore in the previous month. This was the worst monthly net flow by DIIs, since March 2019.
- Q2 FY20 corporate earnings were broadly in-line with expectations, and the corporate tax cut has helped to provide a boost in Profit After Tax (PAT) for some sectors particularly. Financials sector contributed most of the incremental profits during the quarter. However, Nifty index sales growth contracted for the first time since June 2016 quarter—reflecting the underlying economic slowdown. We now expect Nifty index earnings growth at 15-16% in FY20, and ~22% in FY21.
- Despite the Q2 FY20 GDP growth recently falling to more than a 6-year low, we feel that the growth may have bottomed out. We expect a gradual recovery in economic growth in H2 FY20, with a pick-up in pace in FY21.
- From an investment perspective, we continue to prefer large-caps, but also see some attractive bottom-up opportunities in the mid-cap segment—from a valuation standpoint. Investors should continue to invest systematically in equities.

Fixed Income market developments and Outlook

- Bond yields rose initially due to fiscal slippage concerns, higher supply of government paper, a rise in consumer inflation, rise in global bond yields and some foreign outflows in the debt markets. However, yields softened later, to close on a flattish note, on the back of increased expectations of a rate cut and a comfortable liquidity scenario. The new 10-year G-sec yield closed the month at 6.47%--up 2 bps.
- Fiscal deficit for FYTD 20 (upto October) stood at 102% of full year target versus 104% in the corresponding period in the previous fiscal year. The fiscal deficit is elevated, primarily due to lower tax collections (both direct and indirect), and partially due to recent pick-up in government expenditure.
- GST collections for the month of November 2019 (reflecting activity for October) breached the ₹1 lakh crore mark—reversing two months of decline, and up from ₹95,380 crore in the previous month.
- Foreign Portfolio Investors (FPIs) registered a net outflow of ₹3,224 crore in the month of November, compared to a net inflow of ₹5,056 crore in the previous month.
- Despite liquidity being quite comfortably in surplus, credit to deposit ratio dropping (with credit growth slowing down lately), and new loans being linked to external benchmarks—the monetary transmission into interest rates has been lower than expected, and remains bit of an overhang.
- Although, headline inflation has risen a bit lately (primarily due to food inflation), core inflation has subsided. With the central bank's focus turning to addressing the slowdown in macro-economic environment, we feel that there is still room for some more policy action—although it will be data dependent.
- From an investment perspective, we presently prefer the shorter end of the yield curve.