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#### Macro-economic developments

- Amidst the Coronavirus pandemic and lockdown, US weekly jobless claims (indicating the number of people filing for unemployment insurance) hit an all-time high of 3.3 million for the week ended March 21, 2020, and further spiked to a fresh record high of 6.6 million for the week ended March 28, 2020 (cumulative of around 10 million in just 2 weeks). The number is far larger than the previous record of 700,000 weekly jobless claims filed in the year 1982.
- The US government passed a \$2 trillion dollar stimulus package (the largest ever in US history) to deal with the Coronavirus Pandemic. The US Fed announced two emergency rates cuts (cumulative rate cut of 150 bps), taking the Fed rate to a record low range of 0% - 0.25%. It also launched a massive \$ 700 bln quantitative easing programme for purchase of US treasuries and mortgage-backed securities. Similarly, various central banks and governments around the world have also been doing monetary easing and launching stimulus packages to deal with the pandemic.
- As a result global bond yields fell sharply during the month. The US 10 year treasury yield had dipped below the 0.4% mark at one point (intra-month), and finally closed the month down almost 50 bps, at 0.67%.
- The Indian government announced a ₹1.7 lakh crore fiscal aid package (~0.8% of GDP) on 26 March 2020, primarily benefiting the under-privileged sections of society (who are likely to be more impacted by the Coronavirus pandemic and need immediate attention). The key highlights of the package were:
  - 5kg of rice or wheat per person, and 1kg of pulses to be provided per household, free of cost, for 3 months.
  - Below poverty line households under "Ujjwala" scheme will now be given free LPG cylinders for 3 months.
  - The govt. will front-load the installment of ₹2,000 to the first week of April offered to farmers under the existing PM KISAN scheme of cash transfers that was introduced earlier.
  - Workers can draw upto 75% of provident fund corpus for their contingency expenditure (non-refundable) or three months of wages in advance, whichever is less.
  - Govt. announced a ₹50 lakh insurance cover per person for frontline health workers managing the Coronavirus outbreak.
- Consumer Price Index (CPI) headline inflation fell to 6.6%YoY in Feb 2020 from 7.6%YoY in the previous month. Food inflation (weight of 39% in CPI) fell to 10.8%YoY in Feb 2020 from 13.6%YoY in the previous month. Meanwhile, core inflation (ex food & fuel) softened to 3.9%YoY in Feb 2020 from 4.3%YoY in previous month.
- India Manufacturing PMI fell to 51.8 in March, from 54.5 in February, signaling the slowest improvement in business conditions since November 2019. PMI lower than 50 indicates contraction in manufacturing activity.
- Crude prices crashed due to Coronavirus concerns of impact on global growth & crude demand, and also due to the price war between Saudi Arabia and Russia (as they increased crude production). Brent crude price fell by around 55% to close the month at \$22.7/bbl (around 18 year low). This sharp fall in crude prices is beneficial for a net oil importing country like India, where crude oil accounts for a large part of our imports.
- The rupee depreciated sharply during the month on the back of large foreign portfolio outflows and global risk aversion. The rupee weakened from around the INR 72/USD mark at the end of February, breached the INR 76/USD mark (all-time low) intra-month, and finally closed the month of March at INR 75.6/USD.

#### Equity market developments and Outlook

- Due to concerns of the Coronavirus pandemic, global markets registered a sharp fall during the month of March, and India was among the bottom performing markets during the month (due to record FPI outflows). The benchmark Nifty 50 index fell 23.3% during the month, while the broader markets underperformed—with the Nifty Midcap 50 index and Nifty Smallcap 100 index falling 29.6% and 36.7% respectively.
- Defensive sectors like FMCG, pharma and IT outperformed during the month. The sectors that underperformed during the month were realty, banking, auto and metals.
- Globally, markets registered a sharp correction with emerging markets underperforming developed markets. The MSCI World index returned -13.5% in March, while MSCI Emerging Markets index and MSCI Asia ex-Japan index returned -15.6% and -12.3% respectively.
- In the US, the S&P 500 index closed the month down 12.5%. Within the major European markets France's CAC 40 index registered the largest loss of 17.2%, and others like Germany & UK also saw a sharp correction. Within Asia—India was one of the bottom performers, followed by Singapore, Thailand and Indonesia. China outperformed significantly, with new Coronavirus cases falling sharply in the country, and with the economy opening-up (and lock-downs being removed). The benchmark Shanghai Composite index of China was among the best performing markets globally in the month of March—falling only 4.5%. Other emerging markets like Russia and Brazil also saw a sharp fall during the month.
- Foreign portfolio investors (FPIs) registered a record net equity outflow of ₹58,632 crore in the month of March, compared to a net outflow of ₹1,521 crore in the previous month.
- Domestic Institutional Investors (DIIs) registered a strong net inflow of ₹

55,595 crore in the month of March, compared to a net inflow of ₹16,933 crore in the previous month.

- Lock-downs around the world due to the escalating Coronavirus pandemic will hamper economic activity, and is likely to lead to a significant global slowdown. In India too we expect a further slowdown of economic growth in FY21, although the magnitude of slowdown will be dependent on how the outbreak pans out and how long the lockdown continues. We are also likely to see significant downward revision in corporate earnings growth going forward.
- The Coronavirus pandemic has triggered massive global risk aversion, and we have seen one of the swiftest fall in global & Indian markets—more swift than even during the global financial crisis of 2008-09 (even though the quantum or percentage of market fall was higher then). We may see further short-term market volatility as new coronavirus cases continue to increase globally and in India. As we know, it is very difficult to predict the bottom and top of markets accurately.
- However, with the market correction, valuations have turned quite attractive, as indicated by various valuation parameters like P/E Ratio, P/B Ratio, Bond yield versus Equity Earnings Yield, and Market Cap / GDP Ratio. The margin of safety appears quite large at this juncture. Therefore, we feel this may offer some buying opportunity and long-term investors can start to gradually deploy money in equities & increase their equity exposure (as per their risk profile).
- Historical data has shown that investments made in challenging/volatile times, has generally been quite rewarding for investors over the medium to long term.
- The fiscal stimulus from the government (~0.8% GDP) announced on 26 March 2020, has been a starting point and will benefit the under-privileged sections of society (who need immediate assistance). However, we feel that more fiscal stimulus is needed in the current situation, and there should be more measures from the government over time. During the global financial crisis, we have seen the central fiscal deficit being expanded from 3.4% of GDP in FY07 to 6.1% in FY09 and 6.6% in FY10.
- From an investment perspective, we continue to prefer large-caps, but investors can also consider some partial allocation to mid-cap segment, due to their attractive valuation—but should note that they are generally more volatile.

#### Fixed Income market developments and Outlook

- Bond yields fell during the month due to large monetary stimulus announced by the RBI, sharp fall in crude oil prices and global bond yields, and ample liquidity. However, FPI outflows, depreciating rupee, and concerns of higher government borrowing (and fiscal slippage) put pressure on bond yields and kept gains restricted. The 10 year benchmark yield at one point (intra-month) touched the 6% market, before finally closing the month at 6.14%—down 23 bps.
- The RBI Monetary Policy Committee (MPC) preponed its early April policy meeting and announced a bold and large monetary stimulus package on 27 March 2020, in light of the Coronavirus pandemic and its impact on the economy. The key highlights of mid-term RBI policy review were as follows:
  - The key policy rate (repo rate) has been reduced by 75 bps to 4.4%, from 5.15% earlier. The reverse repo rate (rate at which RBI borrows from banks) has been reduced by a higher 90 bps to 4%. RBI decided to continue with its monetary policy stance as "accommodative".
  - RBI announced a number of liquidity measures; some of the key ones were as follows:
    - Cash Reserve Ratio (CRR) was reduced by 100 bps to 3% for a 1-year period.
    - Announced Targeted Long-Term Repo Operations (TLTRO) of an amount of ₹1 lakh crore for a tenor of 3 years, wherein the banks need to deploy such funds in investment grade bonds and CPs. This has resulted in corporate bond spreads reducing significantly especially at the shorter end, after widening significantly earlier.
    - Enhanced liquidity accommodation under MSF from 2% to 3% (up to June 30, 2020)
    - RBI estimates that these various measures will help to release liquidity of ₹3.74 lakh crore in to the system.
  - All lenders are allowed a moratorium of 3 months on repayment of installments for term loans outstanding as on March 1, 2020.
  - On the inflation front, the RBI said that food prices may soften further, and the collapse in crude oil prices should work towards easing both fuel and core inflation pressures. On the economic front even though the RBI did not give any revised GDP growth forecasts, it did highlight that most sectors of the economy will be adversely impacted by the pandemic.
- Fiscal deficit for FYTD 20 (upto February) was elevated at 135.2% of the budgeted estimate for entire FY20, compared to 134.2% in the corresponding period in the previous fiscal year. In light of the Coronavirus outbreak, we are likely to fiscal slippage in FY20 & FY21.
- Foreign Portfolio Investors (FPIs) registered a massive net outflow of ₹58,111 crore in the month of March, compared to a net outflow of ₹169 crore in the previous month.
- The RBI's monetary policy stimulus has been above expectations. The central bank indicated that there is space for more policy action, if the situation demands, and it will be data-dependent. From an investment perspective on the fixed income side, we presently prefer the shorter to medium term part of the yield curve.