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Macro-economic developments

- GDP growth rates of major economies have registered a sharp correction in Q1 CY20, as a result of the Covid-19 pandemic. US Q1 CY20 GDP contracted by 4.8%, making it the biggest quarterly contraction since the global financial crisis of 2008. Eurozone GDP contracted by 3.8% in the first quarter, while China registered a sharp contraction of 6.8% in Q1 CY20 due to the stringent Covid-10 lockdown (making it the first decline since at least 1992, when official quarterly GDP records started in China).
- The IMF, in its April 2020 World Economic Outlook said that global economy is expected to see the worst recession since the Great Depression, with global GDP growth expected to contract by 3.0% in CY2020, but expected to recover to +5.8% in CY2021. The contraction in global economy is to be led by advanced economies and the US economy is expected to de-grow by 5.9% in CY2020. Emerging markets are expected to contract by 1% in 2020. Within that, India is expected to grow at 1.9% in FY21, but growth is expected to pick-up to 7.4% in FY22. However, post the release of the report, once the lockdown in India was extended, some other agencies/brokerages have cut India's growth forecast for FY21 to flat or negative.
- Amidst the Coronavirus pandemic and lock-down, US weekly jobless claims (indicating the number of people filing for unemployment insurance) continued to rise and hit a cumulative ~30 million jobless claims for the six weeks ended April 25, 2020. Thus, more jobs have been lost in these six weeks, than total jobs being created from the end of the global financial crisis in 2008. Preliminary estimates of economists also indicate that unemployment in US may hit 15% in the month of April, compared to 4.4% in the month of March.
- Global bond yields continued to be soft on the back of the massive fiscal, monetary stimulus and quantitative easing programmes launched in major economies like US, Eurozone etc.
- The Indian government recently announced an extension of the national lock-down by 2 weeks to May 18, 2020, although a calibrated opening of some parts of the economy has also been allowed. The country has been in a national lock-down since March 24, 2020.
- Consumer Price Index (CPI) headline inflation fell to 5.9%YoY in March 2020 from 6.6%YoY in the previous month. Food inflation (weight of 39% in CPI) fell to 8.8%YoY in March 2020 from 10.8%YoY in the previous month.
- As a result of the lock-down, India Manufacturing PMI fell to a record low of 27.4 in April, from 51.8 in March. India Services PMI plunged to a record low of 5.4 in April from 49.3 in March. PMI lower than 50 indicates contraction in activity.
- Crude saw an unprecedented move in the month of April with WTI crude price (in U.S) turning negative and touching a record low of (minus) $39/bbl. This anomaly of negative prices was caused in the May contract of WTI crude (which was close to expiry) as WTI crude contract (unlike Brent crude contract) is settled through physical delivery. Since US is land-locked and storage capacity of crude was running out, this led to several market participants selling at a massive loss (thus causing negative prices), so that they don't have to take physical delivery of crude. However, Brent crude did not see such price damage or prices turning negative, as it is globally traded, cash-settled, and storage is not land-locked. However, Brent crude price did fall from $22.7/bbl at the end of March to a low of ~$18/bbl (intra-month), before recovering and closing the month of April at around the $25/bbl mark. In early May, crude prices have risen further.
- The rupee fell to almost INR 77/USD intra-month in April, but later recovered on the back of strong rally in equity markets, return of some global risk appetite, and some recovery in foreign flows. It finally closed the month of April on a flattish note at INR 75.1/USD.

Equity market developments and Outlook

- With some global risk appetite returning, global markets registered a strong rally in the month of April, after the sharp correction earlier. Indian market was among the top performing markets globally in April, with the benchmark Nifty 50 index returning +14.7% during the month. Mid-caps fared better with the Nifty Midcap 50 index returning +17.0%, while the Nifty Smallcap 100 index delivered +13.4% return in April.
- Healthcare sector was the top performer during the month, returning +26.2%, while other sectors that outperformed in April were auto, oil & gas and metals. The sectors that underperformed during the month were FMCG, consumer durables, realty and power.
- Globally, markets registered a strong bounce-back. The MSCI World index returned +10.8% in April, while MSCI Emerging Markets index and MSCI Asia ex-Japan index returned +9.0% and +8.9% respectively.
- In the US, the S&P 500 index closed the month with +12.7% gain. Within the major European markets Germany's Dax index registered the largest gain of +9.3%. Within Asia—India was one of the top performers, followed by Thailand, Taiwan and South Korea. Other emerging markets like Russia and Brazil also fared well during the month.
- Foreign portfolio investors (FPIs) registered a net equity outflow of ₹ 4,112 crore in the month of April, compared to a record net outflow of ₹ 58,632 crore in the previous month.
- Domestic Institutional Investors (DIIs) registered a net outflow of ₹ 825 crore in the month of April, compared to a strong net inflow of ₹ 55,595 crore in the previous month.
- After the sharp correction earlier, we have seen a swift partial recovery from the market bottom in Indian & global markets. Past market downturns (like dotcom-com crash, GFC etc.) have shown that there is a possibility of second or third wave of correction, and that cannot be ruled out—especially if the Covid-19 outbreak in India continues to escalate.
- India has extended its lock-down but allowed a calibrated & partial opening up of the economy. The extent of hit on economy will depend on how long the lock-down continues, as that impairs economic activity. But it's not like the economy will be back to 100% immediately post the lock-down. The recovery will be a gradual one, and once the Corona-virus pandemic/outbreak is in full control, then we may see an acceleration in economic growth and resumption of economic activity to normal. Markets, of-course, will start discounting that well in advance.
- The RBI has provided a healthy monetary stimulus, and now more fiscal stimulus is required from the government, and we feel that the government may announce the same in a calibrated manner. 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—so that was quite a large and extended fiscal stimulus. We are not saying that the fiscal stimulus needs to last for so long (as it can be damaging in the long term for the economy), but in short-term it is required—to help aid the economy and prevent a severe shock.
- 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 relatively cheaper valuation—but should note that they are generally more volatile.

Fixed Income market developments and Outlook

- Bond yields rose in the first half of the month on the back of FPI outflows, depreciating rupee, and concerns of higher government borrowing (and fiscal slippage). However, bond yields softened in the second half of the month with the RBI announcing various measures to boost liquidity, support NBFCs and improve policy transmission. The 10 year benchmark yield at one point (intra-month) rose to 6.5%, before finally closing the month at 6.11%--down 3 bps.
- Corporate bond spreads were elevated, and credit spreads (of lower rated papers) widened sharply on the announcement of a major mutual fund house winding up its six credit-oriented debt funds due to severe liquidity issues (as a result of redemptions in these funds). However, liquidity in the banking system remained in large surplus of ₹ 6-7 lakh crore during the month.
- Some of the key RBI policy announcements on 17 April 2020 were as follows:
  - ➢ The reverse repo rate (rate at which RBI borrows from banks) was reduced by 25 bps to 3.75%. This was to discourage banks from parking excess money with RBI and encourage lending.
  - ➢ RBI announced Targeted Long-Term Repo Operations (TLTRO) of an amount of ₹ 50,000 crore targeted at NBFCs and MFIs. The funds availed should be invested in investment grade bonds/NCDs of NBFCs/MFIs, with 50% of the amount to be invested in mid and small-sized NBFCs and MFIs.
  - ➢ Special refinance facilities of ₹ 50,000 crore to be offered to national financing institutions like NABARD, SIDBI & NHB.
  - ➢ Relaxation of asset classification norms, and where moratorium has been granted--banks will be required to make extra provisioning of 10% for the March and June quarters.
- Foreign Portfolio Investors (FPIs) registered a net outflow of ₹ 10,122 crore in the month of April, compared to a massive net outflow of ₹ 58,111 crore in the previous month.
- The central bank indicated that there is space for more policy action, if the situation demands, with inflation expected to subside. However, fiscal deficit and elevated credit/corporate bond spreads remains an overhang on the debt markets, as a result of which we are cautious on corporate bonds and have been increasing exposure to government securities in our portfolios.
- From an investment perspective on the fixed income side, we presently prefer the shorter to medium term part of the yield curve.