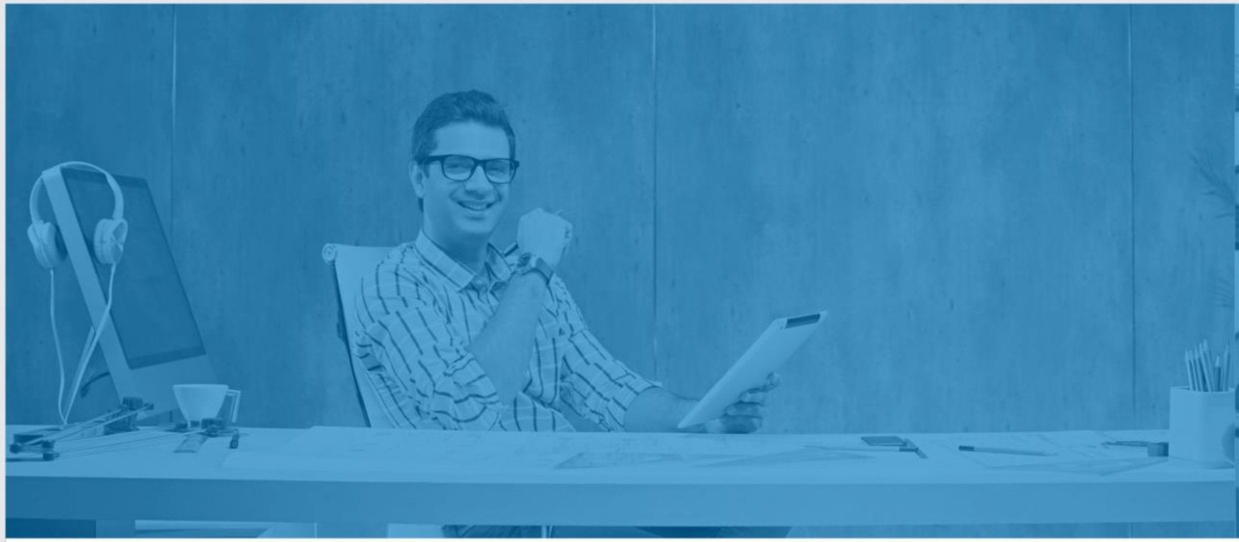
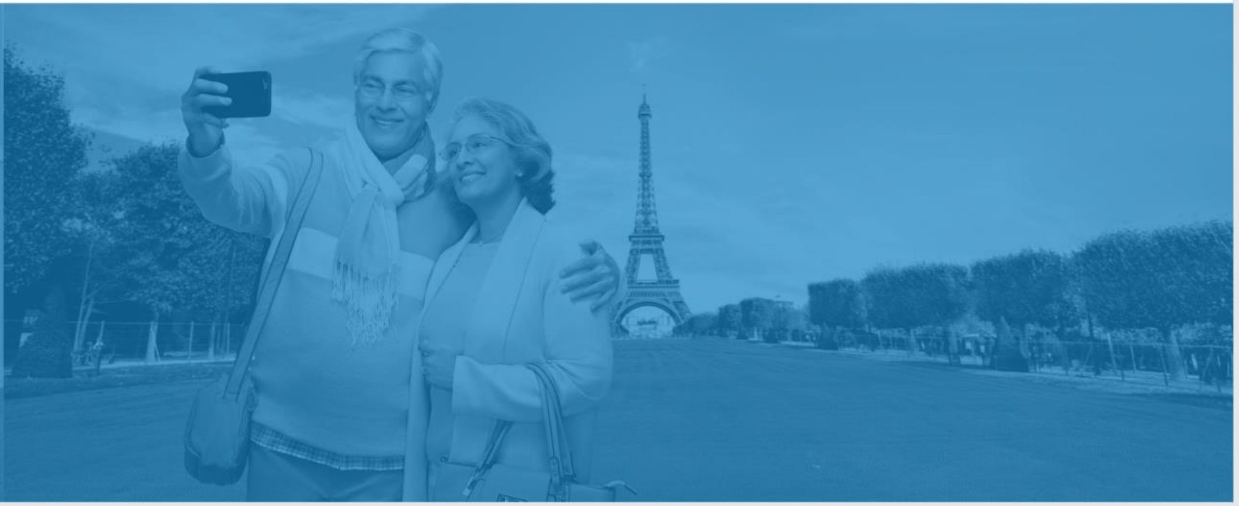



Quarterly Macro & Market Overview/Outlook

July 2020

LIFE GOALS. **DONE.**

Global Macros, Markets, Stimulus & Coronavirus (COVID-19) Impact

Impact of COVID-19 on global macros & markets

Coronavirus Pandemic

Cases continue to escalate globally --especially in countries like US, Brazil, Russia, India etc. We have seen opening up of various global economies.

India COVID-19 cases continue to escalate (now 3rd highest in the world) causing some concerns. However, fatality rates remain in control so far at ~3% (at national level), and recovery rate is ~60%. We have seen calibrated opening up of Indian economy, except in containment zones.

Sharp correction followed by a swift partial recovery in global markets, helped by strong liquidity.

Major global central banks seeing significant balance sheet expansion due to massive monetary stimulus & QE. Large fiscal slippage expected in CY2020 globally.

A significant global economic recession on the cards. Although high frequency indicators indicate some recovery in economic activity.

Strong recovery seen in crude prices. Gold prices remain elevated due to safe-haven buying.

COVID-19 impact on global growth: IMF further revises down global GDP growth forecasts; worst global recession since the Great Depression

IMF- Global GDP growth forecast (in %)

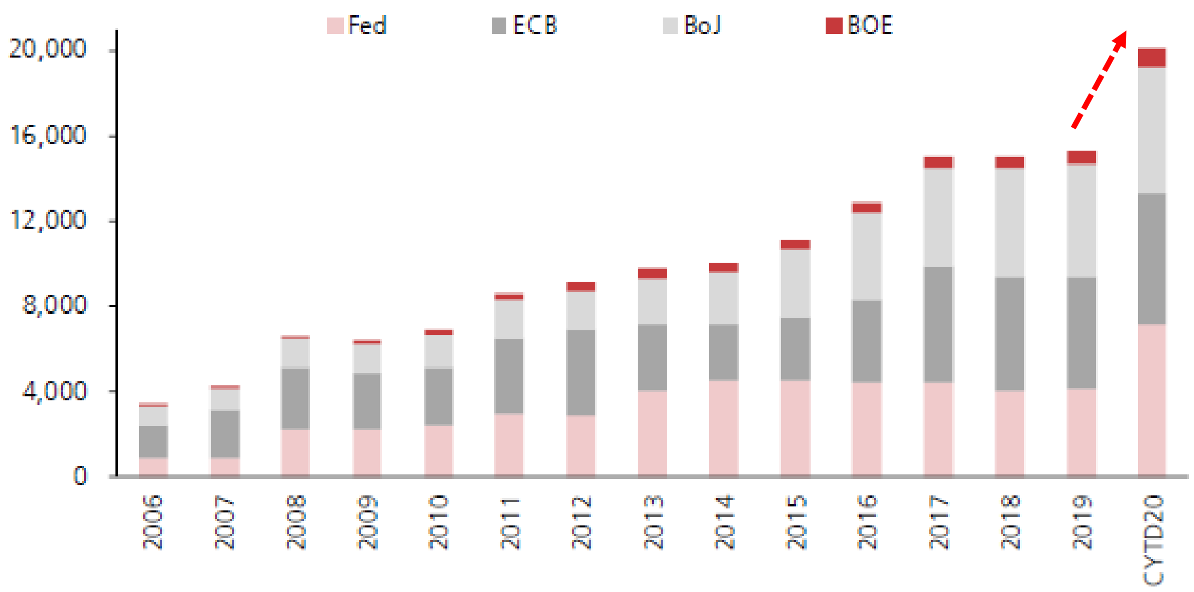
			Projections	
	2018	2019	2020	2021
World Output	**3.6**	**2.9**	**–4.9**	**5.4**
Advanced Economies	**2.2**	**1.7**	**–8.0**	**4.8**
United States	2.9	2.3	–8.0	4.5
Euro Area	1.9	1.3	–10.2	6.0
Germany	1.5	0.6	–7.8	5.4
France	1.8	1.5	–12.5	7.3
Italy	0.8	0.3	–12.8	6.3
Spain	2.4	2.0	–12.8	6.3
Japan	0.3	0.7	–5.8	2.4
United Kingdom	1.3	1.4	–10.2	6.3
Canada	2.0	1.7	–8.4	4.9
Other Advanced Economies 3/	2.7	1.7	–4.8	4.2
Emerging Market and Developing Economies	**4.5**	**3.7**	**–3.0**	**5.9**
Emerging and Developing Asia	6.3	5.5	–0.8	7.4
China	6.7	6.1	1.0	8.2
India 4/	6.1	4.2	–4.5	6.0
ASEAN-5 5/	5.3	4.9	–2.0	6.2
Emerging and Developing Europe	3.2	2.1	–5.8	4.3
Russia	2.5	1.3	–6.6	4.1
Latin America and the Caribbean	1.1	0.1	–9.4	3.7
Brazil	1.3	1.1	–9.1	3.6
Mexico	2.2	–0.3	–10.5	3.3
Middle East and Central Asia	1.8	1.0	–4.7	3.3
Saudi Arabia	2.4	0.3	–6.8	3.1
Sub-Saharan Africa	3.2	3.1	–3.2	3.4
Nigeria	1.9	2.2	–5.4	2.6
South Africa	0.8	0.2	–8.0	3.5

- In its June 2020 outlook, the IMF further revised down global growth forecasts from the April 2020 forecast. Global GDP growth is now expected to contract by 4.9% in CY2020 (vs -3.0% earlier), but expected to recover to +5.4% in CY2021.
- The contraction in global economy is to be led by advanced economies. US economy is now expected to de-grow by 8.0% in CY2020 (vs -6% earlier), and Euro Area to contract by 10.2% (vs -7.5% earlier).
- Emerging markets are now expected to contract by 3% in 2020 (vs -1% earlier). China's GDP growth for 2020 is now projected at -0.8%, making it one of the least impacted economies, as it opened up earlier from the lock-down.
- <u>Indian economy is now expected to contract by 4.5% in FY21</u> (vs growth of 1.9% projected earlier in April). However, the <u>economy is expected to recover to +6.0% growth in FY22</u> (mainly helped by lower base effect).

Source: IMF World Economic Outlook, June 2020. . For India, fiscal year ended March is considered, so 2020 = FY21 and 2021 = FY22. For other countries it is calendar year.

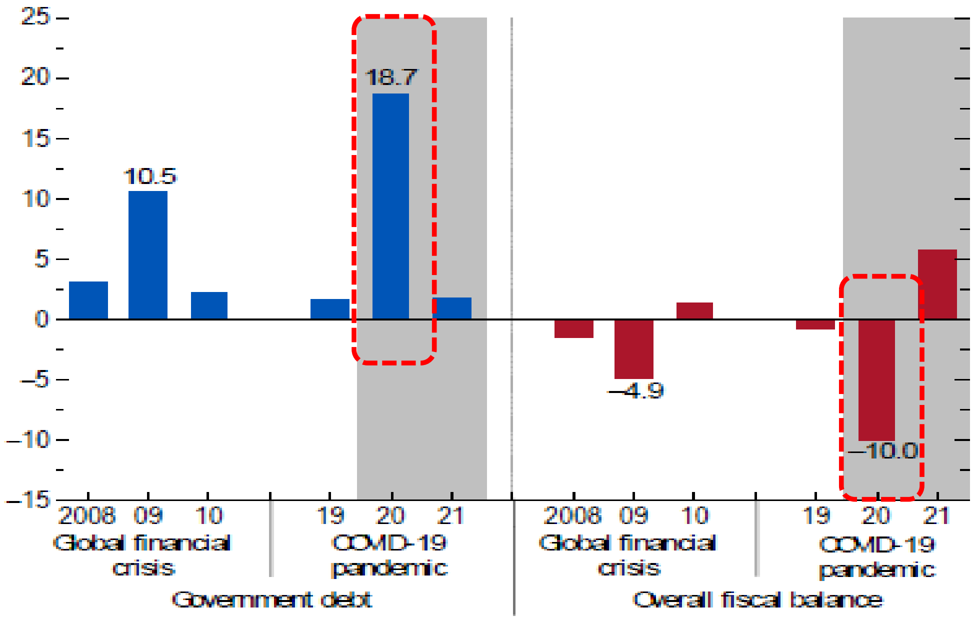
Global central bank balance sheets rising due to monetary stimulus & QE. Government debt & fiscal stimulus to also rise significantly in 2020.

Global (G-4) Central Bank Balance Sheet Size (US$ in bln)



Source: Kotak Institutional Equities.

Yearly Change in Global Fiscal Deficit & Govt Debt (as % of Global GDP)

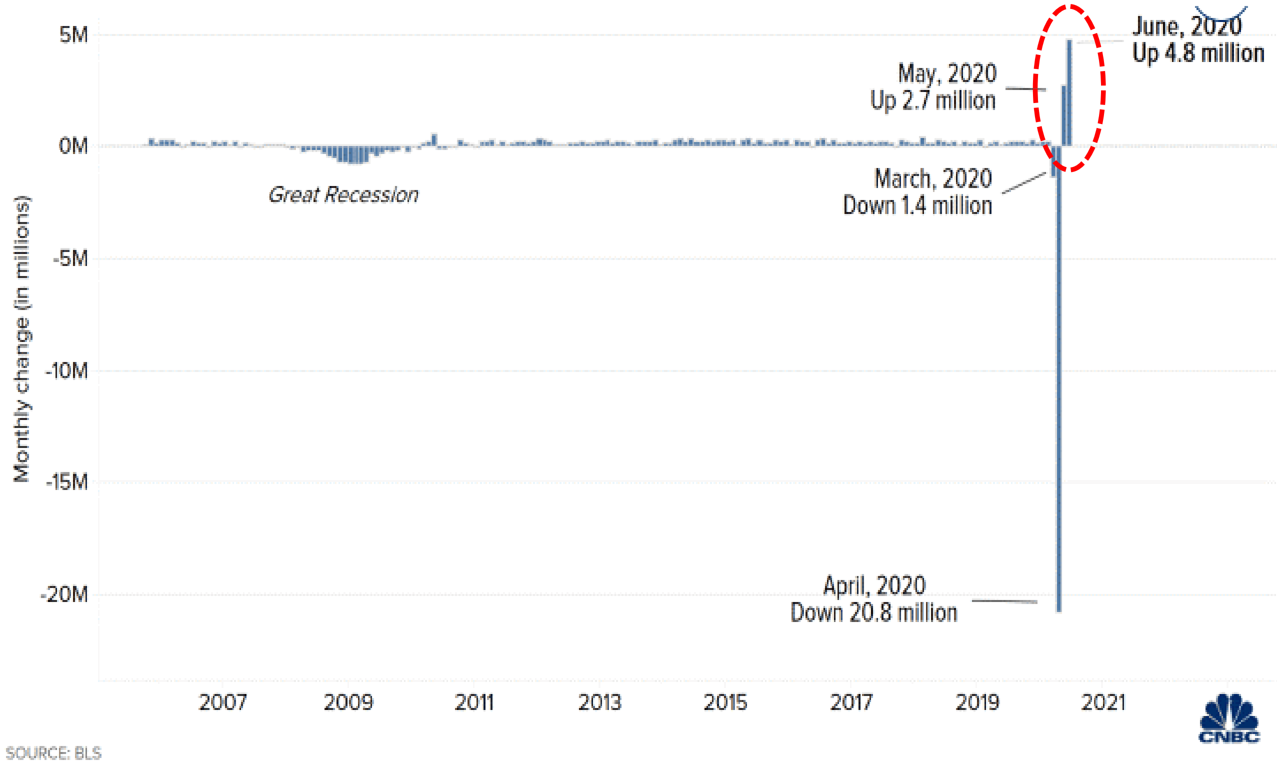


Source: IMF, World Economic Outlook, June 2020

- Global major central bank balance sheets have expanded significantly YTD in 2020, due to massive monetary stimulus & QE (Quantitative Easing).
- Also, governments around the world have been announcing large fiscal stimulus to deal with the Covid-19 pandemic. IMF projects overall global fiscal deficit to rise to 13.9% of GDP in 2020 from 3.9% in 2019 (change of 10%). IMF projects India's total fiscal deficit (central & state govt) to rise to 12.2% of GDP in FY21.
- IMF projects global public/govt. debt (as % of GDP) to touch a record high of ~101% in 2020 (a change of 19% from a year ago).
- However, borrowing costs are expected to remain low in advanced economies as per the IMF.

As economies open up, US labour market improves and Global Manufacturing PMI also sees some recovery from its record lows

US labour market has improved; 4.8 million jobs added in the month of June (higher than expected). Unemployment rate fell to 11% in June vs 13.3% in May & 14.7% in April.



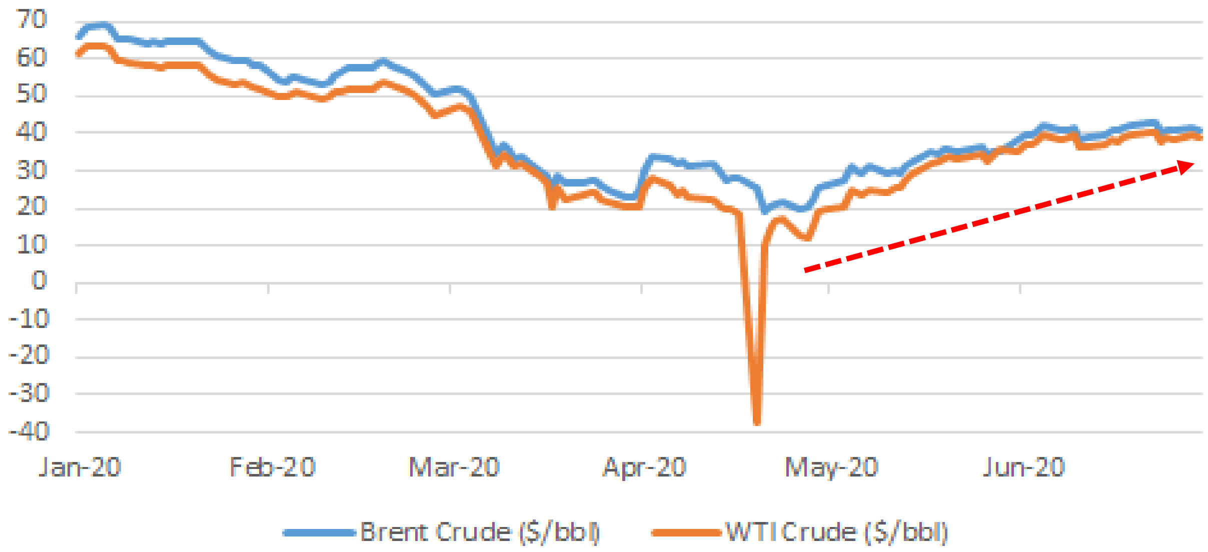
Source: CNBC.com

Global Manufacturing PMI recovers from record lows with economies opening up globally, and manufacturing activity recovering (PMI below 50 means contraction)

Source: IHS Market, JP Morgan. PMI data ended June 2020

Crude oil prices have recovered from their lows, with economic activity picking up and global risk appetite improving

Crude Oil Price ($ / bbl)



- Crude oil prices have recovered from their lows in April 2020, with economic activity picking up (as global economies open up) and with global risk appetite improving.
- WTI Crude (in US), which saw an unprecedented move in the month of April with price turning negative, witnessed a sharp recovery to close the month of June near the $40 bbl mark. Brent crude also recovered from a record low of ~$16/bbl to close the month of June at around $41/bbl.
- With the rise in crude prices, oil marketing companies have done multiple rounds of hike in domestic fuel prices (both diesel and petrol).

Source: Bloomberg

Global markets have seen a healthy rally in the past quarter, helped by strong global liquidity. India has been among the top performing markets over the past quarter.

Performance of International Indices (ended June 2020, in %)						
Index Name	**Country / Region**	**3 Mths**	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**
BOVESPA	Brazil	30.2	-5.9	14.8	12.4	4.5
FSE DAX TR	Germany	23.9	-0.7	0.0	2.4	7.5
KOSPI Korea	South Korea	20.2	-1.0	-4.1	0.3	2.2
S&P 500	US	20.0	5.4	8.6	8.5	11.6
IISL Nifty 50	**India**	**19.8**	**-12.6**	**2.7**	**4.2**	**6.8**
TSEC TAIEX	Taiwan	19.7	8.3	3.8	4.5	4.7
RTS RTSI PR USD	Russia	19.5	-12.2	6.6	5.2	-1.0
MSCI World PR USD	World	18.8	1.1	4.7	4.9	7.8
Nikkei 225	Japan	17.8	4.8	3.6	2.0	9.0
FTSE SET All Share	Thailand	17.4	-25.7	-7.0	-3.4	4.6
MSCI EM PR USD	Emerging Mkts	17.3	-5.7	-0.5	0.5	0.8
S&P/ASX 200	Australia	16.2	-10.9	1.0	1.6	3.2
MSCI Asia Ex Japan PR USD	Asia Ex-Japan	15.8	-0.6	1.2	2.0	3.5
CAC 40	France	12.3	-10.9	-1.2	0.6	3.7
FTSE Bursa Malaysia KLCI	Malaysia	11.1	-10.2	-5.2	-2.5	1.3
FTSE 100	UK	8.8	-16.9	-5.5	-1.1	2.3
Shanghai Composite	China	8.5	0.2	-2.2	-6.9	2.2
JSX Composite	Indonesia	8.1	-22.9	-5.6	0.0	5.3
FTSE/SGX STI	Singapore	4.4	-22.0	-7.1	-4.8	-0.9
Hang Seng	Hong Kong	3.5	-14.4	-1.8	-1.4	2.0

Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR
Date sorted on the basis of 3 month return in descending order

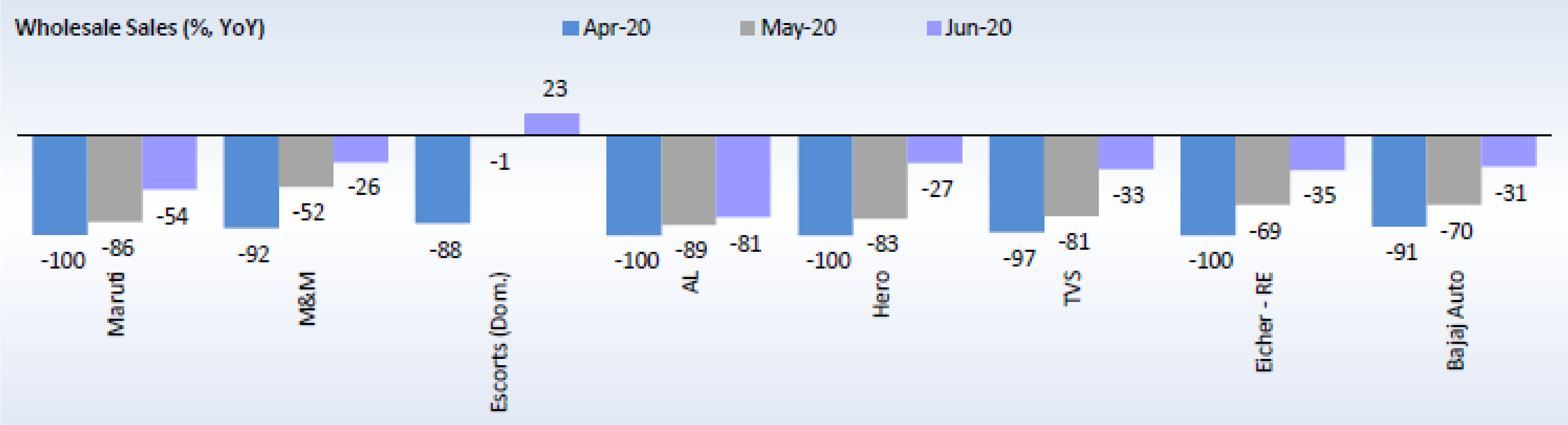
- **Over the past quarter (ended June 2020)**
  - Global markets have seen a healthy rally from the bottom in March 2020—helped by strong global liquidity, and some partial recovery in high frequency economic indicators.
  - After one of the swiftest corrections earlier (Feb – March 2020), this has also been one of the swiftest recoveries.
  - India has been among the top performing markets over the past quarter.
  - Some of the peer Asian markets have relatively underperformed over the past quarter.
- Over the long term (10 years) Indian market has outperformed relative to other peer Asian and Emerging Markets.

Domestic Macro Overview

High-Frequency Indicators see some gradual recovery as the economy opens up, and business activity partially resumes

Auto sector starts to see some recovery

Auto sales (%YoY) of various companies see some recovery in June when compared to April & May, but YoY growth still in negative territory



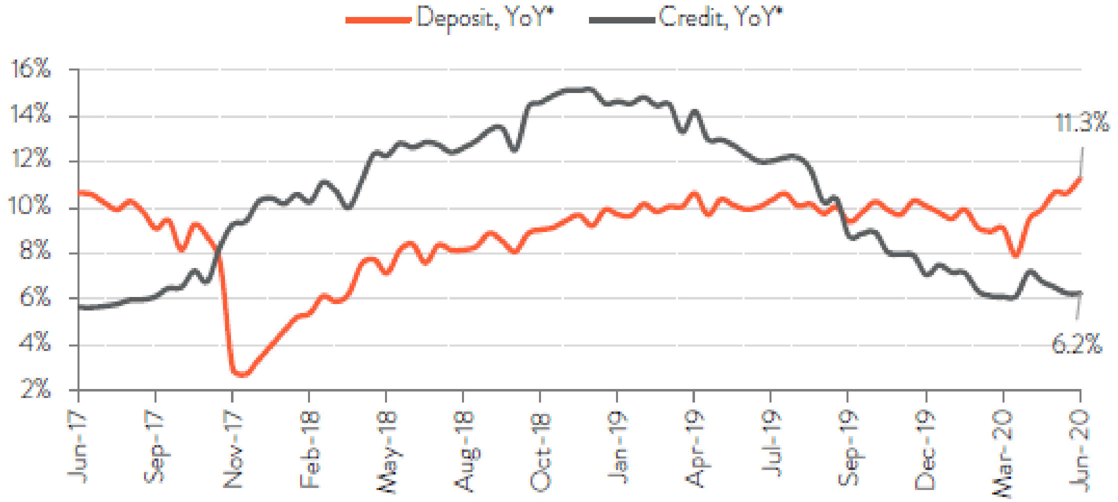
Wholesale Sales (in Units) of various Auto Companies

Company	Apr-20	May-20	Jun-20
Maruti	632	18,539	55,902
M&M	5,505	33,901	55,902
Hero	0	112,682	450,744
TVS	9,640	58,906	198,387
Escorts (Domestic)	613	6,454	10,623
Ashok Leyland	0	1,420	2,394
Eicher- RE	91	19,113	38,065
Bajaj Auto	37,878	127,128	278,097

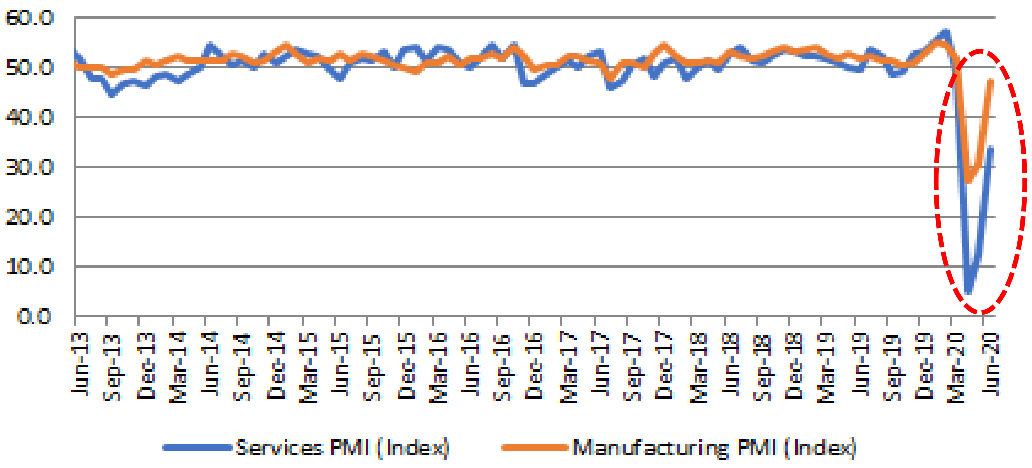
Source: SIAM, Motilal Oswal

Unemployment rate falls sharply; PMI data and electricity consumption sees some recovery; bank deposit & credit growth stable/recovering

Bank deposit growth picks-up, while credit growth stabilizes

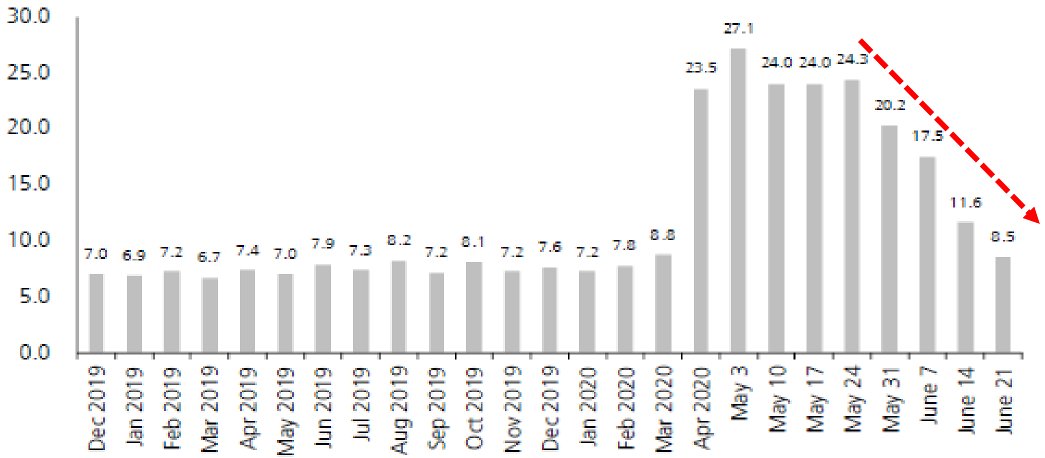


-Services & Manufacturing PMI sees some recovery from record lows (PMI less than 50 means contraction)



Electricity Consumption (in Bln units) has improved

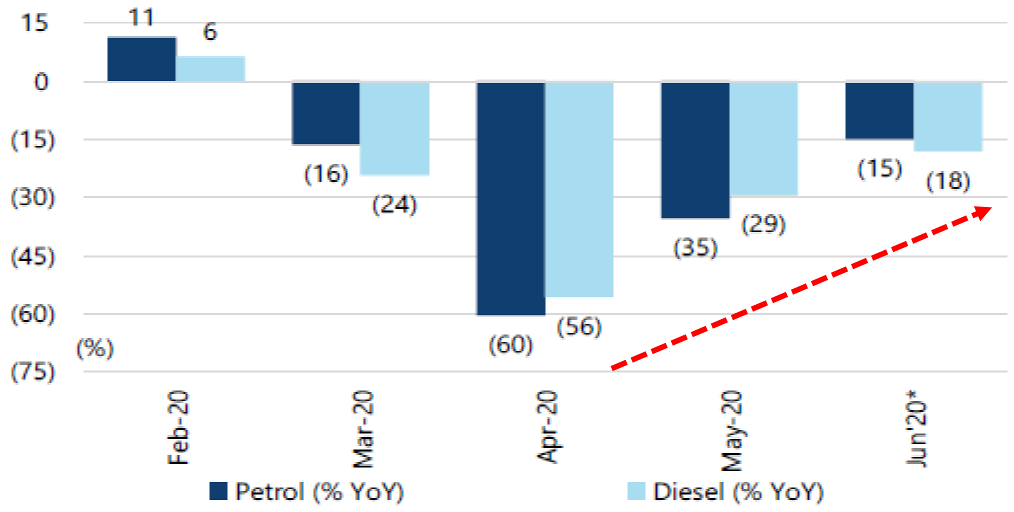
CMIE India unemployment rate drops sharply from high of 27% to near pre-pandemic levels



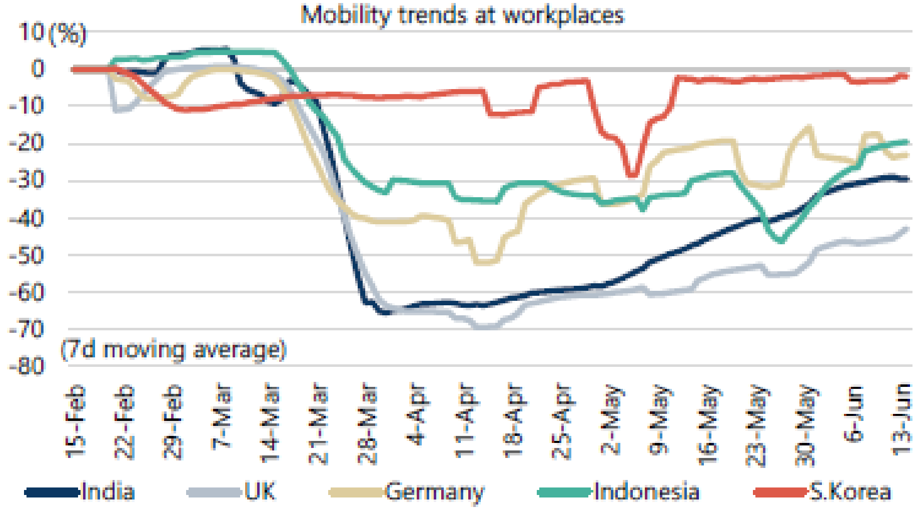
Source: BOB Economics, IHS Markit, Standard Chartered, Kotak Insti, CMIE

Fuel consumption, workplace mobility and railway freight traffic recovers; steel production sees some minor improvement

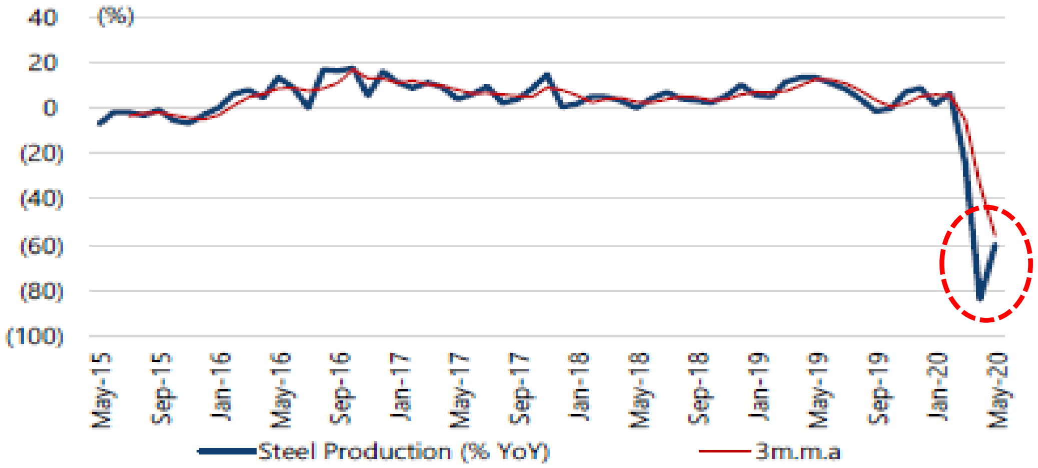
Fuel consumption recovers, but still in contraction (% YoY)



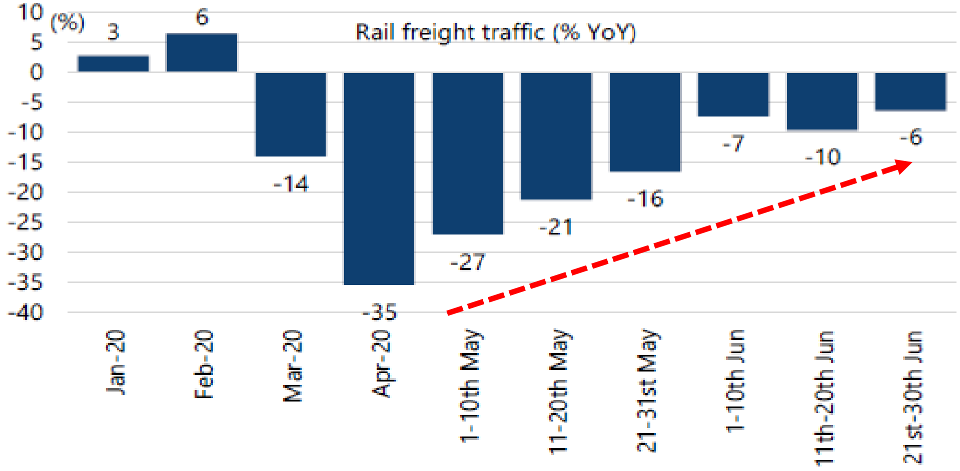
Workplace mobility improving in India, but still below some other countries



Steel production see some minor improvement



Railway freight traffic has improved



Source: Jefferies

GDP growth for Q4 FY20 continued to slow down, but was ahead of expectations

India GDP Growth trend (%, YoY)

	YoY growth rate				
	Q2FY20	Q3FY20	Q4FY20	FY19	FY20
Private Final Consumption Exp.	**6.4**	**6.6**	**2.7**	**7.2**	**5.3**
Government Final Consumption Exp.	**14.2**	**13.4**	**13.6**	**10.1**	**11.8**
Gross Capital Formation	**-2.9**	**-4.3**	**-5.8**	**0.2**	**-3.5**
Gross Fixed Capital Formation	-3.9	-5.2	-6.5	9.8	-2.8
Change in Stock	1.3	1.1	0.5	22.5	1.9
Valuables	16.0	10.5	3.1	-11.9	13.5
Exports of Good & Services	**-2.2**	**-6.1**	**-8.5**	**12.3**	**-3.6**
Imports of Goods & Services	**-9.4**	**-12.4**	**-7.0**	**8.6**	**-6.8**
GDP	**4.4**	**4.1**	**3.1**	**6.1**	**4.2**

- Q4 FY20 GDP slowed down to 3.1%YoY from 4.1%YoY in the previous quarter, but came in slightly higher than expectations.
  - ➢ Slowdown was led by Investments (Gross Fixed Capital Formation), which has ~30% weight in GDP.
  - ➢ Private consumption (~55% weight of GDP) growth also slowed down considerably to 2.7% from 6.6% in the previous quarter.
  - ➢ Government expenditure supported and growth remained at a healthy 13.6% during the quarter.
- For full FY20, GDP growth came in it 4.2% vs 6.1% in FY19.
- The govt. and RBI have not given any official GDP forecast for FY21 yet, but RBI mentioned that GDP is expected to contract in FY21.
- Various other agencies forecast GDP contraction of 4-6% for India in FY21, followed by a healthy recovery in FY22 (primarily helped by lower base effect).

Source: CSO, MOSPI, Phillip Capital

Current account turns positive in Q4 FY20, and Balance of Payments (BOP) in healthy surplus

India Current Account & Balance of Payment Trend

(US$ Billion)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY19	FY20
Exports	83.3986	83.0817	87.3673	82.7	80.0	81.2	76.5	337.2	320.4
Imports	133.4	132.4	122.6	129.5	119.6	117.3	111.6	517.5	477.9
Trade Balance	-50.0	-49.3	-35.2	-46.8	-39.6	-36.0	-35.0	-180.3	-157.5
Net invisibles	31.0	31.5	30.6	31.8	32.1	33.4	35.6	123.0	132.8
Current Account Balance	-19.1	-17.8	-4.6	-15.0	-7.6	-2.6	0.6	-57.3	-24.7
CAD/ CAS (% of GDP)	**-2.9**	**-2.7**	**-0.7**	**-2.0**	**-0.9**	**-0.2**	**0.1**	**-2.1**	**-0.9**
Capital Account	**16.6**	**13.8**	**19.2**	**28.6**	**13.6**	**23.6**	**17.4**	**54.4**	**83.2**
Balance of Payment (BoP)	**-1.9**	**-4.3**	**14.2**	**14.0**	**5.1**	**21.6**	**18.8**	**-3.3**	**59.5**

Source: RBI, Phillip Capital

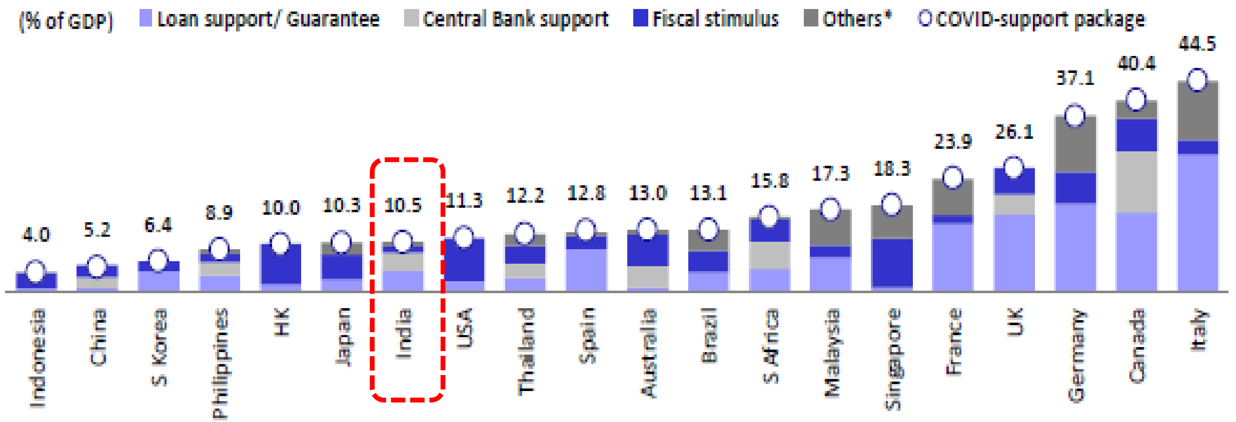
- India's current account turned positive (surplus) @ 0.1% of GDP in Q4 FY20, with trade deficit moderating (on lower crude oil price prices) and invisibles (services & transfers) increasing. For full FY20 current account deficit (CAD) moderated to 0.9% of GDP from 2.1% of GDP. <u>In FY21 current account is could be in surplus, if oil prices remains stable, and doesn't rise too much from current levels.</u>
- Capital account was also in healthy surplus in Q4 FY20, helped by strong FDI investment, External commercial borrowings; even though we saw large foreign portfolio outflows during the quarter.
- Therefore, Balance of Payments (BOP) was in healthy surplus in Q4 FY20. For full FY20 BOP surplus increased to $59.5 bln from a deficit of $3.3 bln in FY19. <u>BOP is expected to continue in healthy surplus in FY21.</u>

Govt has announced large economic stimulus package of Rs 21 trillion (10.5% of GDP), but fiscal impact is limited. India's fiscal stimulus is one of the lowest among major economies till now.

India Economic Stimulus Package & Fiscal Impact

Announcement date	Focus area	Gross package value (Rs Trn)	Fiscal impact over FY21-22 (Rs Trn)
26th Mar and before	Cash transfers to poor	1.9	1.0
12th May	Small businesses	5.9	0.5
13th May	Farmers and migrant labor	3.1	0.2
14th May	Agricuture	1.5	0.2
15th-16th May	Rural labor	0.5	0.5
Total fiscal announcements		**13.0**	**2.3**
As % GDP		**6.4**	**1.1**
RBI - 20th Feb-Now	Liquidity measures	8.0	0.0
Total support		**21.0**	**2.3**
As % GDP		**10.4**	**1.1**

COVID-19 support packages of major world economies * (% of GDP)



- To deal with Covid-19 pandemic, the govt has announced a large economic stimulus package of Rs 21 trillion (~10.5% of GDP) in five tranches. The package included the following:
  - ➢ Loan and credit guarantees to MSME sector and partially to NBFCs, assistance/aid to migrant labourers, reforms and aid to agriculture sector & farmers, and also included earlier fiscal measures announced by the govt., and earlier monetary and liquidity measures by the RBI
- The fiscal impact of the package (actual govt. spending) is limited at ~1% of GDP. India's fiscal stimulus till now has been one of the lowest among major world economies.
- During lock-down (with demand/supply being suppressed) a large fiscal stimulus may not be helpful.
- But with the lockdown being relaxed and the economy gradually opening up, there is need for greater fiscal stimulus from the govt. going forward.
- We expect more gradual fiscal stimulus from the govt, although fiscal space is quite limited due to sharp fall in govt revenues—due to the economic slowdown/ lock-down.

Source: Ministry of Finance, Jefferies, Motilal Oswal.
*Data as of May 2020 end

Global currencies rallied during the quarter, due to return of global risk appetite & strong foreign flows. India was a relative underperformer during the quarter, but currency was stable.

Performance of Various Currencies Vs USD (as of June 2020)				
Name	**3 mths**	**1 yr**	**3 yrs**	**5 yrs**
Indonesian Rupiah	14.2	-1.1	-2.3	-1.4
Australian Dollar	12.5	-1.9	-3.5	-2.2
Russian Ruble	9.7	-11.5	-6.0	-4.8
Thai Baht	6.2	-0.8	3.2	1.8
South African Rand	2.8	-18.8	-9.0	-6.9
Taiwan Dollar	2.5	5.3	1.0	0.9
Euro	2.4	-1.4	-0.5	0.2
Swiss Franc	2.1	2.9	0.4	-0.3
Philippine Peso	2.1	2.8	0.4	-2.0
Singapore Dollar	2.1	-3.0	-0.4	-0.7
Malaysian Ringgit	0.8	-3.6	0.1	-2.5
Yuan Renminbi	0.3	-2.9	-1.4	-2.6
Indian Rupee	**0.2**	**-8.6**	**-5.0**	**-3.3**
Japanese Yen	0.1	-0.1	1.4	2.6
Pound Sterling	-0.4	-2.9	-1.7	-4.7
Pakistan Rupee	-1.1	-4.9	-14.5	-9.5
Turkish Lira	-3.9	-15.6	-19.9	-17.1
Brazilian Real	-5.5	-30.2	-15.5	-10.8

Source: Morningstar Direct. Data sorted on the basis of 3 month Return.
Returns greater than 1 year are CAGR

- Global currencies rallied during the quarter (ended June 2020) due to return of global risk appetite and strong foreign flows. Indonesian Rupiah, Australian Dollar and Russian Ruble were among the top performing currencies (vs USD).
- The rupee was a relative underperformer during the quarter, but remained relatively stable. Emerging market (EM) currencies like Brazilian Real, Turkish Lira and Pakistan rupee were under pressure during the quarter.
- The rupee has also fared relatively better than a number of peer EM currencies over the long term (5 years).
- India's forex reserves touched a record high by breaching the $500 billion mark.

India Forex Reserves Trend ($ in billion)

Source: CLSA

Domestic Market Overview

Domestically, broader markets (mid/small-caps) and sectors like auto, healthcare, oil& gas and metals outperformed over the past quarter

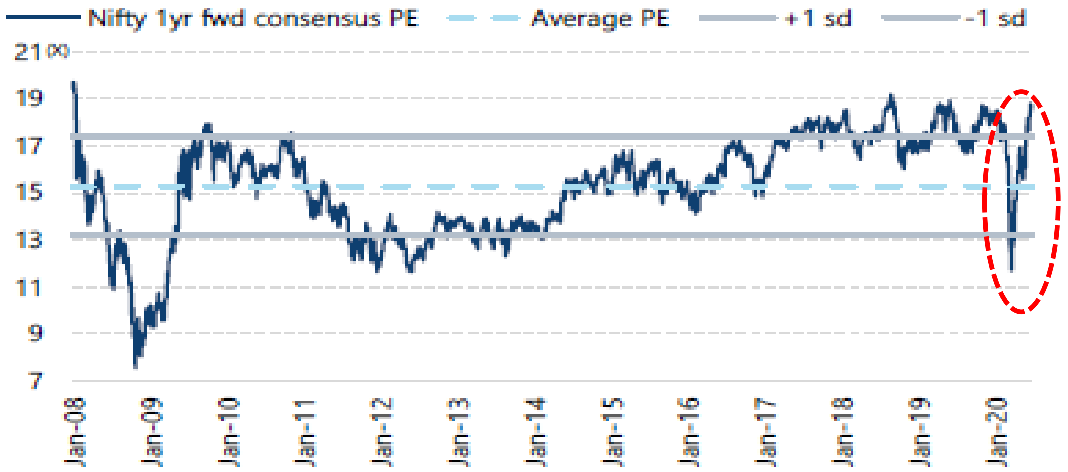
Performance of Domestic Indices as of June 2020 (in %)			
Index Name	3 Mths	6 Mths	1 Year
S&P BSE Auto	42.1	-17.4	-14.7
S&P BSE Healthcare	33.9	21.1	26.2
IISL Nifty Midcap 50	28.7	-12.9	-16.0
IISL NIFTY Smallcap 100	28.4	-20.9	-25.6
S&P BSE Oil and Gas	26.4	-14.1	-14.4
S&P BSE Metal	26.2	-30.9	-35.1
IISL NIFTY Midcap 100	25.6	-14.0	-16.7
IISL Nifty 500	21.1	-14.2	-12.3
IISL Nifty 50	19.8	-15.3	-12.6
S&P BSE Capital Goods	17.1	-24.1	-35.2
S&P BSE Realty	16.8	-30.7	-28.2
S&P BSE IT	15.9	-3.8	-4.9
S&P BSE Power	14.3	-18.2	-24.8
S&P BSE BANKEX	10.2	-33.8	-30.5
S&P BSE FMCG	9.8	-1.3	-0.9
S&P BSE PSU	9.5	-29.8	-37.7
S&P BSE Consumer Durables	5.0	-18.7	-22.2

Source: Morningstar Direct. Data sorted in descending order on the basis of 3 mth return

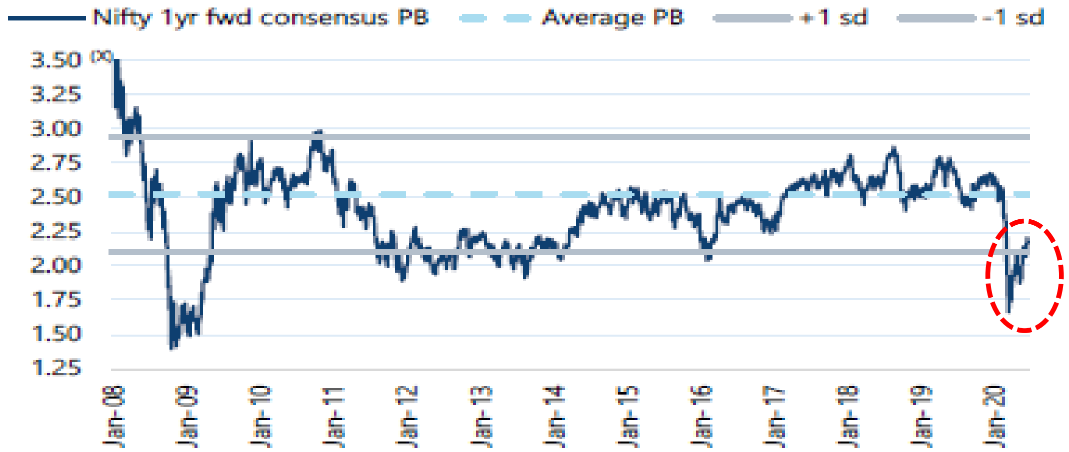
- **Over the past quarter (ended June 2020)**
  - Domestic markets registered a healthy rally due to strong FII inflows, and partial recovery in economic activity (with the lock-down being relaxed)
  - Broader markets (mid/small-caps) outperformed their large-cap counterparts.
  - Sectors like auto, healthcare, oil & gas and metals outperformed during the quarter (past 3 months).
  - Sectors like consumer durables, PSU, FMCG and banks underperformed during the quarter.

With the recent market rally and downgrade in earnings growth for FY21, market valuations have recovered

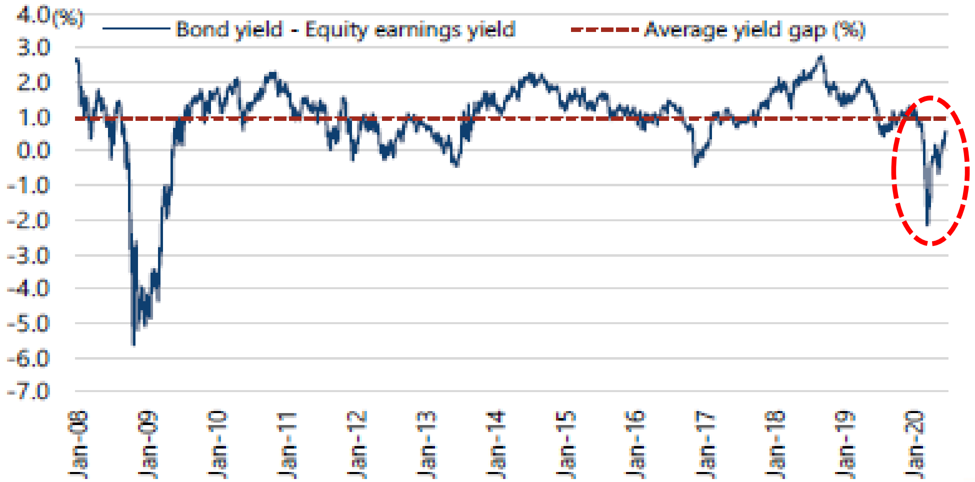
Nifty Forward P/E Ratio back to near pre-pandemic levels



Nifty Forward P/B ratio has also recovered, but still away from earlier highs & long term average



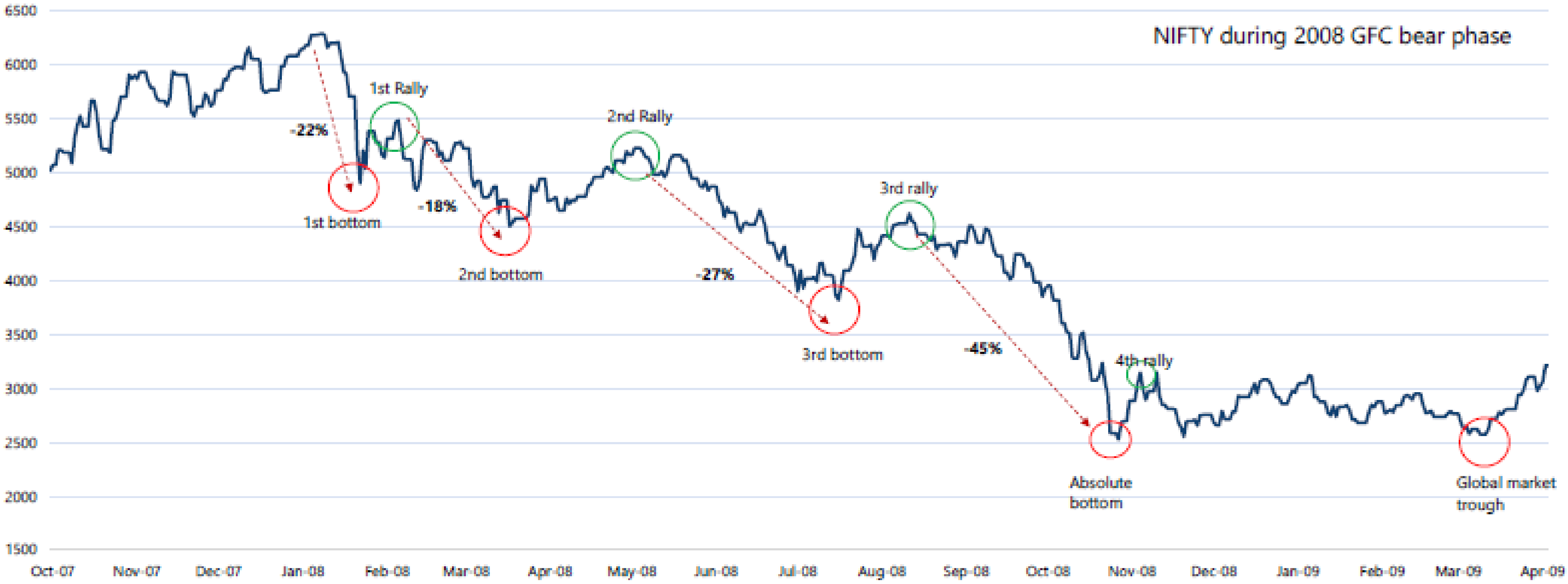
Bond yield vs Equity Earnings yield Indicator shows that gap has substantially reduced from March 2020 lows, implying that equities are not as attractive (relative to bonds), as before



Source: Bloomberg, Jefferies

Past market downturns have shown that there is a possibility of second or third wave of correction, and that cannot be ruled out—esp. if the Covid-19 outbreak in India continues to escalate.

Nifty Index Corrections & Rallies during the Global Financial Crisis of 2008-09



- We have witnessed three to four waves of corrections (followed by rallies) in other major market downturns as well -- like 2000 dot-com crash, 2011 European debt crisis etc.

Source: Jefferies. Past performance is not an indicator of future returns

FPI equity outflows picked up strongly in the months of May – June 2020; DII equity flows (esp. net purchases by MFs) slowed down

Source: NSDL, Axis Capital	Rs in Crore			
Month-end	**FPIs**	**DIIs**	**MFs**	**Insurance**
30 June 2019	1,033	3,643	6,232	-2,589
31 July 2019	-13,316	20,395	15,083	5,312
31 August 2019	-15,552	20,934	17,406	3,527
30 September 2019	6,674	12,491	11,029	1,461
31 October 2019	14,657	4,675	3,485	1,190
30 November 2019	22,489	-7,971	-4,845	-3,126
31 December 2019	6,118	-741	2,746	-3,487
31 January 2020	14,095	2,250	1,053	1,196
29 February 2020	-1,521	16,933	8,931	8,002
31 March 2020	-58,632	55,595	30,130	25,464
30 April 2020	-4,112	-826	-7,965	7,139
31 May 2020	13,001	11,357	6,522	4,835
30 June 2020	18,684	2,434	-612	3,046

Source: NSDL, Axis Capital	Rs in Crore			
Year	**FPIs**	**DIIs**	**MFs**	**Insurance**
FY2008	52,572	47,794	15,948	31,846
FY2009	-48,250	60,040	6,962	53,078
FY2010	1,10,752	24,211	-10,235	34,446
FY2011	1,10,121	-18,709	-19,974	1,265
FY2012	43,738	-5,347	-1,384	-3,963
FY2013	1,40,032	-69,069	-22,008	-47,061
FY2014	79,709	-54,161	-21,069	-33,092
FY2015	1,11,445	-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	1,13,258	1,40,517	-27,259
FY2019	-90	72,115	87,462	-15,036
FY2020	6,151	1,29,301	91,814	37,483
FYTD2021 (upto June)	27,573	12,965	-2,055	15,020

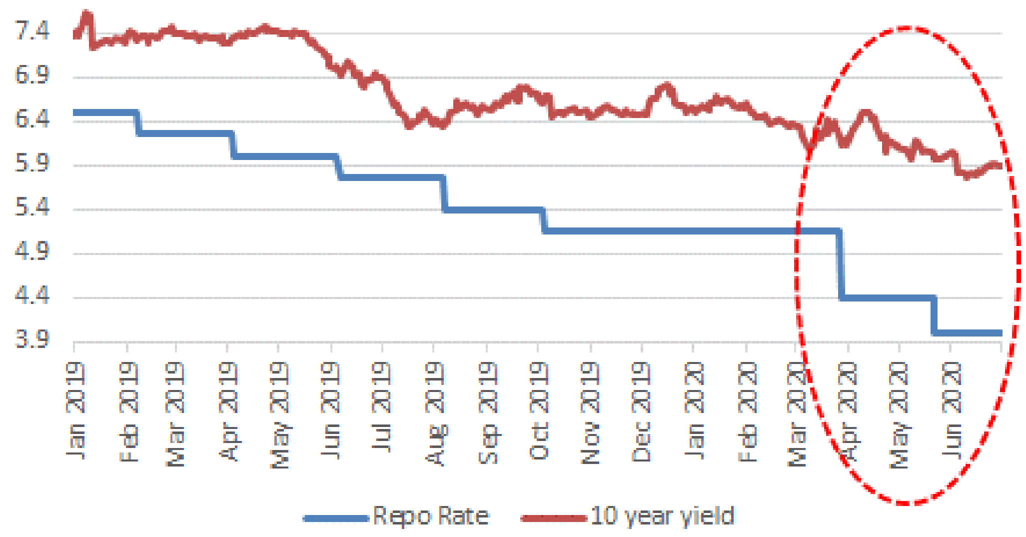
- After seeing a record high net equity outflow from Foreign Portfolio Investors (FPIs) in the month of March 2020 (amidst the market correction), we have seen FPI equity flows recover strongly, esp. in May-June 2020. This has been helped by strong global liquidity and some return of global risk appetite.

- However, DII equity flows (especially net purchases by mutual funds) slowed down.

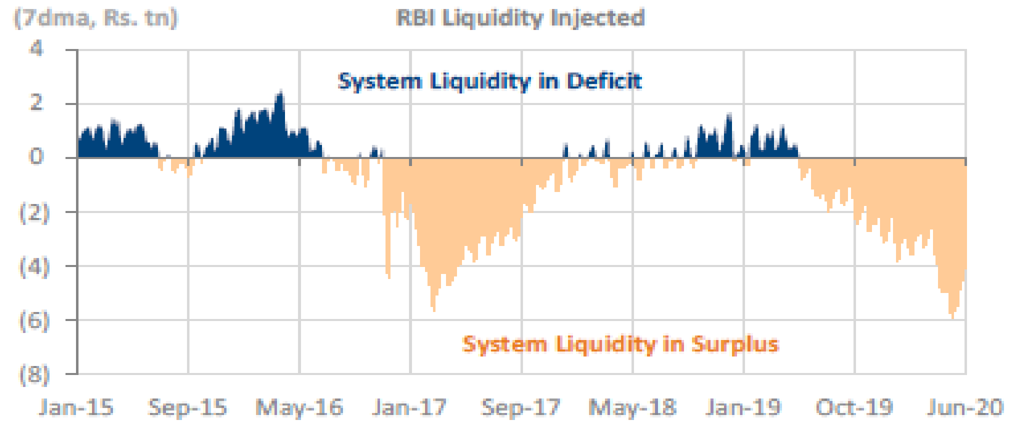
Debt Markets

RBI has done large monetary stimulus; bond yields have softened (but more at the shorter end)

10 year G-Sec yield versus Repo Rate (%)



Net Liquidity in the system (Rs trln)

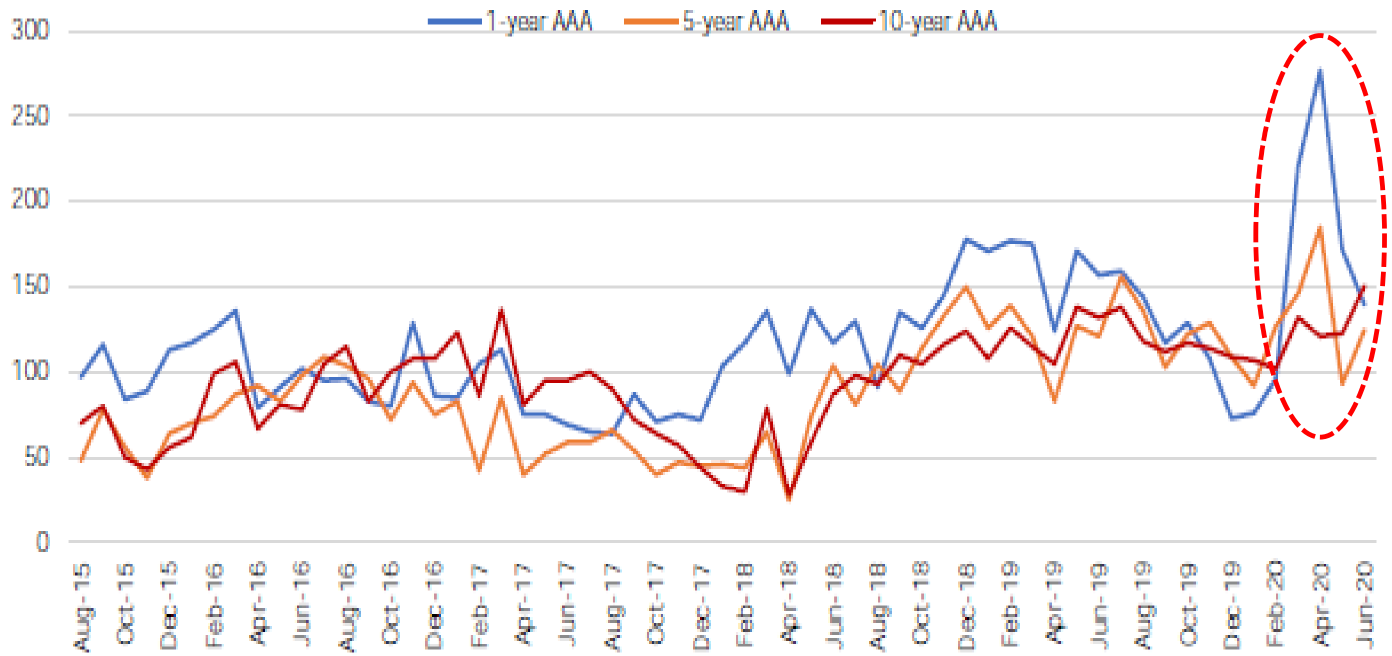


- The 10 year bond yield has softened this year with RBI cutting rates, liquidity in surplus, benign inflation & growth outlook, and rupee being largely stable. Yields have softened more at the shorter end of the yield curve. RBI announced another “Operation Twist” recently, to try and soften the longer-end of the yield curve.
- Concerns of higher govt borrowing, fiscal slippage, FPI outflows, & possibility of India sovereign outlook downgrade capped fall in yields (esp. at the longer end).
- Liquidity in the system has reduced a bit, but still in healthy surplus. Govt. borrowing for FY21 was increased from Rs. 7.8 trln to Rs. 12 trln.
- RBI announced another mid-meeting rate cut and other regulatory measures on May 22, 2020, as follows:
  - Reduced policy repo rate by 40 bps to 4.4% and reverse repo rate by 90 bps to 4%. <u>RBI has cumulatively cut policy repo rate by 250 bps.</u>
  - Extended the moratorium on term loans by another 3 months (upto Aug 2020 end).
  - Increased bank’s group exposure limit from 25% to 30% to facilitate easier financing of corporates.
  - Extended special credit line to EXIM bank (for financing of importers/exporters) and to SIDBI (for financing of SMEs).
  - RBI mentioned that GDP is expected to contract in FY21 (but didn’t give any official forecast). It also said that headline inflation is expected to fall below 4% in H2 FY21
  - RBI indicated that there is space for more monetary action if inflation remains within the projected trajectory.

Source: Bloomberg, IIFL

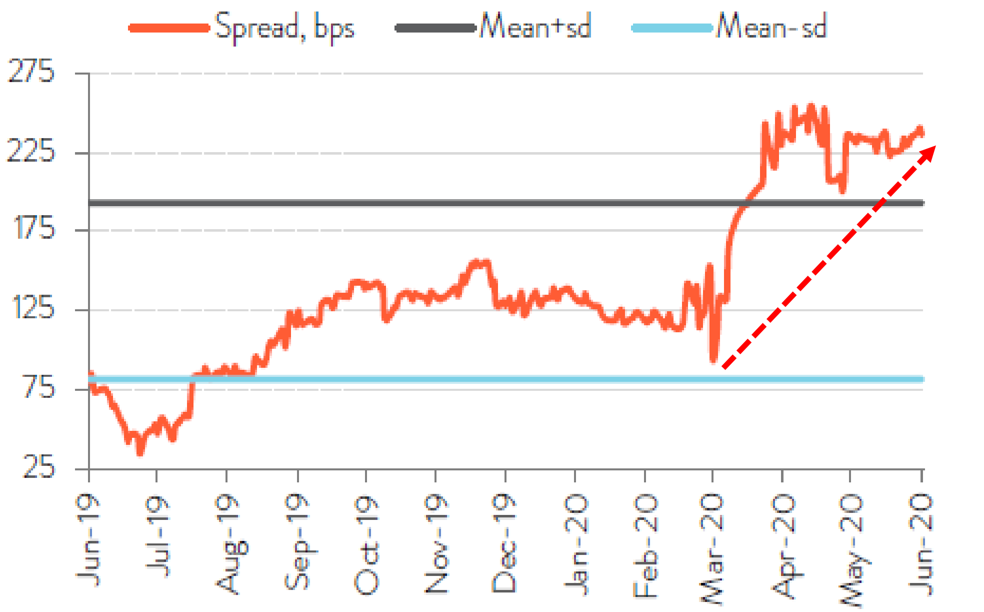
Corporate bond spreads have come down (especially at the shorter end) – implying some reduction in risk-aversion in corporate bonds. Short term yields have fallen more.

Spread between AAA corporate bonds & similar maturity G-Secs



Source: CMIE, NSE Market Pulse, June 2020

Spread between 10 yr yield & 91-day T-Bill has risen significantly—indicating that short term rates have fallen more



Source: Bloomberg, BOB Economics

Market Outlook & Re-cap

We have seen some partial recovery in high-frequency economic indicators	• With the lock-down being relaxed and economy opening up, we have seen some partial recovery in various high-frequency economic indicators. • However, Covid-19 cases continue to escalate in India (now 3rd highest in the world), which is a cause of concern. However, mortality rate remains controlled and recoveries improve.
Markets seem to be ignoring a possible recession in FY21	• Markets have seen a strong rally from their March 2020 lows. They seem to be ignoring a possible recession in FY21, and factoring in a quicker recovery. • The market up-move has been helped by strong global and domestic liquidity, recovery in global risk appetite, and some improvement in high-frequency indicators.
Market valuations have recovered from their lows	• Market valuations have recovered from their lows helped by the recent market rally and earnings downgrade for FY21. • Corporate earnings for Q4 FY20 were below expectations, and there have been sharp cuts in earnings for FY21—due to the economic slowdown.
Investment Strategy	• We recommend investors to use an asset allocation approach to investing or stagger their equity investments, at this juncture.
Debt Markets & Strategy	• RBI has indicated that there is space for more monetary action, if inflation remains within the target trajectory, and if the situation demands. • We prefer the medium term part of the G-Sec yield curve.
Factors to watch out for	• The trajectory of COVID-19 cases in India & globally. If recovery in economic data continues to improve. More fiscal stimulus or other measures to be announced by the Indian government. Geo-political tensions, flows & risk appetite.

THANK YOU

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