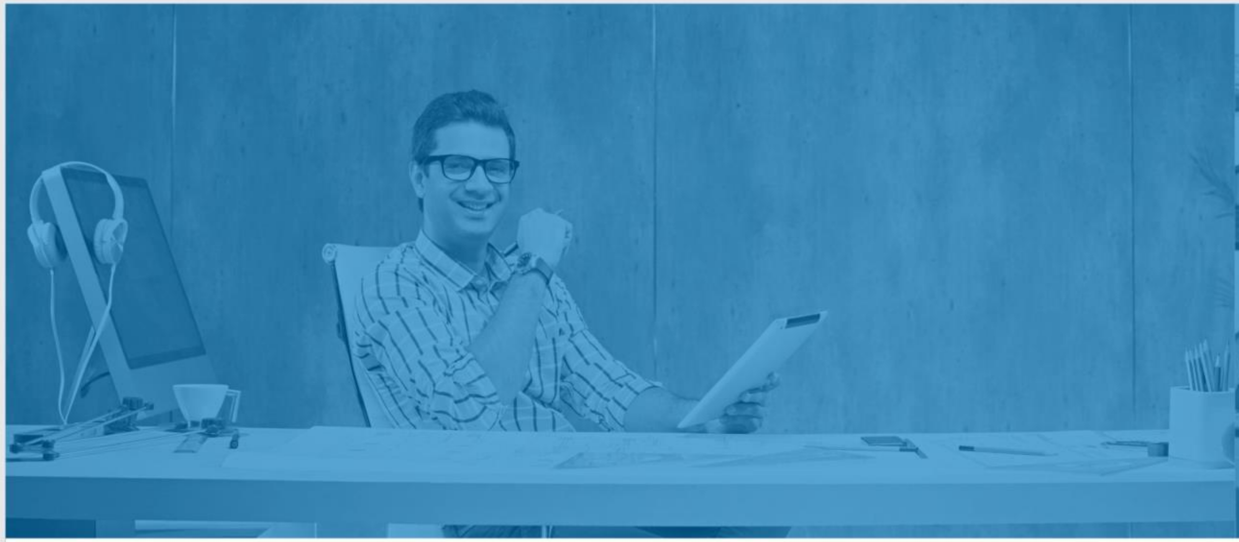


Macro & Market Overview / Outlook

August 2020

LIFE GOALS. DONE.

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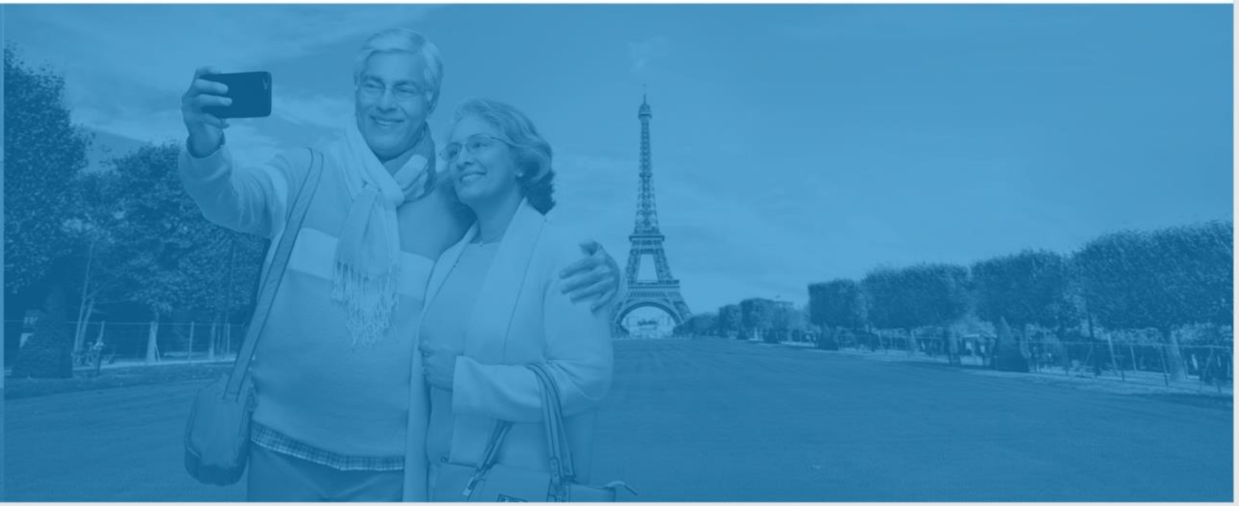


Global Macros, Markets & Coronavirus (COVID-19) Impact

Impact of COVID-19 on global macros & markets

Coronavirus Pandemic

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

India COVID-19 cases continue to escalate (3rd highest in the world) causing some concerns. However, fatality rate remains in control so far at ~2% (at national level), and recovery rate is ~65%. We have seen gradual opening up of Indian economy, except in containment zones.

Sharp correction followed by a swift 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 global economic recession on the cards. Although high frequency indicators indicate recovery in economic activity.

Strong recovery seen in crude prices. Gold prices rally to record high, due to safe-haven buying.

Global markets have seen a healthy rally since March 2020 lows, helped by strong global liquidity. India has been among the top performing markets over this period.

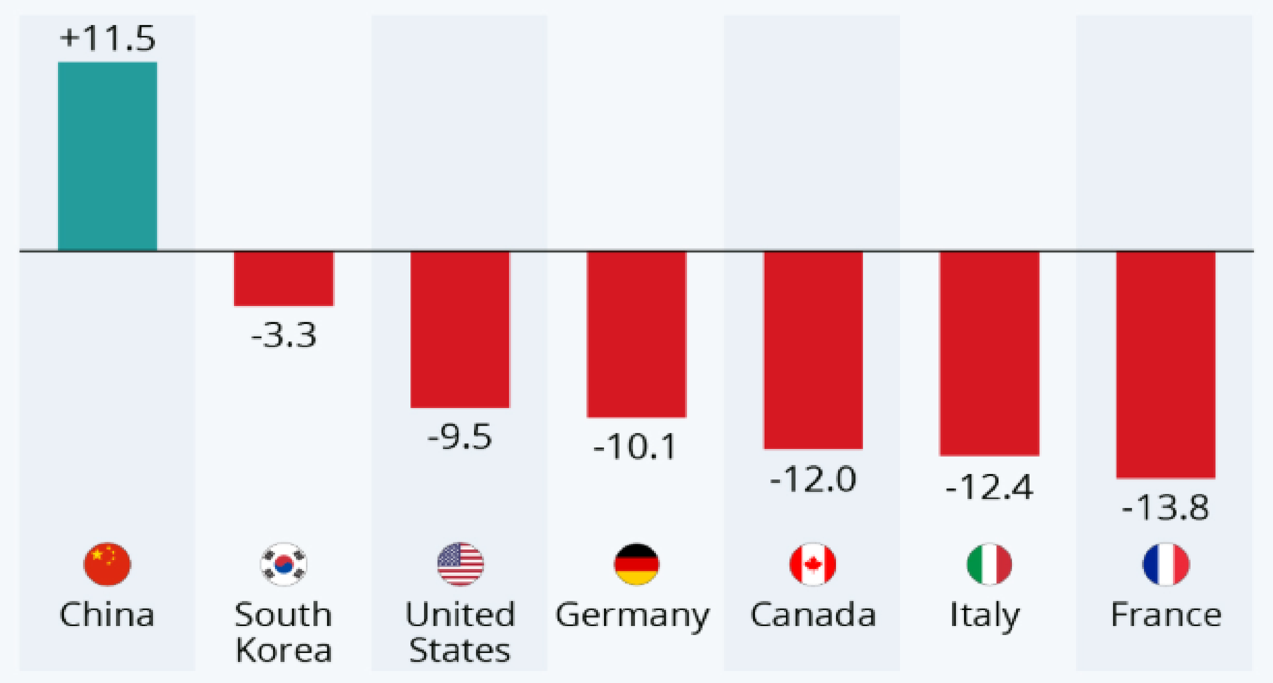
Performance of International Indices (ended July 2020, in %)						
Index Name	**Country / Region**	**4 Mths**	**1 Yr**	**3 Yrs**	**5 Yrs**	**10 Yrs**
BOVESPA	Brazil	37.9	1.1	16.0	15.1	4.3
IISL Nifty 50	**India**	**33.7**	**-0.4**	**3.2**	**5.4**	**7.5**
TSEC TAIEX	Taiwan	31.5	17.0	6.7	7.9	5.0
KOSPI	South Korea	31.0	11.1	-2.2	2.1	2.5
MSCI EM PR USD	Emerging Mkts	29.7	4.0	0.4	3.7	0.8
RTS RTSI PR USD	Russia	28.8	-9.2	7.0	7.5	-1.8
MSCI Asia Ex Japan PR USD	Asia ex Japan	27.8	9.8	2.2	5.0	3.7
FSE DAX TR	Germany	25.4	1.0	0.5	1.7	7.2
S&P 500	US	24.5	9.8	9.8	9.2	11.5
MSCI World PR USD	World	23.2	5.4	5.5	5.5	7.4
FTSE Bursa Malaysia KLCI	Malaysia	20.7	-1.9	-3.1	-1.4	1.7
FTSE SET All Share	Thailand	20.6	-25.3	-7.3	-2.8	3.7
Shanghai Composite	China	20.5	12.9	0.4	-2.0	2.3
JSX Composite	Indonesia	16.7	-19.4	-4.1	1.4	5.3
S&P/ASX 200	Australia	14.4	-13.0	1.2	0.8	2.8
Nikkei 225	Japan	13.8	0.9	2.9	1.1	8.6
CAC 40	France	9.3	-13.3	-2.1	-1.2	2.8
Hang Seng	Hong Kong	6.1	-11.5	-3.4	0.0	1.6
FTSE 100	UK	6.0	-22.3	-7.2	-2.5	1.2
FTSE/SGX STI	Singapore	4.7	-23.4	-8.7	-4.6	-1.6

Source: Morningstar Direct. Returns are in local currency of index, and returns greater than 1 year are CAGR
Date sorted on the basis of 4 month return in descending order

- **From March 2020 end to July 2020 end (4 mth period) – Recovery period**
  - Global markets have seen a healthy rally from the bottom in March 2020—helped by strong global liquidity, recovery in high frequency economic indicators, and due to progress in vaccine trials.
  - After one of the swiftest corrections earlier (Feb – March 2020), this has also been one of the swiftest recoveries.
  - A number of markets have recovered most of their earlier losses.
  - India has been among the top performing markets globally since March 2020 end.
  - A number of other emerging markets have also outperformed over this period
- Over the long term (10 years) Indian market has been among the top performing markets.

Q2 CY20 GDP for most countries see record contraction due to the lock-down

Q2 CY20 GDP Growth of various countries (Quarter on Quarter, not annualized in %)



Source: OECD, Statista

- In Q2 CY 2020, US GDP saw a record contraction of 9.5%, mainly due to sharp fall in personal consumption (which makes up 2/3rd of US economy).
- Major economies in Europe like Germany and France also registered a record high contraction in Q2 2020 GDP.
- China's economy saw a sharp contraction in Q1 of 2020 due to the Covid-19 pandemic starting there first, but it registered a strong recovery in Q2 of 2020 with the country being able to control the pandemic, and opening up most of its economy from the lock-down during Q2 2020.

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

IMF- Global GDP growth forecast (in %)

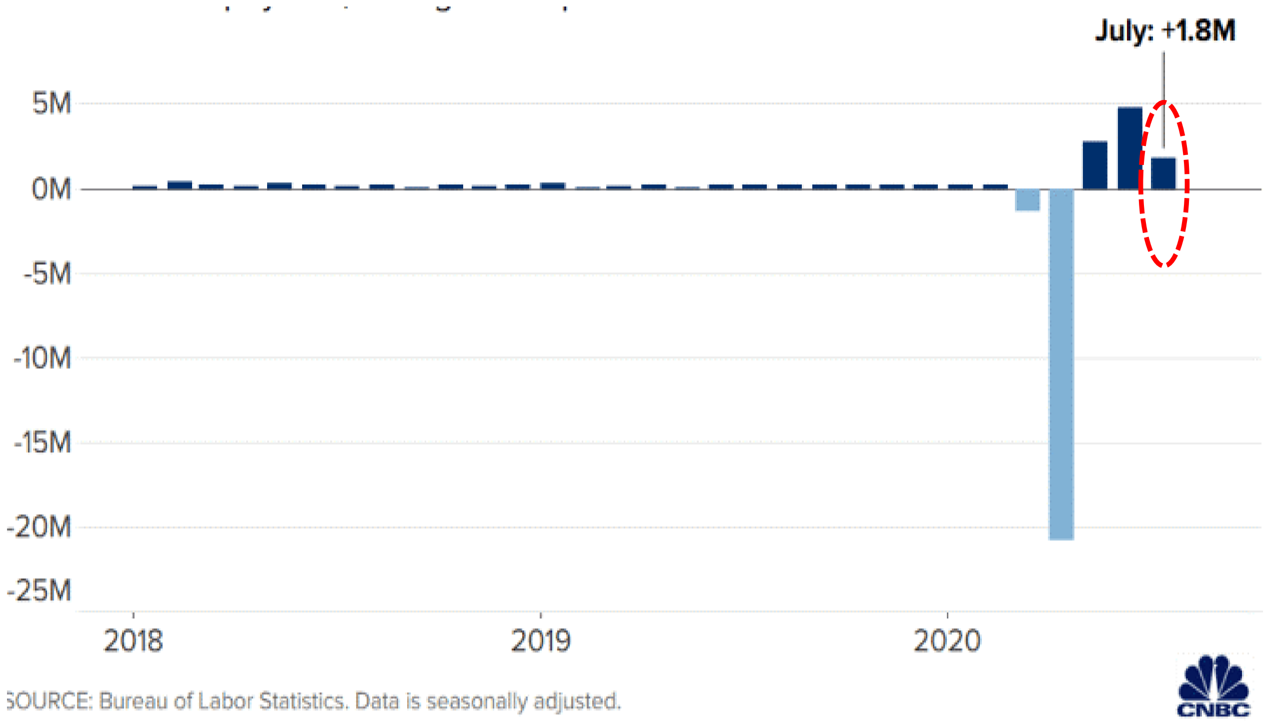
			Projections	
	2018	2019	2020	2021
World Output	**3.6**	**2.9**	**–4.9**	**5.4**
Advanced Economies	**2.2**	**1.7**	**–8.0**	**4.8**
United States	2.9	2.3	–8.0	4.5
Euro Area	1.9	1.3	–10.2	6.0
Germany	1.5	0.6	–7.8	5.4
France	1.8	1.5	–12.5	7.3
Italy	0.8	0.3	–12.8	6.3
Spain	2.4	2.0	–12.8	6.3
Japan	0.3	0.7	–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 expected to contract by 4.9% in CY2020, but expected to recover to +5.4% in CY2021.
- The contraction in global economy is to be led by advanced economies. US economy is expected to de-grow by 8.0% in CY2020, and Euro Area to contract by 10.2%.
- Emerging markets are expected to contract by 3% in 2020. China's GDP growth for 2020 is projected at -0.8%, making it one of the least impacted economies, as it opened up earlier from the lock-down.
- Indian economy is expected to contract by 4.5% in FY21 (vs growth of 1.9% projected earlier in April). However, the economy is expected to recover to +6.0% growth in FY22 (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.

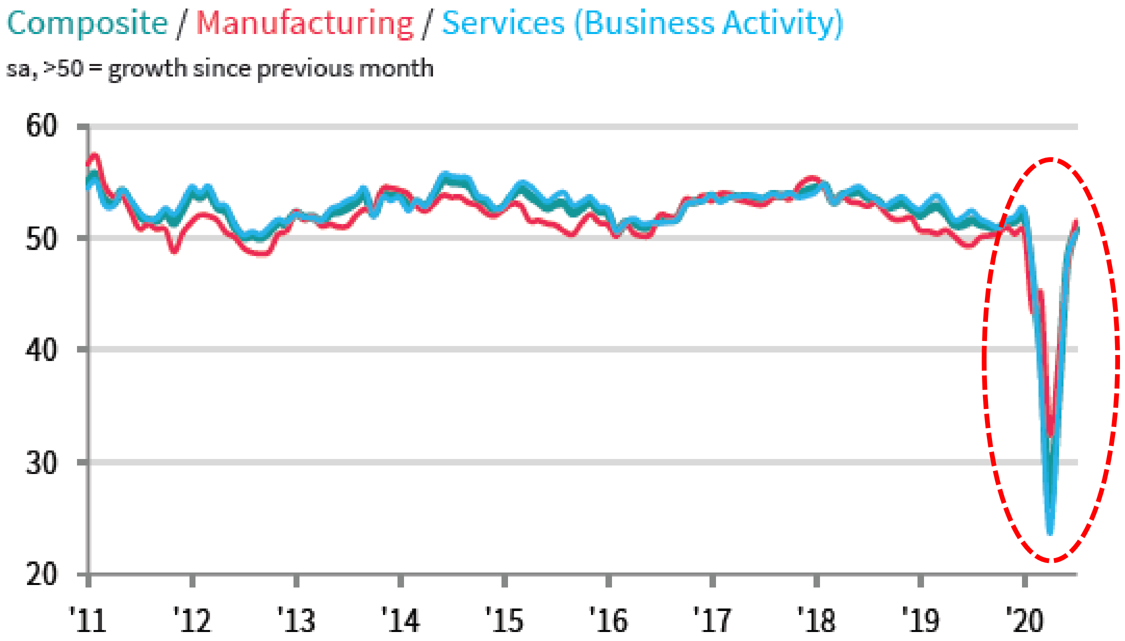
As economies open up, US labour market continues to improve, and Global PMI now back in expansion territory in July

US labour market continues to improve; 1.8 million jobs added in the month of July (higher than expected). Unemployment rate fell to 10.2% in July vs 11.1% in June & record high of 14.7% in April.



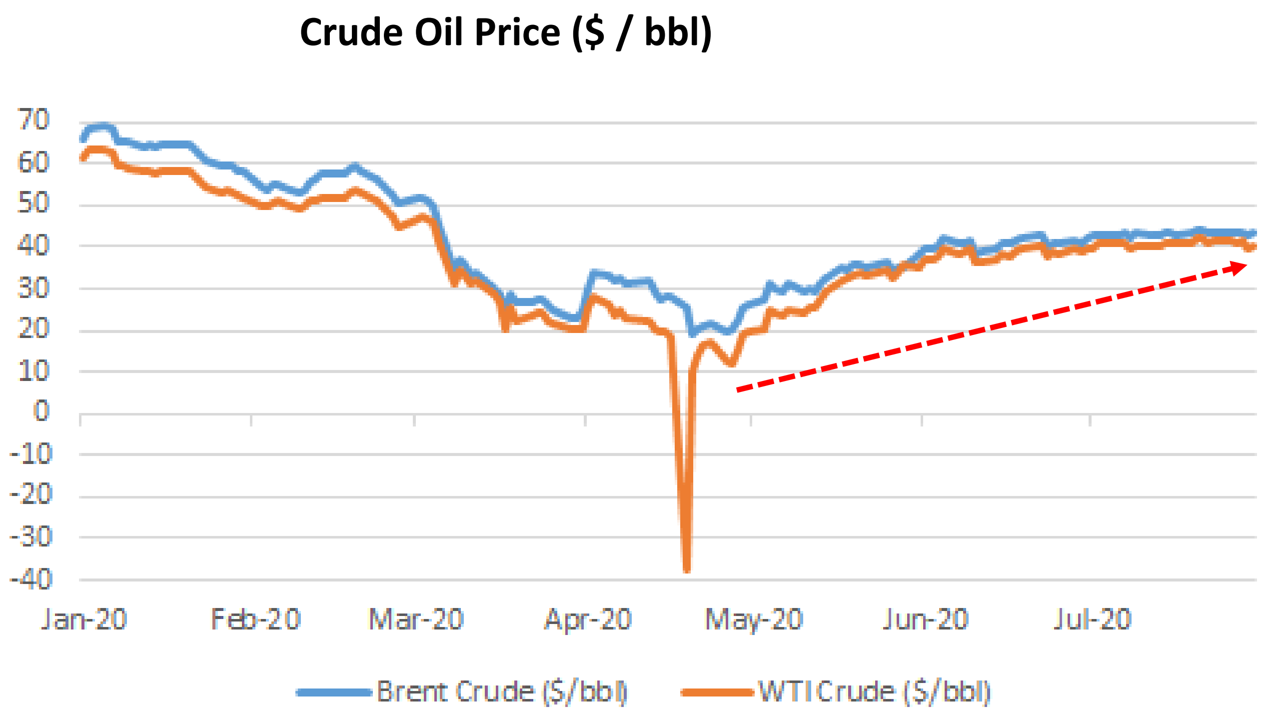
Source: CNBC.com

Global Manufacturing & Services PMI now back in expansion territory, with economies opening up, and activity normalizing globally (PMI below 50 means contraction)



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

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



- Crude oil prices have recovered from their lows in April 2020, with economic activity picking up (as global economies open up), OPEC production cuts, and with global risk appetite improving.
- WTI Crude (in US), which saw an unprecedented move in the month of April with price turning negative, and then saw a sharp recovery to close the month of July above the $40/ bbl mark. Brent crude also recovered from a record low of ~$16/bbl to close the month of July above $43/bbl.
- With the rise in crude prices, oil marketing companies have done multiple rounds of hike in domestic fuel prices (both diesel and petrol).

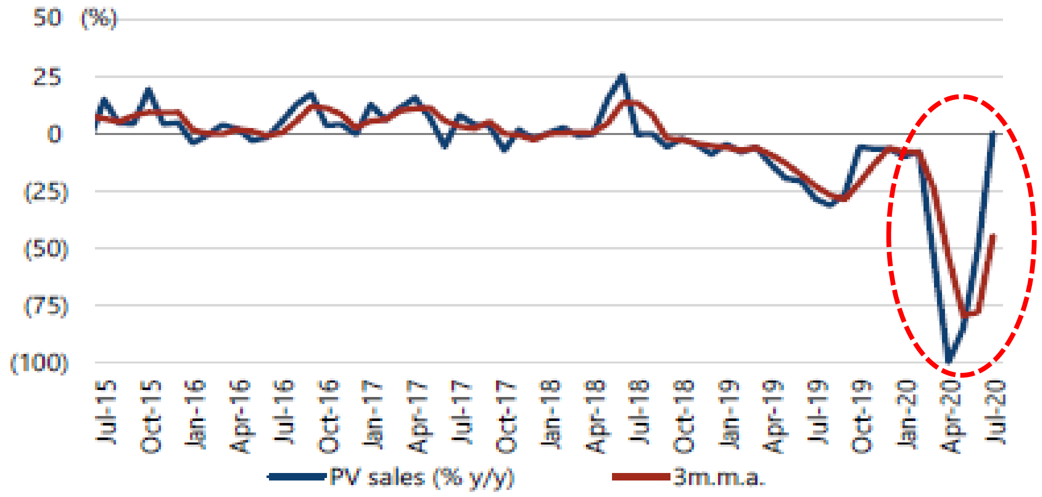
Source: Bloomberg

Domestic Macro Overview

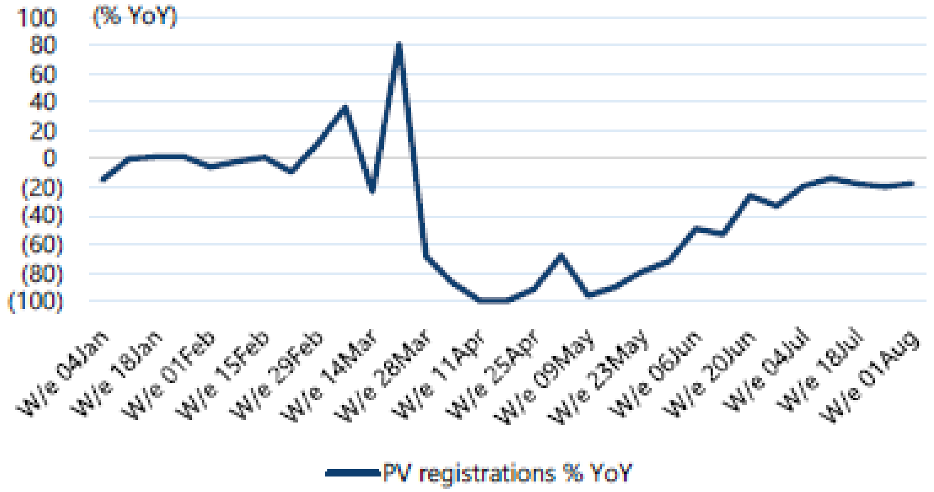
High-Frequency Indicators continue to see recovery & start levelling-off, as the economy opens up & business activity resumes

Auto sector (particularly PV & 2 W) have shown healthy recovery; CV sector lags

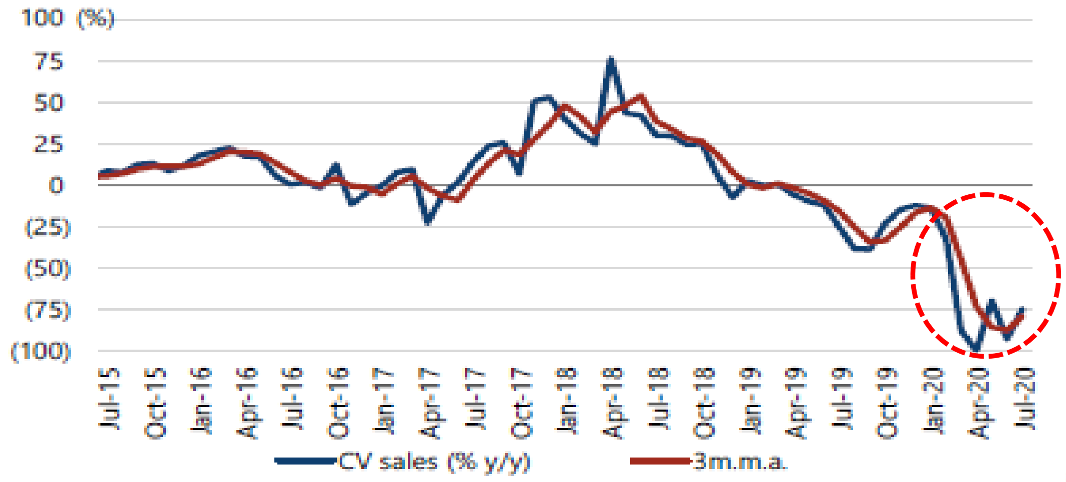
Monthly Passenger Vehicles (PV) Sales Growth (%, YoY)



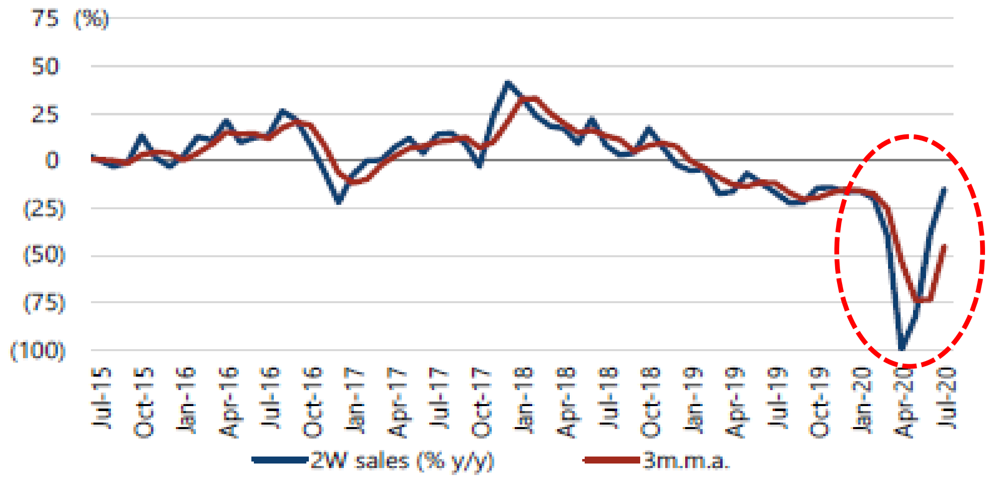
Passenger Vehicle Registrations (% YoY) improve from lows



Monthly Commercial Vehicles (CV) Sales Growth (%, YoY)



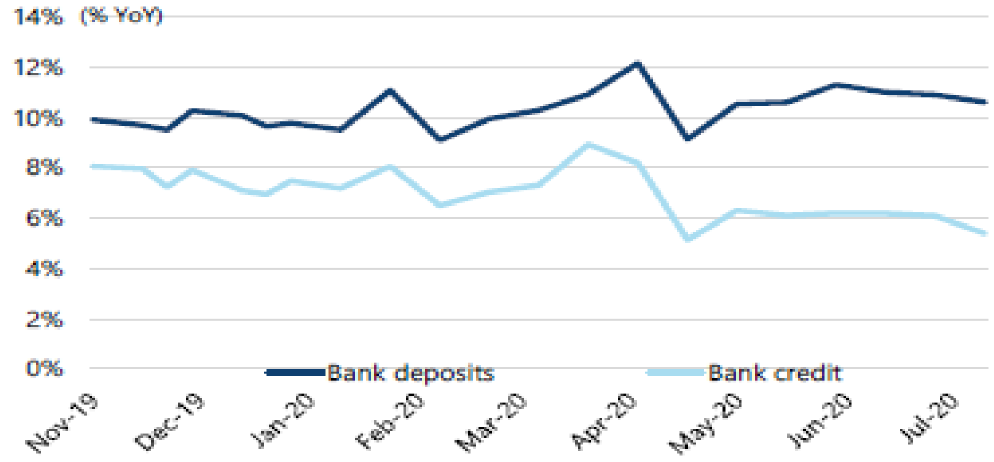
Monthly 2W Sales Growth (%, YoY)



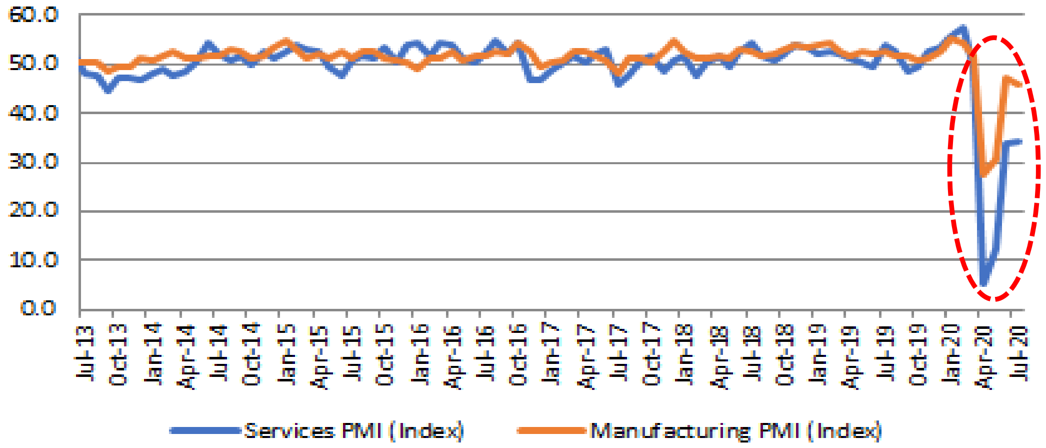
Source: SIAM, Jefferies

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

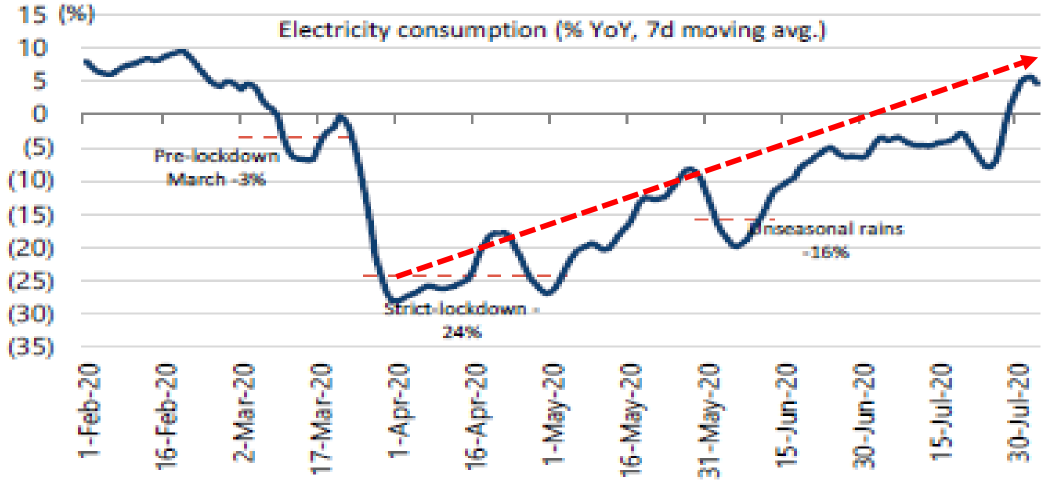
Bank deposit growth healthy, while credit growth stabilizes (but dips marginally in July)



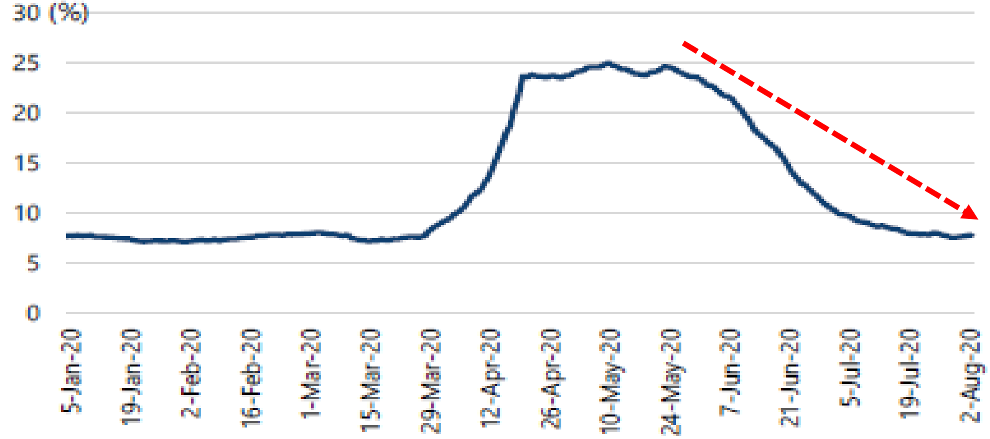
-Services & Manufacturing PMI sees healthy recovery from record lows (PMI less than 50 means contraction)



Electricity Consumption has improved



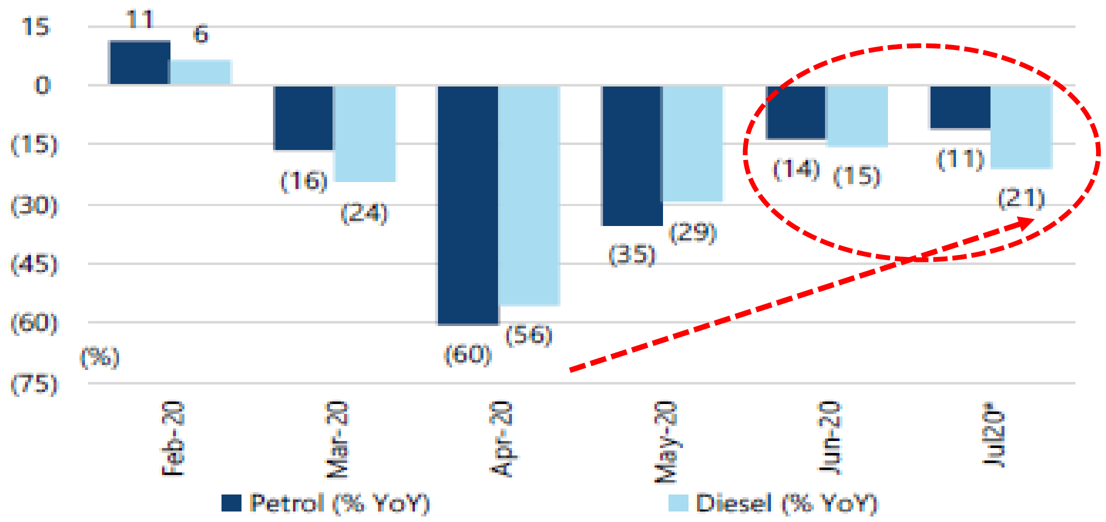
CMIE India unemployment rate drops sharply from high of 25%+ to near pre-pandemic levels



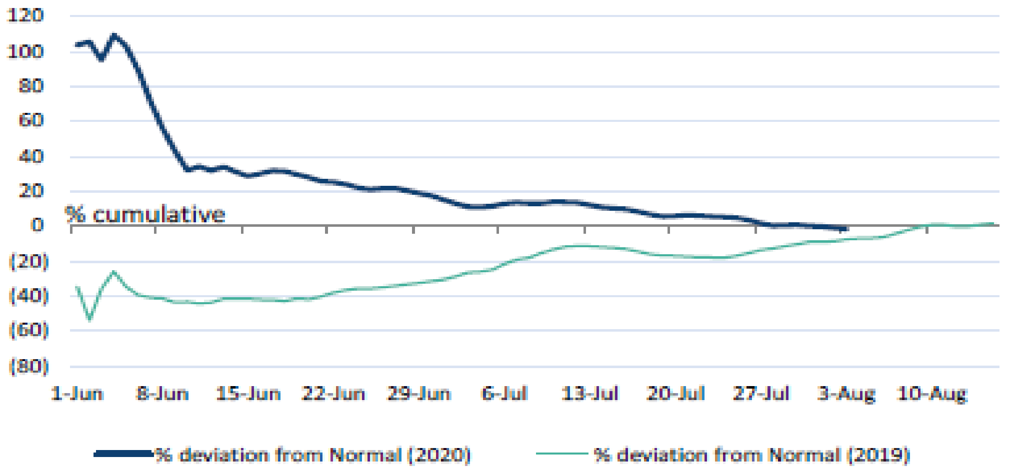
Source: Jefferies, IHS Markit, CMIE

Fuel consumption stagnates after recovering from lows, and good progress in monsoon seen. Steel & cement production sees improvement.

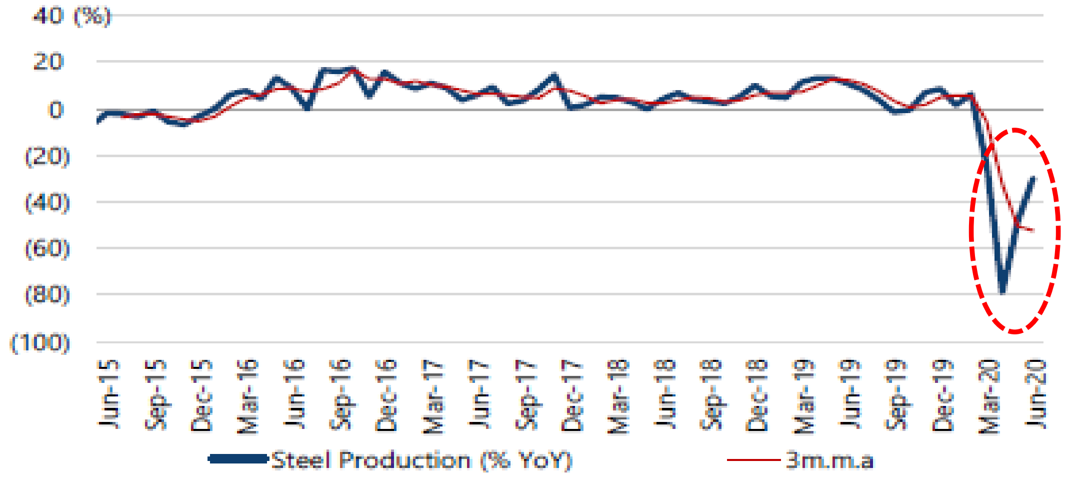
Fuel consumption stagnates after recovering; still in contraction YoY



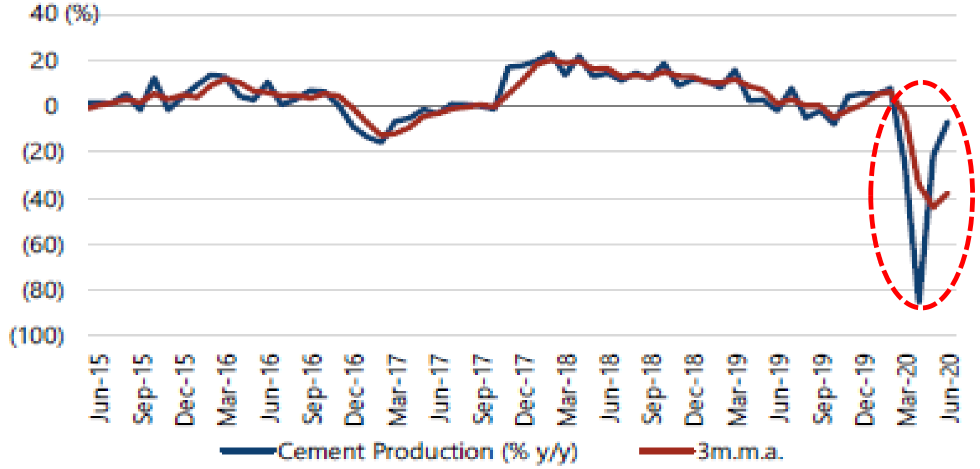
Good progress in monsoon, and summer crop sowing trend has also been good



Steel production sees improvement



Cement production sees healthy improvement



Source: Jefferies

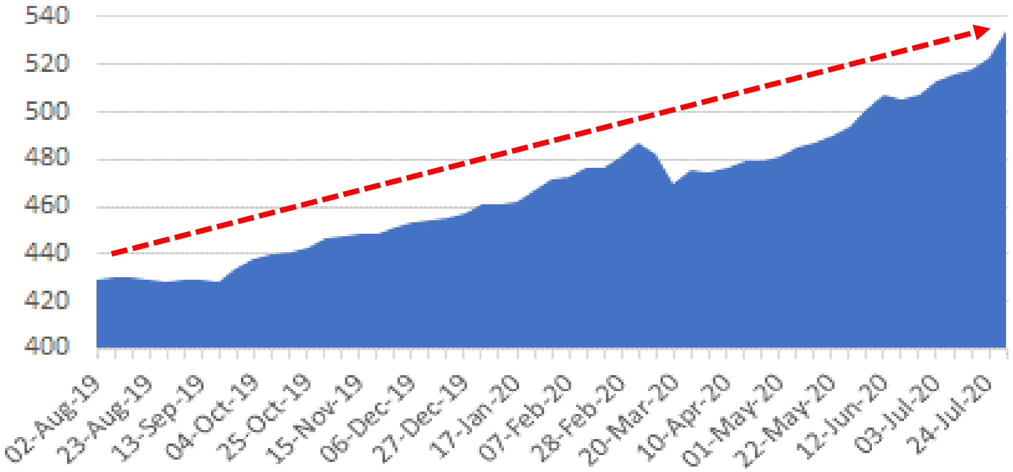
Global currencies rallied during the past 3 months, due to return of global risk appetite & strong foreign flows. India was a relative underperformer during this period, but currency was stable.

Performance of Various Currencies Vs USD (as of July 2020)				
Name	3 mths	1 yr	5 yrs	10 yrs
Australian Dollar	9.5	4.0	-0.5	-2.3
Euro	8.0	6.2	1.4	-1.0
South African Rand	7.8	-16.8	-5.8	-8.1
Mexican Peso	7.3	-14.5	-6.3	-5.5
Swiss Franc	6.1	8.8	1.1	1.4
Pound Sterling	4.1	7.2	-3.4	-1.8
Brazilian Real	4.0	-27.7	-8.1	-10.3
Thai Baht	3.8	-1.4	2.5	0.3
Singapore Dollar	2.7	-0.2	0.0	-0.1
Philippine Peso	2.6	3.5	-1.4	-0.8
Indonesian Rupiah	1.9	-4.0	-1.5	-4.8
Taiwan Dollar	1.5	6.1	1.5	0.9
Malaysian Ringgit	1.4	-2.7	-2.0	-2.8
Japanese Yen	1.1	2.7	3.2	-2.0
Yuan Renminbi	1.0	-1.3	-2.3	-0.3
Indian Rupee	**0.4**	**-8.1**	**-3.0**	**-4.7**
Turkish Lira	0.1	-20.3	-16.9	-14.2
Russian Ruble	-0.4	-14.5	-3.8	-8.6
Pakistan Rupee	-3.9	-4.4	-9.4	-6.4

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

- Global currencies rallied during the past 3 months, due to return of global risk appetite and strong foreign flows. Australian Dollar, Euro, and South African Rand were among the top performing currencies (vs USD).
- The rupee was a relative underperformer during the past 3 months, but remained relatively stable. Emerging market (EM) currencies like Pakistan Rupee, Turkish Lira and Russian Ruble also underperformed during this period.
- The rupee has also fared relatively better than a number of EM currencies (like Brazilian Real, Turkish Lira, South African Rand, Russian Ruble, Pakistan Rupee, Mexican Peso) over the long term (10 years).
- India's forex reserves touched a record high by breaching the $530 billion mark.

India Forex Reserves Trend ($ in billion)



Source: Bloomberg

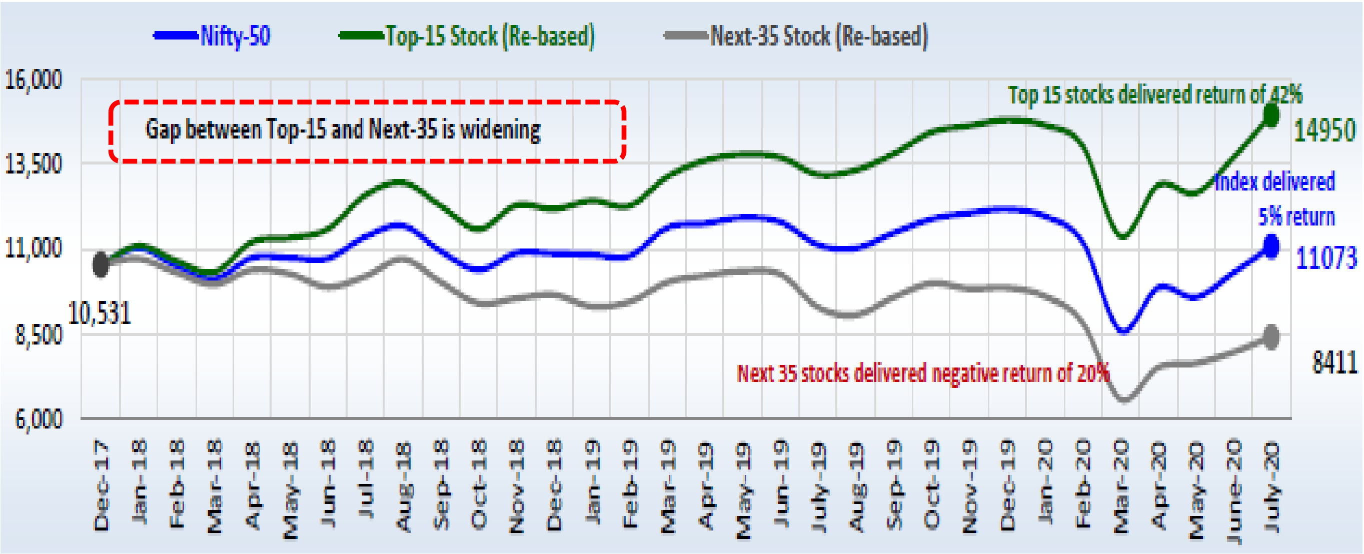
Domestic Market Overview

Domestically, markets have seen a healthy rally since March 2020 lows. Broader markets (mid/small-caps) and sectors like auto, healthcare, IT and metals outperformed. Market polarization continues.

Performance of Domestic Indices as of July 2020 (in %)		
Index Name	**4 mnths**	**1 year**
S&P BSE Auto	53.4	6.6
S&P BSE Healthcare	50.5	43.9
S&P BSE IT	42.1	16.0
IISL NIFTY Smallcap 100	39.4	-9.3
S&P BSE Metal	37.0	-19.2
IISL Nifty Midcap 50	33.6	-2.4
S&P BSE Oil and Gas	31.5	-0.5
IISL Nifty 500	29.1	-0.1
IISL Nifty 50	28.8	-0.4
S&P BSE Realty	16.4	-23.8
S&P BSE Capital Goods	16.0	-27.5
S&P BSE Power	11.7	-21.7
S&P BSE FMCG	11.6	3.5
S&P BSE BANKEX	11.6	-24.7
S&P BSE Consumer Durables	10.9	-3.9
S&P BSE PSU	10.3	-29.4

Source: Morningstar Direct. Data sorted in descending order on the basis of 4 mth return

The markets continued to be polarized, with top 15 stocks contributing bulk of the Nifty 50 index returns (Gap between top-15 & next-35 widening)

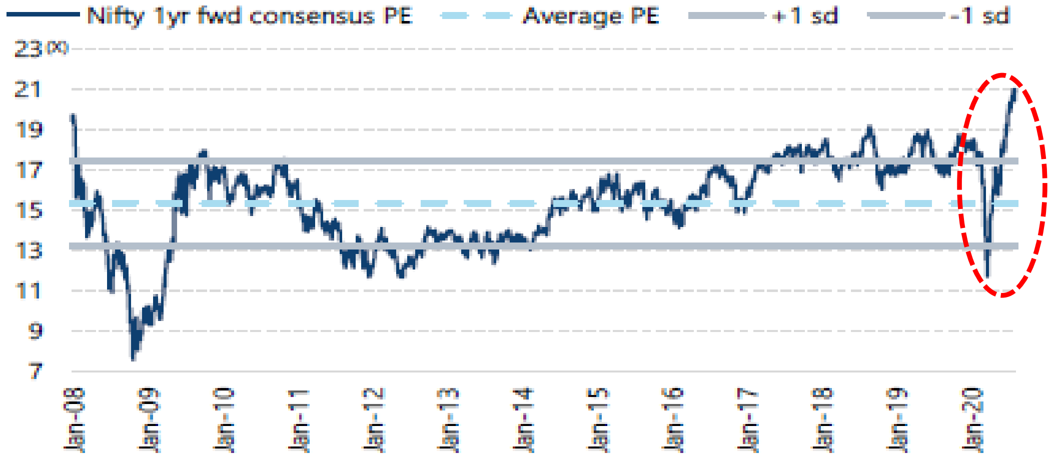


- **During the market recovery period – 4 months (March 2020 end to July 2020 end)**
  - Domestic markets registered a healthy rally due to strong FII inflows, recovery in economic activity (with the lock-down being relaxed), and better than expected Q1 FY21 corporate earnings.
  - Broader markets (mid/small-caps) outperformed their large-cap counterparts.
  - Sectors like auto, healthcare, IT and metals outperformed.
  - Sectors like consumer durables, PSU, FMCG and banks underperformed during the recovery.

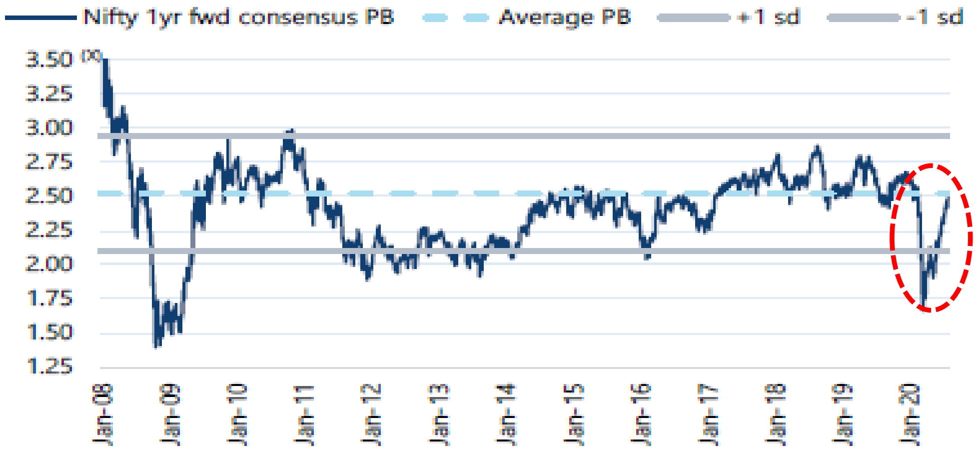
Source: Motilal Oswal

With the recent market rally and downgrade in earnings growth for FY21, forward market valuations have risen and not reasonable at this juncture

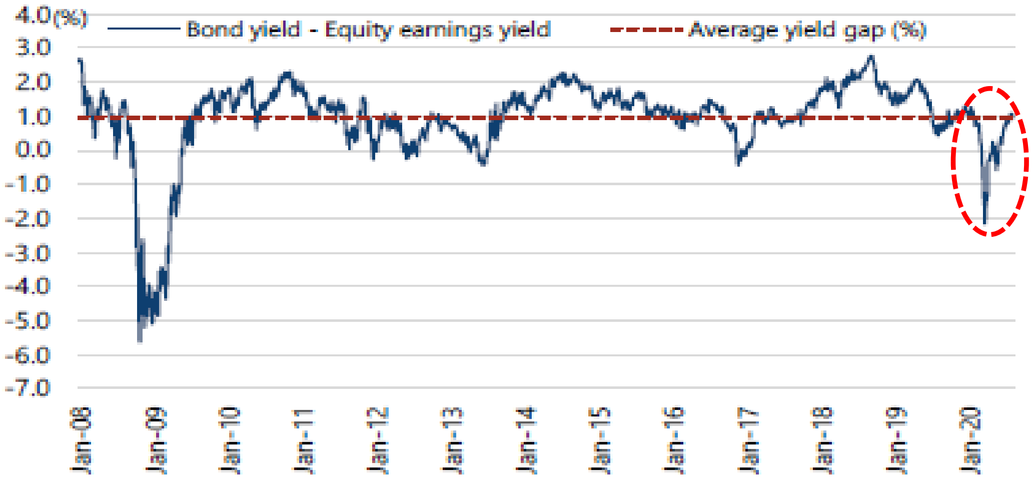
Nifty Forward P/E Ratio has gone above pre-pandemic levels



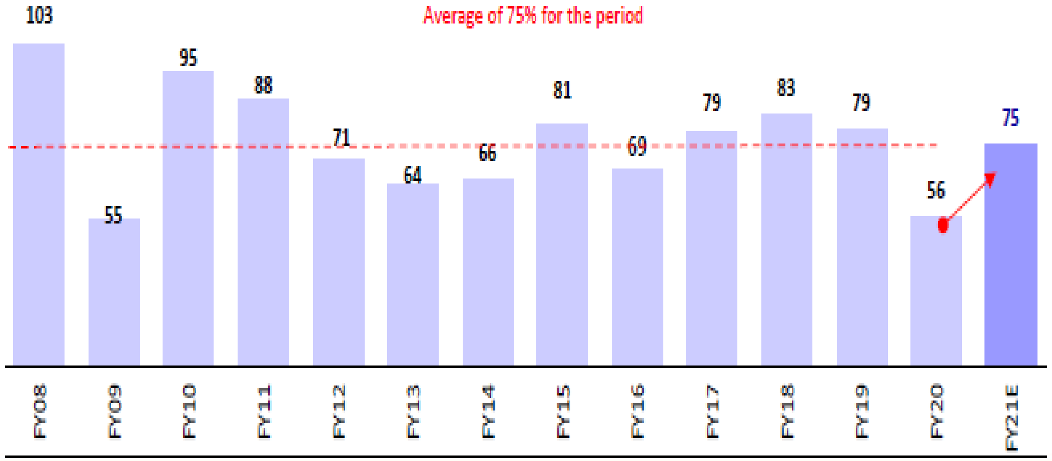
Nifty Forward P/B ratio has also recovered and back to long term avg, but still away from earlier highs



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



Market Cap to GDP ratio has recovered from lows & back to long term average



Source: Bloomberg, Jefferies, Motilal Oswal

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

Source: NSDL, Axis Capital	Rs in Crore			
Month-end	**FPIs**	**DIIs**	**MFs**	**Insurance**
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
31 July 2020	8,590	-10,008	-9,195	-813

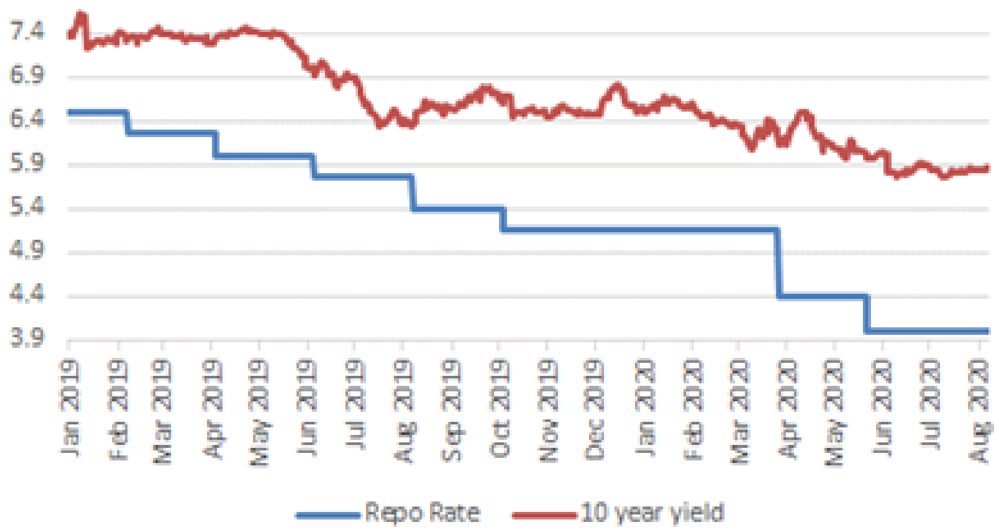
Source: NSDL, Axis Capital	Rs in Crore			
Year	**FPIs**	**DIIs**	**MFs**	**Insurance**
FY2008	52,572	47,794	15,948	31,846
FY2009	-48,250	60,040	6,962	53,078
FY2010	1,10,752	24,211	-10,235	34,446
FY2011	1,10,121	-18,709	-19,974	1,265
FY2012	43,738	-5,347	-1,384	-3,963
FY2013	1,40,032	-69,069	-22,008	-47,061
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 July)	36,163	2,957	-11,250	14,207

- 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-July 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) have slowed down, and have seen outflows lately.

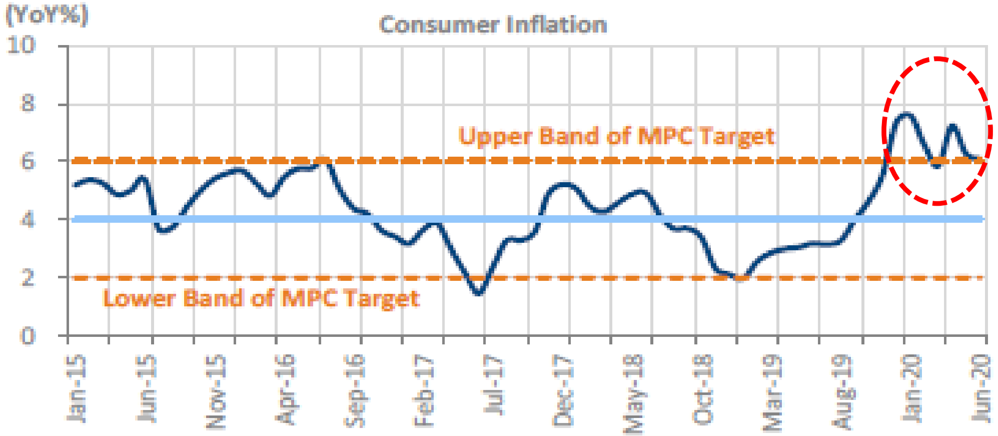
Debt Markets

RBI keeps rates unchanged with inflation being elevated, but keeps window open for more rate cuts

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



India Consumer Inflation Trend (% YoY)

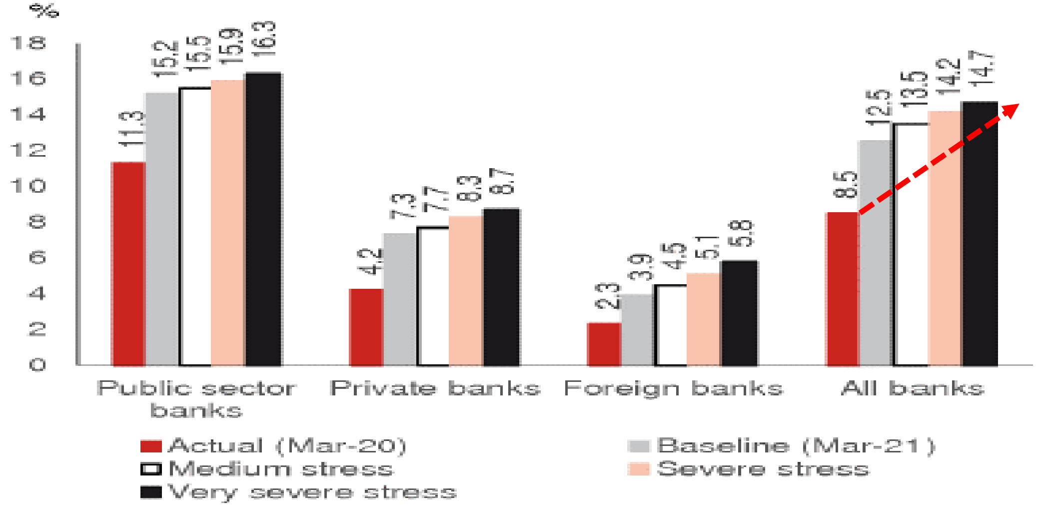


- The 10 year bond yield has softened this year with RBI cutting rates, liquidity in surplus, benign growth outlook, and fall in global bond yields. Yields have softened more at the shorter end of yield curve. RBI announced "Operation Twist", to try and soften the longer-end of the yield curve.
- Concerns of higher govt borrowing, fiscal slippage, and inflation rising above 6% has capped fall in bond yields (esp. at the longer end).
- Following were key highlights of RBI monetary policy in early August 2020:
  - Kept key policy rates unchanged, as expected. RBI has cumulatively cut policy repo rate by 250 bps since Feb 2019 (includes 115 bps cut since Covid-19 pandemic).
  - Bond yields rose a bit post the policy.
  - Headline consumer inflation has been above the RBI's 6% upper limit for the past few months due to supply-chain related issues--amidst the lock-down. RBI said that inflation may remain elevated in Q2 FY21, but may moderate in H2 FY21.
  - RBI extended additional special liquidity facility of Rs 10,000 crore to NHB and NABARD.
  - Provide a window under the Prudential Framework for resolution/re-structuring of corporate and retail loans without asset quality downgrade, as per recommendations of KV Kamath committee.
  - For advances against gold ornaments for non-agri purposes, the loan to value (LTV) ratio has been increased from 75% to 90% (less collateral required).
  - RBI indicated that there is space for more monetary action if inflation subsides.

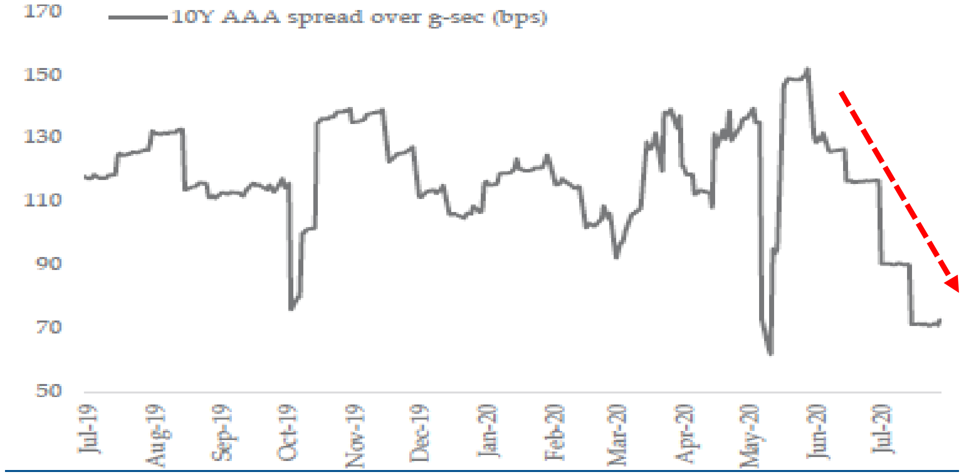
Source: Bloomberg, IIFL

Other Debt Market Indicators

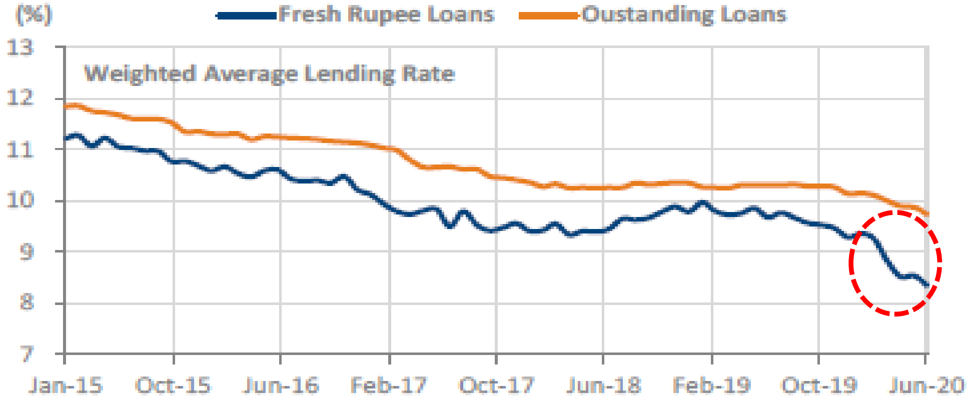
Loan restructuring expected to help, with bank GNPA ratio projected to rise sharply amidst the growth slowdown /recession



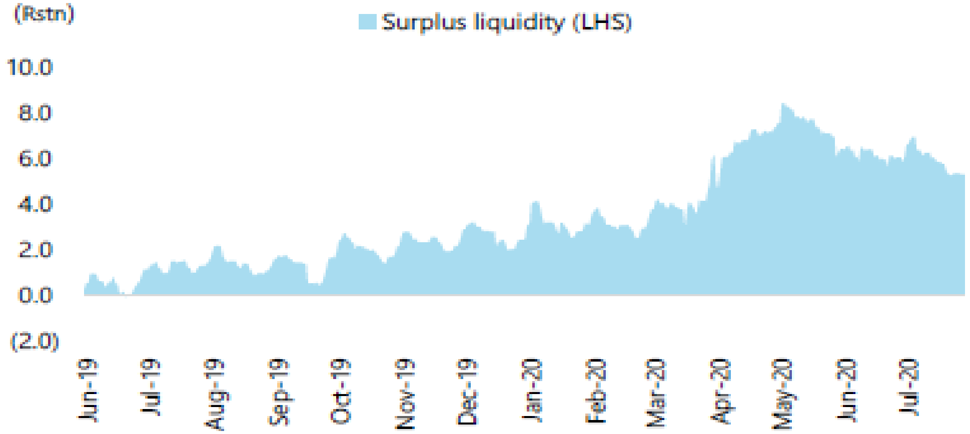
Corporate Bond spreads have come down, especially in higher-rated AAA segment (implying some reduction in risk-aversion)



Monetary transmission of lending rates improves, esp. for fresh loans. WALR on fresh loans falls 90 bps vs 115 bps rep rate cut between April – June 2020



Banking system liquidity in comfortable surplus



Source: RBI, Nomura, Yes Securities, IIFL, Jefferies

Market Outlook & Re-cap

We have seen some recovery in high-frequency economic indicators	• With the lock-down being relaxed and economy opening up, we have seen some recovery in various high-frequency economic indicators. • However, Covid-19 cases continue to escalate in India (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 rally has been helped by strong global liquidity, improvement in high-frequency indicators, and better than expected Q1FY21 corporate earnings.
Market valuations have recovered from their lows; not reasonable at this juncture	• Market valuations have recovered from their lows helped by the recent market rally and earnings downgrade for FY21. Markets have recovered most of their earlier losses. • Corporate earnings for Q1 FY21 have been better than expected (so far), helped by cost control measures undertaken by India Inc.
Investment Strategy	• Investors need to tread a bit cautiously in the short term, with Covid cases continuing to escalate in India. However, long term investors can continue to systematically invest in equities.
Debt Markets & Strategy	• RBI has indicated that there is space for more monetary action, if inflation subsides in H2 FY21 (as expected). • We prefer the shorter to 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 or starts to stagnate. 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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