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Macro-economic developments

- US non-farm payrolls slowed down considerably to 245,000 in the month of November compared to 610,000 in the previous month. Unemployment rate fell to 6.7% in November vs 6.9% in October and 7.9% in September.
- Economic activity continued to improve globally, and Global Manufacturing PMI rose to a 33-month high of 53.7 in November from 53.0 in October. PMI data below 50 means contraction in activity.
- Domestically in India, Q2 FY21 GDP contracted by 7.5%YoY, which was better than consensus expectations of above 8% contraction, and significantly better than the 23.9%YoY contraction registered in Q1 FY21 (during the lock-down). Positive surprise was Gross fixed capital formation (Investments), which contracted less than expected by 7.3%YoY, and saw a healthy recovery sequentially QoQ (compared to Q1 FY21). Private consumption contracted by 11.3%YoY in Q2 FY21, but also saw recovery sequentially. Even though government expenditure registered a record contraction of 22.2%YoY in Q2 FY21, we feel that the contraction in overall GDP growth for India during FY21 may not be as sharp as projected earlier, if the momentum continues.
- GVA growth for India also contracted by lower than expected 7.0%YoY in Q2 FY21, compared to a sharp contraction of 22.8%YoY registered in Q1 FY21. Agriculture sector remained steady and grew 3.4%YoY in Q2 FY21. Industry sector growth turned positive at 0.1% YoY (helped by recovery in manufacturing), compared to a 33.8%YoY contraction in the previous quarter. Services sector contracted by 11.1%YoY in Q2 FY21, compared to a 24.3%YoY contraction in the previous quarter.
- The Indian government announced a third stimulus package under the Atmanirbhar scheme, which included measures like incentivizing job creation, credit guarantees for stressed sectors, production linked incentive schemes (to promote domestic manufacturing), and measures for rural, infrastructure and housing sectors. Although the quantum of the third stimulus package was healthy at Rs. 2.7 trillion (~1.4% of GDP), the fiscal cost/impact of the same was lower at ~0.6-0.7% of GDP (with limited fiscal space available to the government).
- India Manufacturing PMI fell to 56.3 in November from a decade high of 58.9 in October. India Services PMI fell marginally to 53.7 in October vs 54.1 in October, still indicating a solid pace of expansion. PMI lower than 50 indicates contraction in activity.
- Consumer price inflation (CPI) data for the month of October 2020 rose to higher than expected 7.6%YoY from 7.3%YoY in the previous month. Food inflation (which has 39% weight in the CPI index) rose to 11.1%YoY in October versus 10.7%YoY in the previous month. Core inflation (ex food and fuel) rose to 5.8%YoY in October from 5.4%YoY in the previous month.
- Crude prices rose sharply in the month of November on the back of healthy recovery in global economic activity, and positive news on Covid vaccines—leading to increased global risk appetite. Brent crude price surged 27% in November, to close at $47.6/bbl.
- The rupee closed the month on a flat note at INR 74.05/USD, although most peer emerging market and Asian currencies registered strong gains in November.

Equity market developments and Outlook

- Indian equity markets delivered strong returns in the month of November on the back of record high monthly FPI equity inflows (helped by increase in weight of India in MSCI index), positive news of Covid vaccine development (leading to increased global risk appetite), stronger than expected Q2 FY21 corporate earnings season, continuing recovery in economic indicators and improvement in the Covid-19 scenario in India.
- The benchmark Nifty 50 index surged +11.4% during the month. The broader markets outperformed, with the Nifty Midcap 50 index and the Nifty Smallcap 100 index returning +19.1% and +13.0% respectively in November.
- The sectors that outperformed during the month of November were cyclical sectors like metals, banking and capital goods--with the economy recovery. The sectors that underperformed during the month were defensive sectors like IT pharma and FMCG.
- Global markets registered strong gains during the month. Developed markets outperformed, with the MSCI World index returning +12.7% in November, while the MSCI Emerging Markets index and MSCI Asia ex-Japan index returned +9.2% and +8.0% respectively.
- For the US markets, the benchmark S&P 500 index returned +10.8% during the month. Major European markets like France, UK and Germany delivered robust returns with France's CAC 40 index registering a chart-topping return of +20.1% in November. Within Asia—Thailand, Singapore, Japan and South Korea outperformed during the month, while China and Malaysia relatively underperformed (albeit they delivered positive returns). Emerging markets like Russia and Brazil also delivered robust returns in November.
- Foreign portfolio investors (FPIs) registered a record-high monthly net equity inflow of around ₹71,000 crore in the month of November, compared to net equity inflow of ₹18,400 crore in the previous month.
- Domestic Institutional Investors (DIIs) registered a record monthly net outflow of around ₹48,000 crore in the month of November, compared to a net outflow of ₹17,318 crore in the previous month.
- Q2 FY21 corporate earnings have been quite strong and better than expected. This has been primarily helped by strong cost control adopted by Indian companies and has helped margins to expand. We expect corporate earnings to continue to gradually recover for rest of FY21, and we are likely to see earnings upgrades as well. Overall, for the Nifty index, we expect a flattish to moderate corporate earnings growth in FY21 followed by around a robust 25-30% earnings growth in Fy22.
- With the strong market rally, and with valuations especially based on FY21 earnings being above long-term average, investors could expect a moderate risk premium of about 3-5% per annum (over fixed income returns). In the short term the markets may consolidate or see muted returns, although the long-term fundamentals are still intact.

Fixed Income market developments and Outlook

- Bond yields were range-bound in November, with the benchmark 10 year G-Sec yield closing the month at 5.91%--up 3 bps. Inflationary pressures and surge in global crude oil prices weighed on bond prices.
- Post the close of the month, the RBI announced monetary policy on 4th December 2020. The key highlights were as follows:
  - RBI kept policy rates unchanged as widely expected. It continued with dovish undertone of maintaining an accommodative stance through next fiscal year—to support growth on a durable basis.
  - RBI mentioned that inflation outlook has turned adverse relative to expectations in the past two months, and revised upwards its inflation forecasts quite substantially. It now projects headline consumer inflation at 6.8% for Q3 FY21 (vs 5.4% earlier), at 5.8% in Q4 FY21 (vs 4.5% earlier), and at 5.2% to 4.6% for H1 FY22.
  - A positive development on the economic front, was that the RBI upgraded the GDP growth forecast for India to -7.5%YoY, compared to earlier forecast of -9.5%YoY in the October 2020 monetary policy. The central bank now expects GDP growth to turn positive in Q3 FY21 compared to earlier forecast of GDP growth turning positive in Q4 FY21.
- India's fiscal deficit for first seven months of the fiscal year (April 2020 to October 2020 stood at 120% of the budgeted estimate, compared to 102% of the annual target in the corresponding period in the previous fiscal year. The high fiscal deficit has been due to sharp drop in non-tax revenue & tax revenue collections (esp. direct taxes)—with total receipts (upto October) at 32% of the budgeted estimate so far, compared to 45% in corresponding period of previous fiscal year. However, government spending (upto October) was at 55% of the budgeted estimate vs 59% in the corresponding period of previous fiscal year. The sharp fall in receipts, while maintaining government expenditure at somewhat similar levels has caused the large shortfall/deficit.
- Finance Ministry data showed that GST collections in November continued to be above the ₹1 lakh crore mark (at ₹1.05 lakh crore), compared to a similar quantum in the previous month.
- Foreign Portfolio Investors (FPIs) registered a net debt outflow of ₹2,888 crore in the month of November, compared to a net inflow of ₹3,297 crore in the previous month.
- Despite inflationary pressures, the central bank still maintained that it will continue with its accommodative stance through next fiscal year—indicating that it lays importance to supporting economic growth recovery.
- However, with the RBI mentioning that inflation is expected to remain elevated (compared to mention of “transient” in previous policy) it provides limited space for further rate cuts, and future monetary action will be dependent on how the inflation trajectory pans out. From an investment perspective on the fixed income side, we continue to prefer the medium-term part of the yield curve.

Ver: Nov 2020