Equity Market Snapshot

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Global: Economic data was strong over the month of May but most of the global equity markets made moderate gains while few others declined, after a strong start to the year. The ongoing vaccine rollout instilled confidence in many economies to gradually reopen, in combination with substantial fiscal support – particularly in the UK and US supported a significant spike in economic activity. However, concerns that positive economic data could engender inflation and lead to premature tapering of stimulus measures weighed on markets.

Domestic: Domestic equity markets gained in May to close at an all-time high, led by robust FPI flows and decline in daily reported COVID-19 cases. Rising recovery rates, dropping positivity rates, more than 230 million vaccine doses administered so far combined with a relatively young population, aided the hope that the worst Indian health crisis could be contained. The equity markets witnessed a broad-based rally with small caps leading the pack. Among sectors PSU banks, media, utilities and capital goods were the top performers. High frequency indicators deteriorated MoM in April since restrictions on activities were imposed by some of the States due to surge in Covid 19 cases.

Macroeconomic Indicators: Macroeconomic indicators gave out mixed signals during the month. Manufacturing and services PMI witnessed a fall reflecting slowdown in demand and new work. High frequency indicators worsened in April. Industrial production (IP), GDP growth for the quarter, drop in inflation and trade deficit touching an eight-month low in May were key positives.

Corporate earnings: The uptrend in earnings growth continued from Q3FY21 to Q4FY21 further aided by lower base and strong demand recovery in the economy. The onset of second wave of pandemic in India is presently impinging upon the earnings growth visibility for FY22 apart from impacting consumer sentiments. Cyclical sectors are expected to lead the earnings growth trend.

Outlook: The RBI projected domestic GDP growth for FY22 at 9.5% (lower from previous estimate of 10.5%), on expectation of rise in inflationary risks due to second wave of the pandemic in India which has led to restricted economic activities. However, expected resilience in agriculture sector and rural demand, forecast of a normal south-west monsoon coupled with improving global economic recovery could support domestic growth recovery.

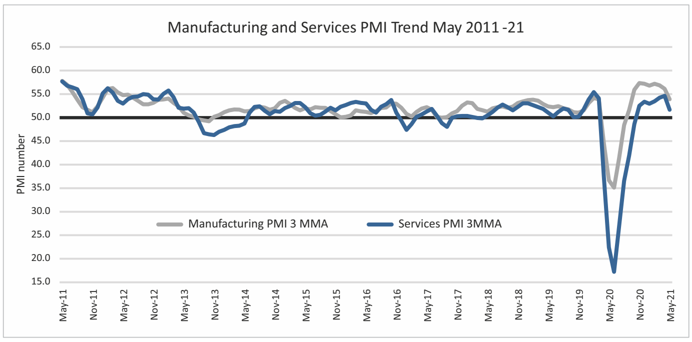
Normalization in economic activity could start from Q3CY21 as the vaccination drive gathers momentum and pent-up consumption demand begins to support growth. Government's focus on manufacturing sector and infrastructure cumulatively bodes well for structurally sustainable growth for the economy. Favorable policy mix and robust global growth could provide the required impetus to the demand led recovery. We thus continue to expect cyclical recovery to follow in the subsequent quarters.

The key risks to watch will be the trend in Covid-19 cases (potential re-acceleration) and the possibility of a spill-over of disruptions into 3Q21. Risks to the growth recovery could also emanate from rising commodity prices (oil) which could keep core inflation high. In case of a slow-paced demand recovery, the pass-through of the rise in prices could potentially be moderate.

Globally, the economic recovery indicators are showing encouraging trends. Amid rising global inflationary conditions, expectation of moderation in stimulus measures could weigh on liquidity and investor sentiments. Resurgence in virus and resultant regional lockdowns could also pose risk. The speed and coverage of vaccination drive would determine pace of normalization in the global economic recovery trend.

While corporate earnings in the domestic and global markets have been strong in Q1CY2021, general equity market valuations have also risen. However, investors may be mindful of focusing on fundamental strength and growth durability of the business rather than on valuation multiples.

Considering the strong run-up in equity markets in recent times, we recommend staggered investments in all equity funds.



Source: IHS Markit, 3MMA - 3 month moving average

The 3-month moving average trend for India manufactuing and services PMI suggests reasonable strength despite varying degrees of lockdowns imposed in different parts of the domestic economy.

Source: CEIC, Morgan Stanley Research

Note: YoY for 2004 is claculated on 1990-2000 series

YoY for 2011 is claculated on 2004-05 series

Monthly Change for May 2021 (%)		Monthly Change for May 2021 (%)	
MSCI AC World Index	1.4	S&P BSE Sensex	6.5
MSCI Emerging Markets	2.1	Nifty 50	6.5
MSCI AC Asia Pacific	1.3	NIFTY 100	6.8
Dow Jones	1.9	Nifty 500	7.0
Nasdaq	-1.5	Nifty Midcap 150	6.4
S&P 500	0.5	S&P BSE SmallCap	8.9
FTSE Eurotop 100	2.1	S&P BSE Finance	7.3
FTSE 100	0.8	S&P BSE Auto	8.6
CAC 40	2.8	S&P BSE Information Technology	4.9
Xetra DAX	1.9	S&P BSE Fast Moving Consumer Goods	5.0
Hang Seng	1.5	S&P BSE OIL & GAS	9.8
Nikkei	0.2	S&P BSE Capital Goods	11.1
Brazil Bovespa	6.2	S&P BSE Healthcare	4.3
SSE Composite	4.9	S&P BSE Metal	5.9
Brent crude (USD/bbl)	3.1	S&P BSE PSU	13.0
Spot LME Aluminium USD/MT	2.1	S&P BSE Bankex	8.1
Spot LME Copper USD/MT	4.3	S&P BSE Consumer Durables	3.3
Spot LME ZINC USD/MT	4.5	S&P BSE REALTY	8.6