

EQUITY MARKET REVIEW

Indian equities continued their uptrend as Nifty closed at an all-time high of 15,583 (as of 31 May) as investors looked beyond the new cases peak. Focus likely remained on medium-term vaccination outlook, in-line earnings season and lifting of activity constraints. Along with declining cases, assurances from global central banks on liquidity and firmer global equity markets also helped broaden investor sentiment. MSCI India (USD) gained 8.5% in May outperforming peers MSCI APxJ / EM (1.2%/2.1%).

Nifty50 and S&P BSE Sensex ended the month of May with 6.5% returns each. Midcaps and Smallcaps outperformed Largecaps by 0.7% and 2.4% respectively in May. Indian domestic market (Sensex) was up (6.5%) outperforming emerging markets.

Among broader markets, the Midcap index outperformed the Largecap index by 70 bps while Smallcap indices outperformed Largecap index by 240 bps. BSE Midcap and BSE Smallcap indices ended the month of May with 7.1% and 8.9% returns, respectively.

GLOBAL MARKETS

Global equities (+1.4%) trade higher, with Europe leading other developed markets. Global growth is tracking higher. DM households are leading this surge, reflecting large US fiscal supports and the activation of pent-up demand as Europe's COVID-19 second-wave drag fades. Performance going forward shall be a function of supply catching up with growing demand and progress in vaccine inoculations in the EM countries. Inflation has been accelerating more quickly than imagined but growth and corporate earnings keep investors complacent.

Worldwide, all major indices saw positive trends. Dow Jones was an out-performer with 1.9% returns, followed by Euro Stoxx (1.6%) and Hang Seng (1.5%). FTSE and Nikkei were the worst performers with 0.8% and 0.2% respective returns.

SECTOR PERFORMANCE

Indian equity markets outperformed the MSCI Emerging Market Index. By sector, Utilities, Materials, Consumer Discretionary and Energy outperformed while Communication Services, Health Care and IT services were the notable laggards in May. Power was the best performing sector with 13.5% returns outperforming Sensex by 7%. Capital Goods (11.1%), Oil&Gas(9.8%), Auto(8.6%), Realty(8.6%)and Bank(8.1%)outperformedtheSensex. Metal (5.9%), FMCG (5%) and IT (4.9%) underperformed the Sensex. Healthcare and Consumer Durables were the worst performing sectors with 4.3% and 3.3% returns, respectively.

INSTITUTIONAL ACTIVITY

FIs recorded monthly inflows of US\$37 mn into Indian equities in the month of May vs. outflows of \$1.5 bn in April 2021 taking FY22 net outflows to \$1.5 bn. DIs remained net equity buyers in May with inflows of US\$0.3 bn vs. inflows of US\$1.5 bn in April taking FY22 tally of inflows to \$1.8 bn.

Within DIs, both Mutual funds and insurance funds were net buyers. Mutual funds were net equity buyers at \$27 mn while insurance funds bought \$178 mn of equities in May.

MACRO-ECONOMIC DEVELOPMENTS

India's Q4FY21 GDP growth reported at 1.6% YoY and was expectedly much stronger than the National Statistics Office (NSO) advance estimate (-1.1% oya). Full-year GDP contracted 7.3% (vs NSO's advance estimate of an 8% contraction).

Headline CPI for Apr at 4.3%, from 5.5% in Mar. Food inflation surprised to the upside, driving a hefty 0.5% MoM, increase in the headline CPI. The real story in India's inflation outturn has been the stickiness and stubbornness of core inflation. The recent pressures could be emanating from cost-push inflation in the wake of a recovering economy pre-second wave. Led by global commodity prices, input prices have surged in recent months but this has not translated into commensurate output prices

The composite PMI consolidated to 55.4 in May from an elevated 56 in March. However, output momentum declined across both manufacturing and services, and a significant amount of sampling may have been conducted before the stress in the second half of the month.

Source: Bloomberg, MSCI

IIP print came above expectations coming in at 22.4% YoY for March, largely on account of favorable base effects given the sharp lockdown-induced contraction in March 2020. Sequentially IP rose by 1% MoM in March, a fourth consecutive increase that took IIP to 99% of the pre-pandemic level.

India's FX reserves are close to their all-time peak, standing at \$593 bn currently. FX reserves have increased by US\$8.8 bn in the last 4 weeks. INR gained 2% and ended the month at 72.62/\$ in May.

Benchmark 10-year treasury yields averaged at 5.99% in May (7bps lower vs. Apr avg.). On month-end values, the 10Y yield was flat and ended the month at 6.02%. The Brent oil price rose 3.3% in May, following a 6.6% increase in April.

Fiscal deficit for FY21 came at INR 18.2 tn or 98.5% of the budgeted FY21 deficit (INR 18.5 tn). For April, the deficit printed at Rs 787 bn, nearly 5.2% of the annual FY22 estimate (Rs 15.1 tn / 6.8% of GDP). GST collections in May came at INR 1.03 tn after it hit a record monthly high of Rs 1.41 tn in April. This was the 8th consecutive month with collections of more than Rs 1 tn.

OUTLOOK

MSCI India outperformed MSCI EM (vs. underperformance in April) by 6.4 ppts and ranked #7 performance-wise in the EM cohort as the Nifty index ended the month at all-time highs. MSCI growth outperformed value by a slight margin for the first time in six months. The BSE Sensex (largecap index) continued to underperform the broader market. The mid-cap and small-cap indices outperformed the narrow index for the 5th month in a row.

After a very challenging few months, India's second COVID-19 wave peaked and rolled over in early May, with new cases trending down to 127k now. The absolute pace of vaccinations, however, has slowed from 3.0 million/day in April to 1.9 million/day in May. India has vaccinated c.12% of its population so far. With the improved pace of 4 million shots a day post-June, it is expected that 60% of the population above the age of 18 can receive at least one shot by the end of 2021 (c.48% should receive both shots).

GST collections in May came at Rs 1.03 tn after a record monthly high of Rs 1.41 tn in April. This was the 8th consecutive month with collections of more than Rs 1 tn. This is encouraging despite the local/regional lockdown implemented since the second half of April. States were resorting to localized restrictions, which is being reflected in weaker sequential momentum in high-frequency indicators like E-way bill, power demand and fuel consumption. Having said that, with improvement in no. of cases and thus removal of restrictions, the impact is expected to be temporary, and the cyclical recovery view remains intact.

The dip in cases, increased vaccination efforts and removal of restrictions will result in improvement in sequential momentum of incoming growth data, although the acceleration is still mild. The intensity, duration and spread of restrictions are lesser this year, which cushions the impact on activity to some extent. Overall, we expect quick and sustainable normalization in economic activity, a steady increase in the vaccination drive, favorable policy mix, and a robust global growth outlook to support cyclical recovery in subsequent quarters.