April witnessed the Sensex contract by (1.5)% to 48,782. Vaccination drives in the US/Europe, Biden's $1.8tr America Families Plan and strong US growth were the key global highlights. On the domestic front, record second wave infections, PLI approvals, vaccine program, RBI's shift to open ended accommodation and state election results were the key highlights. FIIs turned net sellers with $(1.5)bn in outflows. The rupee depreciated by 1.3% and closed at Rs.74.1 to the dollar, while the dollar index (DXY) weakened by 2.1% during the month.

Global
Global markets remained a bit mixed, but broadly positive in April. While the month started with some initial concerns around the possibility of fresh infections in the US, this quickly faded away and the market focus on COVID-19 infections remained confined to the respective geographies. The infections curve in India, Brazil and Germany stood out as points of worry during the month with newer variants heard to be responsible for the increase in spread/ fatalities. The US started easing on its restrictions and were joined by some European countries. As of early May, 44% of the US population had received at least one dose of the vaccine, and 22% of Europe. The US and Europe were seen incentivising outdoor activity, with European nations ready to set out their vaccination passports and travel corridors. Elevated vaccination percentages are expected to prevent the onset of any further infection waves. Soon after the Biden administration's 'America Job Plan' in March for $2.25tr, focussing on infrastructure, the administration followed it up with a $1.8tr 'American Families Plan'. This expands on the areas of education/childcare and would be partly funded by large tax hikes on wealthy US citizens over the course of the next ten years. While the markets circled around the tax proposals contained in the above plan, they seemed to get concerned after a Bloomberg report on near doubling of capital gains taxes to as high as 39.6% for the wealthy and a tax hike for those earning more than $1mn, to as high as 43.4%. The month of April saw the US markets react positively to continued strong macro data. Initial jobless claims trended lower, job openings increased, retail sales rose on the back of stimulus measures, industrial production and PMIs continued to inch up and to top it all, US growth for Q1 was seen well above market expectations. The Eurozone macro data on the other hand remained mixed. Elevated infections witnessed in Germany and resultant restrictions dent economic activity. However, the other key drivers of Eurozone France/Italy/Spain saw a pickup in activity and helped offset German weakness. Eurozone growth for Q1 picked up, but remained negative for a second consecutive quarter, implying a slower than expected pickup. Growth in China remained strong with continued momentum seen in its Q1 GDP numbers, with activity broadly holding up. The month also saw IMF upgrade global growth, US-China tensions with US blacklisting Chinese firms, Eurozone-China strains with countries blocking Chinese takeovers, brief concerns around China's largest distressed-debt manager, Australia cancelling some of China's Belt Road Initiative (BRI) deals and finally China imposing restrictions on its steel exports, alongside scrapping its tax rebates.

Central banks
The central banking space remained focussed around the Federal Reserve. The Fed's April policy continued to reiterate its dovish stance. The central bank noted that economic activity and employment had "strengthened" on the back of wider vaccinations and felt that inflation pressures would likely be "transitory". It sees the recent increases in inflation to mostly be on account of base effects and temporary supply bottlenecks. While the Fed Chair noted "some froth in equity markets", on a taper of its Balance Sheet, he added that the Fed would let the markets know "well in advance", easing continuing concerns around the same. In a separate event, given the markets fixation on taper, the Fed Chair was heard reiterating that the Fed would reach that point of taper, only when the US has "made substantial further progress" towards their goals announced in December.

Domestic
The month of April was trying for domestic markets, with a rising 2nd wave of COVID-19 infections that exerted significant stress on the medical infrastructure in India. This caused many key states to impose restrictions on activity, that resembled a strict lockdown in some select states. The stress from the second wave remained for most of the month, but into the last week, key states seemed to show signs of flattening infections. Macro data remained mixed. While retail price rise was broadly expected on food inflation, wholesale inflation saw a sharp pickup on the back of inflation in imported/industrial materials. Industrial production remained low. While PMI numbers for April released in early May inched down marginally, broadly held up. On the fiscal front, direct tax collections for FY21 were seen to be higher than what the government had budgeted for and GST collections continued to touch record highs on an increase in compliance. On growth, while the RBI left its growth estimates for FY22 unchanged, the IMF revised its estimates upwards during the early part of the month. Record infections during the month attracted the attention of rating agencies which introduced downside risks to their forecast and outlook, alongside market participants. On the policy front, the cabinet approved a PLI scheme for air conditioners/LED lights and approved solar manufacturing under the PLI. On the vaccine front, India announced a Liberalised and Accelerated Phase 3 program by making some tweaks to its vaccination policy, opening vaccinations for all from the start of May. Under the program, state governments would now be allowed to procure the vaccine directly from vaccine manufacturers. The manufacturers are to supply 50% to the centre and can then freely supply the rest to the state governments and private buyers in the open market, but at a pre-approved price. Centre extended the COVID-19 ECGLS scheme, the Pradhan Mantri Garib Kalyan insurance package and the EPFO contribution scheme for new employees. In order to increase the pace of spending on the ground amidst the pandemic, the Ministry of Finance removed quarterly/monthly spending curbs of ministries. Moving to monetary policy, the RBI shifted to an open-ended commitment on policy accommodation. They extended most of the liquidity and credit enhancing measures, committed to 'ensure ample system liquidity', alongside announcing a new program called government securities acquisition program (G-SAP) and longer maturity variable reverse repo rate (VRRR). The month closed with the results around five state elections, with incumbency in Assam, West Bengal, Tamil Nadu and Kerala and anti-incumbency in Puducherry and Tamil Nadu.

Flows
The month of April witnessed a continued drop in equity inflows, across long-only/ETF and the EM/DM asset classes. While long-only and DM categories saw outflows into the last week of the month, though much smaller, ETF/US inflows remained stable through the month. The Fed appeared to have convinced the debt markets against any untoward policy response and this appears to have seen a drop in yields. From an asset class standpoint, while equity inflows saw a drop, bond inflows appear to have witnessed a sharp pickup. It was interesting to note that while money market fund inflows continuing to wane, inflows into cash were seen to be the largest since Mar'20. Some commentators see this as investor positioning for tapering and inflation, indicating that this narrative probably continues to remain as a market undercurrent still. India saw net outflows in April, with $(1.5)bn equity outflows and $(0.4)bn debt outflows.

Outlook
The US was the cusp of starting a fourth wave early April, but with probably increasing vaccinations, this was clearly avoided. Global markets are seeing lesser focus on COVID as they are on the path of exiting their third wave. The US has started removing restrictions and normalising activity on the ground, followed by the UK who is set to ease restrictions from mid-May. Other European countries like France/Italy/Spain are already easing restrictions, while Germany would take some more time. Back in India, the 2nd wave has dominated the market narrative with anecdotal evidence filled with instances of strain on its health infrastructure.

While the government responded quickly to these concerns, the pace of rise in infections/ mortality has been much faster than expectations. Total deaths that India saw over a 4-5 month period during its 1st wave, India saw in two months during the ongoing 2nd wave. India ramped up its vaccination drive that touched 3.7mn doses/day in early April, only to hover closer to an average of 2mn/day by the end of the month; largely on supply bottlenecks. However, the government's decision to boost its vaccination program are now set to see Bharat Biotech, Serum Institute and Sputnik to increase their capacities by June this year. This is expected to take the daily vaccination pace to an average of 3mn/day. It must be noted here that analysts expect even the daily vaccinations to touch 4.4mn/day by September, if Sputnik and Cadila see capacities ramped up to full. All this could mean India's adult population of 900mn could be vaccinated (2 doses) by end of this calendar year. This would be an increase to nearly 60% from the current 9% of population having received at least one dose of the vaccine. Clubbed with incremental restrictions from states into May, India's mortality curve is expected to start witnessing an appreciable drop by the end of the May. Alongside continued central bank support, this would help the contact sensitive segments of the economy.

The Fed has bent backwards to convince the bond markets that they are far away from considering any taper-related talk and has in as many words also communicated that they see inflation to be transitory in nature. However, global markets appear to remain unconvinced and continue to look for reiteration from the Fed at every juncture. We see US yields calibrate their move upwards gradually to a stronger US. However, we do not see this move to be disruptive in nature and feel the Fed will have the market narrative around both inflation and taper in check. In addition to the US' vaccination drive that has touched 44% of its population, the back to back stimulus measures and excess savings pool would ensure US growth comfortably over the next couple of years. With the Indian markets continuing to directionally tag the US markets, this would be an India positive as well.

The RBI has been extremely pro-active in its response to the pandemic. In addition to its open-ended accommodative stance and the introduction of a G-SAP facility in April, the RBI announced further measures in early May. While it added on to the G-SAP facility driving yields lower, it also reopened the SME restructuring window. The RBI announced on-tap liquidity to the tune of Rs.500bn to be lent to support/medical infrastructure and incentivised banks under this scheme to create a COVID loan book, by offering 40bps higher on the reverse Repo rate for similar size deposits.

The budget signalled a move away from an over reliance on monetary policy and delivered a larger than expected fiscal impulse to the economy. The pace of government spending appears to have witnessed a pickup, with focus on capex and we see this carrying through into the quarters ahead. The government has pulled up growth in the housing sector through various initiatives seen earlier and is setting right the household investment rate. The consumption engine has been reasonably strong over the last few years and with the resumption of the investment cycle round the corner, India GDP could very well settle back to the 7% CAGR handle soon enough.

Looking beyond the near-term challenges on account of the second wave of the pandemic, we see medium term domestic macro drivers to remain conducive for corporate earnings to grow at a healthy pace. The recovery across developed markets are additional levers for pick-up in earnings of global cyclicals. Our portfolios will be fairly diversified given the balanced growth expected in the next few years and the broad base recovery across the market cap curve.

Into 2021, we expect continued growth momentum on the back of good monsoons and focussed government spends. We see the RBI's pro-growth and comfortable liquidity stances to remain, which in turn would help give a push to manufacturing on the side-lines. We see the structural push to manufacturing coming from the China+1 shift and the successful deployment of the PLI schemes across the announced ten sectors. The PLI schemes alone are expected to add 0.3% to annual GDP in the coming years through new sales and value adds. On the whole, synchronous global stimulus measures, global liquidity, vaccination drives, restart of the trade engine, a weak dollar and contained commodities are the key global events we see expect for the year ahead that would be a positive for EM equities, India in particular.

The next few years is expected to be driven by the return of the investment cycle which is expected to add more muscle to economic recovery. The twin cylinders of investment and consumption is expected to fire up the growth through manufacturing and services. Our medium-term approach is to pursue a well-diversified portfolio strategy with focus on growth-oriented companies, within the above themes of manufacturing, industrials, consumer, services and technology.

We remain constructive on India and equities as an asset class. Equities are a long-term asset class and require patience from investors to reap the benefits of the long-term compounding stories we invest in. Like all investments, we reiterate the short-term volatility is something that investors must be cognisant of. The flattening pace of the global infections curve, the expected stimulus from the Biden administration and central bank commentaries are key events we look out for. We continue to reiterate that medical solution is providing more confidence and obliterate any current growth constraints.