MONTHLY UPDATE
AUGUST 2021

20 YEARS
Protecting India with Pride

HDFC Life
Sar utha ke jiyo!

Aug, 2021

"Chains of habit are too light to be felt until they are too heavy to be broken."

- *Warren Buffet*

Equity markets

Indices	31st Aug 2021	31st Jul 2021	1 Month Return (%)	1 Year Return (%)
BSE Sensex	57,552	52,586	9.4%	49%
S&P CNX Nifty	17,132	15,763	8.7%	50%
BSE 100	17,375	16,108	7.9%	51%
BSE Mid Cap	23,853	23,087	3.3%	63%
BSE Small Cap	26,920	26,787	0.5%	88%

Source: Bloomberg

During Aug'21, domestic equity indices had a mixed performance - large cap indices outperformed up ~8%-9% while the mid and small cap indices underperformed with BSE Mid Cap and Small Cap Index up 3%/0.5% respectively. On a 1-year basis, the mid and small cap index have outperformed the large cap indices. Over the past one year, Sensex and Nifty were up 49% and 50% respectively while mid cap and small cap index were up 63% and 88% respectively.

During Aug'21, performance across the sector indices was mixed. The performance ranged from -3% to +12%. Power and IT sector gained the most; up 12% and 11% respectively while Realty and Metals sector fell the most; down 3% and 2% respectively. On a 1-year basis, Metal sector is the best performing sector gaining 133% followed by IT and Capital Goods sector respectively. FMCG followed by Auto are the bottom two sectors; up 28% and 29% respectively.

The yield of benchmark 10-year G-sec moved to 6.21% at the end of Aug'21 from 6.20% at the end of Jul'21.

Most major global equity indices were up during the month – Shanghai Composite and NASDAQ gained the most, up ~4% during the month while HANGSENG which was flat MoM, rose the least. On a 1 year basis, CAC 40 has gained the most; up 35%.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	0%	-8%
Silver	-6%	-15%
Crude Oil	-7%	61%
Copper	-3%	43%
Primary Aluminum	4%	53%
Lead	-5%	17%
Nickel	0%	28%
Tin	-4%	92%
Zinc	-1%	20%

Source: Bloomberg

Most major commodities fell during Aug'21 except Aluminum, Gold and Nickel. Aluminum rose the most, up 4% during the month.

On a YoY basis, all the major commodities except gold and silver have posted YoY gains. Tin has appreciated the most.

Macro Economic Data

Indicators	May-21	Jun-21	Jul-21	Aug-21	Comments
IIP (YoY, %)	28.6%	13.6%			Industrial output grew by 13.6% in Jun'21 (over Jun'20), following 28.6% growth in May'21. It's mainly led by the low base effect of the last year but industrial output is improving on a sequential basis
Core Sector (YoY, %)	16.3%	9.3%	9.4%		Core sector output grew by 9.4% yoy in Jul'21, following 9.3% growth in Jun'21. Core sector output grew by 1.1% in Jul'21 (over Jul'19) led by the increase in Coal (11.9% in Jul'21 over Jul'19), electricty (6.4% in Jul'21 over Jul'19), cement output (5.4% in Jul'21 over Jul'19), and steel (2.3% in Jul'21 over Jul'19)
RBI monetary policy (Repo Rate) (%)	4.00	4.00	4.00	4.00	RBI kept repo rate unchanged at 4% as on Aug'21.
CPI inflation (%)	6.30%	6.26%	5.59%		CPI inflation moderated to 5.6% in Jul'21 from 6.3% in Jun'21 led by the fall in food inflation from 5.6% in Jun'21 to 4.5% in Jul'21
Trade Deficit ($, bn)	-6.3	-9.4	-11.0	-13.9	In Jun'21, exports grew by 45.2% to $33.1bn, while imports grew by 51.5% to $47bn, as a result trade deficit widened to $13.9bn in Aug'21 vs. $11bn in Jul'21.
GST Collection ($, bn)	1027	928	1164	1120	Total gross GST revenue collections in Aug'21 stood at Rs. 1,120bn, following Rs. 1,164bn collection in Jun'21.
FII Flows-Equity ($, bn)	-0.39	2.36	-1.51	0.28	On equity side, FPIs purchased $0.28bn in Aug'21, following an outflow of $1.51bn in Jul'21. On debt side, FII bought $1.63bn in Aug'21, following an outflow of $0.11bn in Jul'21.
FII Flows-Debt ($, bn)	-0.24	-0.66	-0.11	1.63	
Exchange Rate (INR/USD)	72.52	74.35	74.39	73.15	Indian Rupee appreciated by 1.7% during Aug'21, as it closed at 73.15 in the end of Aug'21 from 73.15 at the end of Jul'21 per dollar.
GDP (%)		20.1%			Real GDP grew by 20.1% in Q1 FY22 vs. 1.6% growth in Q4 FY21 led by the sharp jump in investment (56.7% in Q1 FY22 vs. 13.8% Q4 FY21)and HH consumption (19.3% in Q1 FY22 vs. 2.7% in Q1 FY21)

Outlook

August was overall a positive month for global equities. Initially, rising covid cases and consequent restrictions weighed on sentiment but once the negative expectations from Jackson Hole did not to materialize, markets got the required boost and moved up. The S&P 500 delivered seventh straight month of gains and has surged more than 20% year to date. In a speech at the Jackson Hole economic policy symposium in late August, Fed Chair Powell reiterated the central bank's commitment to its easy money policy. While Covid-related uncertainty remains, Powell indicated that the central bank is likely to begin tapering its monthly bond purchases by year end but that does not mean that the fed will be raising interest rates anytime soon. Meanwhile, inflation continues to rise, though the Fed still maintains that the causes are mostly temporary in nature. Economic data in most developed countries, especially the ones that have managed to vaccinate faster like the US, has continued to improve. Pace of economic recovery and inflation are key monitorables as they have a direct bearing on interest rate increases and tapering of stimuli by global central banks.

China announced tougher rules on data privacy law. Rising regulatory concerns in China and push on "common prosperity" seemed to support other EMs, including India. There is growing perception in market that the recent regulatory crackdown in China will lead to withdrawal of investments from there and flow to other emerging markets like India.

In India, the MPC unanimously and expectedly kept the repo rate unchanged while raising its inflation forecast. It continued with its accommodative stance for as long as necessary to revive growth on a durable basis. FM announced a National Monetization Pipeline (NMP) envisaging total asset monetization potential of Rs6trn over FY22-25. New covid cases remained under control (30-40k) but worsening situation in the state of Kerala kept authorities on alert. Vaccinations gathered pace with average daily vaccine being administered in August increasing to 5.8 million doses from 4.2 million doses in July. FIIs turned net buyers to the tune of $1.2bn in August (YTD +$7.5bn) while DII buying moderated to +$0.9bn (YTD +$2.9bn). DII buying was largely driven by Domestic MFs.

We remain constructive on domestic economic growth recovery in the medium term amid multiple levers in place to support growth, including but not limited to accommodative monetary policy in the West, most notably the US; strong balance sheets of banks and corporate India; leaner cost structures post pandemic; rising vaccination coverage; continued policy support and multiple reforms witnessed around formalization of the economy like GST, RERA etc. We also expect revival in capex cycle on back of PLIs scheme driving investments in domestic manufacturing. Corporate earnings during pandemic also suggest continued shift in market share to formal entities (large listed companies) from informal sector entities. Listing of Internet companies over the next few years will further contribute to India's market capitalization. India already has several unicorns in the internet space propelled by a vibrant start-up eco-system. The successful listing of Zomato ushers in a new era for Indian stock market and paves way for more of such companies to list in India.

The markets are trading at all time high driven by positive global sentiments, improvement in macro indicators, easing of lockdown restriction, better than expected earnings performance during pandemic and strong inflows from both domestic and FII investors. The consensus earnings estimates are factoring in strong earnings growth while above average multiples leave limited room for further expansion. While the current valuations make us cautious in the short term, we remain optimistic from a medium to long term point of view as we expect a cyclical recovery in the economy and earnings after several years of sub-par growth.

Fixed Income Market

Fixed Income Market Review –

During August, bond yields rose in the initial part of the month, as the RBI monetary policy meeting was seen to be less dovish than expected. However, yields cooled down partially, by the end of the month, as the RBI Governor assuaged fears of any pre-mature tightening. Further, the US FOMC Chairman's statement at the Jackson Hole symposium assuring the market of a very gradual taper of the Fed's bond buying operations soothed the markets. During the month, RBI also reintroduced on-the-run bonds in its GSAP purchases which provided support to the markets. Longer maturity bonds saw a sharper fall in yields, as the yield spreads over the 10-year bond, seemed attractive, especially after the soothing comments from the RBI Governor and the US Fed Chairman. The new 10yr benchmark bond rose marginally higher to 6.22% from its previous close of 6.20%.

During the month, the 10yr UST yield rose to 1.32% from its previous close of 1.23% and Brent Crude Oil prices fell to close at USD 73 per barrel compared to its previous close of USD 76.3 per barrel.

Among data releases, India's CPI inflation fell below the MPC's upper tolerance band of 6% to 5.59% in July-21 from its previous reading of 6.26% for the month of June-21. Food inflation printed at 4.5% on a y-o-y basis, as compared to 5.6% in June 2021. Core inflation (CPI Ex-Food Ex-Fuel) moderated to 6% from the previous month's print of 6.2%. Headline WPI inflation came marginally lower at 11.2% YoY in July 2021 from 12.1% YoY in June. The high WPI indicates rising input cost pressure on manufacturers raising fears that these hikes are likely to be passed on to consumers thereby fueling CPI inflation in the coming months. Real gross domestic product for Q1FY22 was estimated to have grown at 20.1% on a year on year basis, largely due to favourable base, as GDP had contracted by a massive 24.4% in Q1FY21. However, GDP contracted by 16.9% on a sequential quarter basis and by 9.2% from Q1FY20 levels.

India's Trade deficit widened for the third consecutive month in Aug, rising to USD 13.9bn from 11bn in July as economic activity continued to normalize. Among other economic data, IIP growth for June 2021 printed at 13.6% as against the revised reading of 28.6% in May 2021 as gradual waning of favorable statistical base led to moderation. On a sequential basis, most of the sectors recorded positive growth. Goods and Services Tax (GST) revenue collection for August came at Rs 1,12,202 cr. India's Nikkei Markit Manufacturing PMI fell to 52.3 in August 2021, against 55.3 in the previous month, and the Services PMI shot up to 56.7 in August of 2021 from 45.4 in the previous month. Composite PMI also improved to 55.4 in August vs 49.2 in the previous month.

Market Outlook –

With CPI falling below MPC's upper tolerance band of 6%, RBI continues to focus on revival of growth, ruling out any pre-mature withdrawal of policy accommodation that could jeopardise the nascent and fragile recovery. Moreover, while the heavy bond supply continues to overwhelm market appetite for bonds, inclusion of liquid papers in RBI's purchases, underlined the RBI's support to the markets. The comments from US Fed chairman Jerome Powell in the recent Jackson Hole Symposium on the gradual taper of the Fed's bond purchases provides respite from any near term pressures from the global bond markets. With assurance from RBI on continued support and a good revenue collection coupled with high government cash balance, markets are expecting some relief in bond supply in the second half of the year. Going forward the markets are likely to take cue from RBI's commitment to continued GSAP in the next quarter, October MPC and the borrowing calendar for the 2^{nd} half of the remaining year.

Meanwhile, the rise in Covid infections across major economies, have again ignited growth concerns and any 3^{rd} wave of Covid infection in India is likely to delay the reversal of monetary accommodation by the RBI, even further, providing some room for bond yields to soften in the near term.