

MONTHLY UPDATE

MAY 2021



Sar utha ke jiyō!

May, 2021

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

- Warren Buffet

Equity markets

Indices	31st May 2021	30th Apr 2021	1 Month Return (%)	1 Year Return (%)
BSE Sensex	48,782	51,937	6.5%	60.2%
S&P CNX Nifty	14,631	15,583	6.5%	62.7%
BSE 100	14,834	15,822	6.7%	63.2%
BSE Mid Cap	20,312	21,758	7.1%	83.7%
BSE Small Cap	21,670	23,595	8.9%	116.6%

Source: Bloomberg

During May'21, domestic equity indices had a strong performance - large and mid cap indices were up ~7% while the small cap indices outperformed with BSE Small Cap Index up 9%. 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 60% and 63% respectively while mid cap and small cap index were up 84% and 117% respectively.

During May'21, performance across the sector indices was mixed. The performance ranged from +3% to +13%. Power and Capital Goods sector gained the most; up 14% and 11% respectively while Consumer Durables and Healthcare sector gained the least; up 3% and 4% respectively. On a 1-year basis, Metal sector is the best performing sector gaining 177% followed by IT and Realty sector respectively. FMCG followed by Oil & gas are the bottom two sectors; up 21% and 39% respectively.

The yield of benchmark 10-year G-sec moved to 6.02% at the end of May'21 from 6.03% at the end of Apr'21.

All the major global equity indices except NASDAQ Composite index were up during the month of May'21 in the range of 0.2% to 5%. SHANGHAI Composite Index gained the most. On a 1 year basis, Nasdaq has gained the most; up 45%.

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	7.8%	10.2%
Silver	8.1%	56.9%
Crude Oil	3.3%	87.6%
Copper	4.4%	90.8%
Primary Aluminum	3.6%	60.4%
Lead	1.9%	31.1%
Nickel	2.5%	47.0%
Tin	7.1%	99.5%
Zinc	4.6%	53.9%

All the major commodities saw an uptick during May'21. Silver rose the most, up 8% during the month.

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

Source: Bloomberg

Macro Economic Data

Indicators	Feb-21	Mar-21	Apr-21	May-21	Comments
IIP (%)	-3.4%	22.4%			Industrial output grew by 22.4% in Mar'21, following 3.4% contraction in Feb'21, mainly led by the jump in manufacturing output (25.8% in Mar'21 vs. -3.7% in Feb'21) and mining output (6.1% in Mar'21 vs.- 4.4% in Feb'21).
Core Sector (%)	-3.8%	11.4%	56.1%		Core sector output grew by 56.1% in Apr'21 led by the surge in steel output (400% in Apr'21 vs. 27.3% in Mar'21) and cement output (549% in Apr'21 vs. 33% in Mar'21)
RBI monetary policy (Repo Rate) (%)	4.00	4.00	4.00	4.00	RBI kept repo rate unchanged at 4% as on Jun'21.
CPI inflation (%)	5.0%	5.5%	4.3%		CPI inflation decreased to 4.3% in Apr'21 from 5.5% in Mar'21 led by the fall in food inflation from 5.2% in Mar'21 to 2.7% in Apr'21
Trade Deficit (\$, bn)	-13.0	-13.9	-15.1	-6.3	In May'21, exports grew by 67.4% to \$32.2bn, while imports grew by 68.5% to \$38.5bn, as a result trade deficit narrowed to \$6.3bn in May'21 vs. \$15.1bn in Apr'21.
GST Collection (\$, bn)	1131	1239	1414		Total gross GST revenue collections in Apr'21 stood at Rs. 1,414bn, following Rs. 1,239bn collection in Mar'21.
FII Flows-Equity (\$, bn)	3.54	1.44	-1.29	-0.39	On equity side, FPIs sold \$0.39bn in May'21, following an outflow of \$1.29bn in Apr'21. On debt side, FII sold \$0.24bn in May'21, following an outflow of \$0.02bn in Apr'21.
FII Flows-Debt (\$, bn)	-0.89	-0.88	-0.02	-0.24	
Exchange Rate (INR/USD)	73.04	73.50	74.02		Indian Rupee depreciated by 0.7% during Apr'21, as it closed at 74.02 in the end of Apr'21 from 73.5 at the end of Mar'21 per dollar.
GDP (%)		1.6%			Real GDP grew by 1.6% in Q4 FY21 vs. 0.5% growth in Q3 FY21 led by the sharp jump in investment (13.8% in Q4FY21 vs. 3% Q3 FY21)and Govt. expenditure (28.3% in Q4FY21 vs. -1% in Q3 FY21)

Equity Markets Review

Indian benchmark indices recorded their all-time highs in the month of May due to decline in the daily new infections and passing off of the second wave infections peak. Nifty gained by 6.5% and Sensex gained by 6.5% in the month. Mid-caps performed in-line with CNX Midcap Index also gaining by 6.5% for the month. FILs were net buyers in equities to the tune of US\$0.4bn followed by mutual funds who were net buyers to the tune of Rs.1.1bn in cash segment for the month.

Sectors that outperformed were Power, Capital goods, Oil & gas, Auto, Real estate and Banking. Sectors that underperformed were Healthcare, IT, FMCG and Metals

Fund Performance

Fund/ Indices	30-Apr-21	31-May-21	1 Month Return (%)	FYTD Return (%)	1 Year Return (%)	3 Years CAG Return (%)	5 Years CAG Return (%)
Growth Life	241.98	257.34	6.35	5.77	63.54	13.76	14.96
Growth Life II	27.03	28.74	6.33	5.68	62.85	13.22	14.34
Growth Pension	232.18	246.90	6.34	5.79	63.70	13.71	14.93
Growth Pension II	51.06	54.29	6.33	5.68	62.74	12.99	14.21
Blue Chip Wealth Builder	29.73	31.56	6.16	5.71	59.02	12.98	14.29
Equity Diversified	23.50	24.93	6.11	5.47	63.59	14.30	16.23
Discovery	17.71	18.72	5.70	7.17	103.45	--	--
Opportunities Wealth Builder	38.50	40.73	5.79	5.83	76.45	11.87	15.12
BSE100 Index	14834	15822	6.66	6.45	63.15	12.74	13.84
CNX Midcap	24196	25775	6.53	8.79	94.19	10.89	14.16
Re/US\$	74.08	72.62	-1.97	-0.67	-3.96	2.51	1.55
Gold (\$/oz)	1769	1907	7.79	11.66	10.21	13.66	9.43
Oil Brent (\$/bbl)	67	69	3.31	10.13	87.63	-3.77	7.31

Fund Positioning

Overweight Sectors- Cement, Construction, Capital goods, Telecom, IT, Pharma and Private Banks

Underweight Sectors- Auto, Metals, NBFCs, PSU Banks, FMCG, Oil & Gas and Power

Fund Strategy

The Growth series of funds underperformed the benchmark (BSE100) by average 33bps during the month of May, whereas Bluechip fund underperformed by 50bps. The Midcap-Opportunities Fund continued to underperform the benchmark (NSE Midcap100) by 73bps during the month. However, most of our funds continue to outperform the respective benchmarks from the long-term point of view including the Opportunities Fund. In the diversified funds, overweight call on IT and pharma/healthcare sectors and underweight on oil & gas sector hurt our performance during the month. Similarly, for the midcap fund underweight in oil & gas sector hurt during the month.

Outlook

Indian stock markets did very well in May (outperforming emerging markets), despite the severe second wave of the pandemic. A combination of factors including lower number of new covid cases compared to last month, positive earnings outlook and strong institutional and retail flows have contributed to the buoyancy in the market.

On the global front, economic recovery seems to be gathering further momentum aided by combination of faster vaccination and loose monetary and fiscal policies. The incremental recovery on the global front is more on services front as travel and movement restrictions are gradually being lifted. Strong global recovery in turn should aid exports, help drive earnings and also lift sentiments which could fuel flows into EMs including India.

On the domestic front, the pandemic seems to have flattened the COVID curve at least for now. Active cases have more than halved and so have the new COVID cases. This is encouraging and should result in economy unlocking sooner rather than later. The pace of vaccination will also be critical. Here as well, while pace has slowed approvals of newer vaccines should accelerate the process going ahead.

With regards to impact of COVID wave on economy, its likely to be more on services. Also, the overall impact is unlikely to be of the magnitude witnessed in the first wave. Some of the high frequency data like manufacturing PMI, which though slowed remained in expansion zone (vs. deep contraction seen in the first wave). Similarly, if one goes by the CMIE data on employment, nearly 25mn jobs have been lost in second wave in April and May, while more than 100mn jobs were lost in the first wave. More importantly, salaried jobs (which are a better reflection of labor market) have hardly seen any fall this time around. This is perhaps owing to both nature of lockdowns – lesser restrictions on industry and relative better global demand.

With regards to earnings season, earnings were largely along expected lines with materials having the most significant beats while consumer discretionary and financials reported modest misses. FY22 Nifty earnings estimates have been upgraded by 2-3%, largely owing to large earnings upgrades in metals and energy companies. Some of the domestic oriented companies' earnings were downgraded perhaps owing to lockdowns and rising input prices. This is in sharp contrast to what happened a year back when earnings were downgraded by 25%.

We expect FY22 to be a year for strong earnings growth. Nifty now trades at 21x FY23E. However, given the run up, the valuations are higher than the long-term averages and are building in strong earnings growth not just in FY22 but also in FY23. Apart from a global equity correction, the risks for the markets include a possible third wave, a slower than anticipated recovery in economic activity, higher inflation and any downgrades to the earnings estimates

Fixed Income Market

Fixed Income Market Review –

Bond yields remained range bound throughout the month. The GSec purchases by the RBI under the GSAP programme and other tools like ‘Operation Twist’, helped absorb the supply of bonds and capped yields during the month. Support from RBI kept markets steady despite high core inflation and indication of additional borrowing on account of shortfall in GST compensation cess to the tune of INR 1.58tn. The 10-year benchmark Government security ended the month at 6.02%, marginally lower from 6.03% at the end of the previous month. The 10yr UST cooled slightly to 1.61% from 1.63% in the same period and Brent Crude Oil prices rose to close at USD 69.5 per barrel higher compared to its previous close of USD 67 per barrel.

Among data releases, India’s CPI inflation fell to 4.29% in April-21 from 5.52% in the previous month, primarily due to favorable base effect. Food inflation printed at 2.66% on a y-o-y basis, as compared to 5.24% in March 2021. Core inflation (CPI Ex-Food Ex-Fuel) eased to 5.5% from the previous month’s print of 5.8%. Headline WPI inflation rose to a record high of 10.5% in April 2021 from 7.4% in March 2021, largely due to the rise in commodities prices globally. The high WPI also raised concerns that the pass-through of the higher input prices to final output prices could push CPI inflation higher in the coming months.

India trade deficit narrowed sharply in May, to USD 6.3bn from 15.1bn in April led by a sharp decline in imports especially gold. Among other economic data, the Index of Industrial production growth for March 2021 printed higher at 22.4% as against the growth of -3.6% in February 2021 on account of favorable base effect. Goods and Services Tax (GST) revenue collection in May corrected to Rs 1.02 trn from Rs 1,41 trn in the previous month. India's Nikkei Markit Manufacturing PMI declined at 50.8 in April 2021, against 55.5 in the previous month, and the Services PMI contracted to 46.4 in May of 2021 from 54 in the previous month. Composite PMI slumped to contraction zone (<50) after nine months at 48.1 in May vs 55.4 in April.

RBI Monetary measures and Bi-monthly Monetary Policy meeting

In the June MPC meeting, the RBI kept policy rates unchanged and guided to maintain an accommodative stance as long as necessary to revive and sustain growth on a durable basis. RBI revised its growth forecast for FY22 to 9.5% from 10.5%. RBI revised up its inflation forecast for FY22 by 10bps to 5.1% from 5% earlier. RBI once again attributed high inflation to supply side bottle necks and marked these factors as ‘transitory’ or ‘not persistent’ in nature. RBI announced the final tranche of Rs400 bn under G-SAP 1.0, which would also include purchase of Rs100 bn of SDLs, and further announced G-SAP 2.0 (for 2QFY22) at Rs1.2 tn.

Market Outlook –

The second wave of Covid infections has weakened the growth outlook for the year, while inflation expectations are steady. The weakness in growth has provided RBI the room to extend its ‘accommodative’ monetary policy stance. However, the key concern for the markets is the bond supply overhang in the face of relatively muted appetite. The news of the additional borrowing of INR 1.58 trn for GST compensation to states, has only added to the markets’ nervousness.

RBI has been managed to keep bond yields steady through the use of various unconventional measures such as OMO, OT, auction cancellation and devolvement on PDs apart from its already announced GSAP programme. However, these support measures have their own limitations. Large developed economies are on a firm recovery trajectory witnessed by uptick in growth and inflation. The increase in vaccination and large fiscal and monetary stimulus, have led to higher inflation expectations and higher global bond yields. RBI’s stance will come under greater

scrutiny, as the pace of vaccinations pick up in India and the lockdown restrictions are relaxed and a growth recovery gets underway in India as well.

In the near term, the MPC's assurance on prioritizing growth and yield curve management should keep yields in check. In the medium term, as the economy recovers from the effects of the second wave, yields may head higher, as is being witnessed in other economies that are recovering from the second / third waves of Covid infections.