Flash note
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Indian Equity indices reach record highs during the month. Our Strategy.

India remains as the best market among global markets in 2021

Indian Equities and NIFTY Index continued its robust performance, being one of the best performing indices across the globe. MSCI India outperformed the MSCI EM Index in September by a sizeable margin. Also mid- and small-cap indices in India perform well, continuing their outperformance relative to the Large-Cap Index. Most sectors delivered positive returns.

Factors behind the enhanced confidence in Indian market. Can they continue pushing the rally?

Behind the acceleration in Indian equity prices there is an evident boost in market sentiment during the month, spurred for both domestic and external factors: (1) The Indian government announced a slew of reforms—cabinet approved PLI schemes for auto, drone and textiles sectors, announced a relief package for telecom sector, and FM announced further steps towards formation of a bad bank, (2) Covid cases continued to decline in India, pace of vaccination picked up (average daily vaccination of 10+ million vaccines on some days), various states further relaxed Covid restrictions. (3) Expectations of strong medium-term growth. (4) The US Fed chairman commented that the US central bank won't be in a hurry to raise rates, even after they taper their asset purchases.

However rising US bond yield, surge in crude oil prices, fear of contagion from China's property giant Evergrande and ongoing debt ceiling debate in the US could weigh on investor's sentiments in the coming months, although we believe most of these risks are temporary, irrelevant or already discounted.

Big risk appetite from foreign investors in this market could continue

Foreign investors (FIIs) were net buyers of Indian equities to the tune of USD 1.77 bn while domestic investors (DIIs) were net buyers to the tune of USD 0.80 bn.

Central Bank (RBI) withdraws liquidity after macro improvement, but in a non-disruptive manner. The RBI Kept GDP projections stable (at a high level). <u>India will continue to be the fastest growing economy within the large countries in 2022</u>

In the recent meeting, the Indian central bank, RBI decided to withdraw surplus liquidity, commensurate with the evolving macroeconomic conditions in a "gradual, calibrated and non-disruptive" manner. The RBI retained its growth projection at 9.5% for F2022 led by early signs of recovery broadening to all sectors of the economy as indicated by the incoming high frequency data.

Inflation is already moderating. RBI lowered its headline CPI projections to 5.3% for F2022 (from 5.7%), on the back of favorable base effect and robust kharif sowing, with risks broadly balanced. While volatility in the global supply of key commodities does pose risks to the upside, the weak demand has prevented any pass through to output prices yet.

Indian Corporate profits are robust. Outlook for the Indian equity market

In India, the corporate earnings season is back with the expectations of a strong growth trajectory for the current quarter for most sectors. This is in-spite of the large 2nd wave of pandemic hitting the Indian economy and the sever lock down measures that followed. The strong corporate earnings movement and expectations is also the other reason supporting Indian equities. Quality large cap names, together with defensive companies, will continue to deliver superior returns and able to withstand the emerging volatile economy environment. Companies with broader market access can continue to gain market share until recovery is more broad-based. From a sector perspective, financials, led by private retail banks, corporate banks, asset management and life insurance companies, will continue pushing the Indian indices.

Foreign asset managers are overweighting private sector banks with strong liability franchises, backed by able management and healthy CASA ratio. Investors also remain positive on pharma companies focusing on domestic market and in healthcare services space like hospitals. The current supply shock in energy has prompted some investors to relook at the energy underweight and reduce the same. The Indian market is well positioned to navigate the current volatile economic environment and delivery good risk adjusted returns over the medium term.

Macroeconomic front is improving

High frequency macro indicators and data from on the ground activities such as GST collections, PMI, personal loan growth, electricity & core sector demand, international trade data, etc. suggest an improved demand environment, led by the easing of restrictions, lower active COVID-19 cases, and a pickup in vaccinations. On the economy front, July IIP grew by a 11.5% compared to 13.6% in June. August CPI inflation moderated to 5.3% from 5.59% in July led largely by lower-than-expected food inflation even though core inflation remained elevated. Manufacturing PMI expanded at a faster pace in September, with PMI Index rising to 53.7 in September (against 52.3 in August). Companies benefited from strengthening demand conditions amid the easing of Covid-19 restrictions. The current account registered a surplus in 1QFY22, rising to US$6.5 bn (0.9% of GDP) against a deficit of US$8.2 bn in 4QFY21 (-1% of GDP). Nevertheless, the 1Q current account figure is still well below the US$19.1 bn surplus (3.7% of GDP) seen in 1QFY21, meaning that there is still a lot of room for improvement from the external front.

Our strategy

We decided to maintain our position in the India market in portfolios under management mandate. Next step for the Indian Sensex S&P Index: 67,000.

Best regards