Markets closed the month of August on a negative note with the S&P BSE Sensex falling by 0.4% while the Nifty50 dipping by 0.9%. BSE Midcap and BSE Smallcap indices underperformed its larger peers. BSE Midcap and BSE Smallcap indices slipped over 1%.

Weak global cues, muted earnings from India Inc., corporate governance issues and currency volatility weighed on the sentiment. However, rollback of surcharge on FPI and slew of government measures to boost the economy later in the month brought some relief to the market.

From the rolling back of high taxes on foreign investors to tweak in FDI norms and on August 30, Finance Minister Nirmala Sitharaman unveiled mega merger plan to help India become a $5 trillion economy and kick start investment cycle. Sitharaman announced a mega-merger in the public sector banking space, amalgamating 10 banks into 4. The consolidation will bring down the total number of public sector banks to 12 from 27.

Global Markets

Globally, equity markets witnessed a sell off as trade tension between US and China continued to weigh on markets while Fed commentary on future rate cut also impacted the sentiment. Worldwide, Euro Stoxx slipped over 1%, followed by Dow Jones, Nikkei and FTSE100, down 2-5%. Hang Seng was worst performer, down 7.4%.

MSCI Emerging market underperformed the Indian domestic market with over 5% fall. MSCI AWI Index ended 2.2% lower.

 Sector Performance

Indian markets continued to witness heightened volatility as majority of sectors traded with a negative bias. Information Technology was the best performing sector, up 2.6%. Auto, Healthcare and Consumer Staples gained between 0.1-2%. Metal was the worst performing sector, down 12% followed by Banking, Power, Capital Goods and Real Estate, all falling between 1-5%.
Institutional Activity

FII selling accelerated in August to $2.3 bn vs $1.9 bn last month reducing the YTD inflows to $7.1 bn. While domestic investors continued their buying momentum with inflows of $2.7 bn taking DII YTD tally to inflow of $4.8 bn. Mutual Funds were buyers in the month of August to the tune of $2.4 bn. Insurance companies turned buyers with inflow of $3315 mn.

Macro-economic Overview

Real GDP growth fell to 6-year low of 5% in Q1FY20 led by a sharp decline in private consumption. Nominal GDP growth at 8% YoY touched new post global financial crisis lows. CPI for the month of July fell slightly to 3.15% with core inflation accelerating to 4.3% and food inflation declining to 2.3%.

Vegetables prices saw a decline in July but in August could see a likely uptick in light of excess monsoon in some parts of India. Core inflation at 4.9% picked up in July. WPI inflation for July at 1.1% came below expectations and was the lowest print in last two years. Trade deficit for the month of July declined to $13.4 bn and came below expectations as exports were up 2.2% while imports were down 10.4%.

Gold imports for July declined by 42%. Imports ex of gold and oil declined by 2% the 9th consecutive month of YoY decline. RBI’s MPC in its July meeting cut rates by 35 bps. This was the fourth consecutive rate cut by RBI. In response to the economic slowdown, Finance Minister announced relief measures that included upfront release of Rs700bn of PSU bank recap, NHB refinancing to HFCs increased by Rs 200 bn, quicker GST refunds to MSMEs, new registration charges on autos deferred to Jun’20, additional depreciation of 15% on vehicles acquired till Mar’20.

To aid the ailing Public Sector Banks, the FM announced another round of consolidation wherein 10 PSBs were merged into 4 entities; merged entities to have better lending capacity. Progress of monsoon in India has been good with cumulative rainfall over June-August at 1% above LPA.
**Market Outlook**

India’s economy is strongly linked with crude and soft crude prices augur well for the economy. With government focus on local manufacturing of electronics also works well for CAD where it was second highest contributor in imports. Continued economic slowdown, as manifested in the recent GDP print, points toward a challenging grind ahead for the long-awaited recovery in earnings.

Low nominal GDP growth in 1QFY20 highlights challenges ahead i.e government missing its FY20 tax collection targets and continued moderation in top-line and earnings growth momentum for corporate sector. Management commentary in Q1FY20 was muted. We view structural reforms in investment and lower role of government in the economy as imperative to put India on the path of higher and sustainable GDP growth.

Corporate profits are likely to get some support as we expect faster transmission of rates. With normal rainfall across India, we can expect economic recovery on the back of MSP hikes and rural wage growth which is likely to support consumption. The sharp underperformance of mid and small caps versus the large caps does provide some respite in stock selection. Nevertheless, given the underlying weak economic momentum, we would like to remain invested in companies with earnings visibility.

**Source:** BSE, Bloomberg, Internal

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