The COVID-19 contagion exploded globally in March, as cases rose 9-fold to >800k, led by US (>160k) and Europe. Global Markets were roiled by the pandemic and Indian Markets were not immune from the tremors either (hit -10% lower circuit twice during the month).

Despite the number of confirmed cases (< 1.5k) being fairly under control, containment measures in the form of a 21-day Nationwide Lockdown from March 25, 2020 brought the economy to a grinding halt. Indian equities pared losses in the last week, amid a slew of measures announced by the Government and the RBI.

Nifty50 and S&P BSE Sensex ended the month of March with -23.2% and -23.1% returns, respectively. S&P BSE Sensex underperformed the peer group MSCI Emerging market (-15.6%) and finished 15th in terms of performance ranking. MSCI AWI Index ended with -13.1% returns.

BSE Mid cap index underperformed the large cap index by 450 bps while the small cap index underperformed the large cap index by 690 bps. BSE Mid cap and BSE Small cap indices ended the month with (-27.6%) and (-29.9%) returns, respectively.

Global Markets

Global equities witnessed a sharp sell-off in the first three weeks, on account of risk aversion across asset classes and investor sentiments having turned negative amid widening spread of COVID-19. Losses were pared in the last week, as central bank announced significant monetary and fiscal stimulus to counter the ensuing economic slowdown. WHO on March 11, 2020 labelled COVID-19, a pandemic.

Worldwide, all major indices closed in red. Hang Seng was the out performer with -9.7% returns followed by Nikkei (-10.5%), Dow Jones (-13.7%) and FTSE 100 (-13.8%). Euro Stoxx was worst performer with -16.3% returns.
Institutional Activity

FII recorded the largest monthly net outflows of $7.9 mn in March vs inflows of $0.4 bn last month, taking FY20 outflows to $-0.1 bn. After 6 months of consecutive inflows, March witnessed largest net outflows.

DIIs were net equity buyers at US$7.0bn in March, which was the largest monthly inflow vs. prior peak monthly inflows of US$4.2bn in January, 2008 and $2.4 bn in February, taking FY20 tally of inflows to $18 bn. Within DIIs, both Mutual Funds and Insurance Funds were net equity buyers at $3.5 bn and $3.1 bn, respectively.

Sector Performance

Indian equity markets were not insulated from the global correction, coupled with rising cases of COVID-19 locally across states. FMCG was the best performing sector with -6.5% returns, outperforming the Sensex by 16.6%. Healthcare (-9.9%), IT (-14.3%), Power (-19.7%) and Energy (-20.6%) outperformed the Sensex. Consumer Durables (-26%), Capital Goods (-28.7%), Metal (-30.7%) and Auto (-31%) underperformed the Sensex. Bankex and Realty were the worst performing sector with -34% and -36.3% returns, respectively.

Macro-economic Developments

On the economy front, headline CPI rose to 6.6% in Feb vs. 7.6% in Jan. Decline was underpinned by food inflation which declined by 1.1% MoM. Core inflation also eased in Feb by 0.2% MoM after a strong increase (+0.7% MoM) in January. Core prices to remain soft in the coming months, as the economy gets buffeted by several disinflationary shocks (demand disruption on the back of COVID-19 and decline in oil prices). RBI estimates a $10 decline in oil prices would pull down headline inflation by 30 bps. Feb WPI inflation softened to 2.26% on the back of cheaper food items and vegetables, as against 3.1% in Jan.

Composite PMI for Feb at 57.6 improved sequentially, led by services which improved 2 pts MoM to 57.5 while manufacturing declined by 0.9 pts MoM to 54.5.
Outlook

Indian equity market witnessed heightened volatility, as COVID-19 contagion exploded globally in March, led by US and Europe. Market outlook remained robust over the medium to long term, as the impact of COVID-19 will be short lived and the focus will be back to fundamentals, sooner than later.

Nifty has underperformed MSCI EM by 13ppt in FY20. Also, such periods of underperformance are usually followed by India outperforming by 9ppt, 22ppt and 16ppt, on average in the following 90, 180 and 365 days, respectively. The current COVID-19 situation in India seems to be manageable. Also, the low death numbers are a positive.

India's growth story, backed by multiple structural reforms led by stable government, higher demographic dividend, improving ease of doing business and low inflation has got further tailwinds in the form of lower crude oil prices. However, COVID-19 led disruptions will negatively impact exports (20% of GDP) and domestic demand, leading to lower GDP growth in FY21.

Companies with high leverage are likely to face severe challenges in servicing debt, given topline growth headwinds from current economic downturn. FY21 will be a year of two halves given the COVID-19 disruptions in the first 3 months and expected gradual recovery in the remaining months of the fiscal year.

Valuations of the broad market have de-rated and is undemanding, trading below the long period mean of forward PE - 15.1x. Valuations will continue to mean-revert gradually over the medium term and be the main driver of market returns. Despite near term headwinds due to COVID-19 disruption, we continue to maintain our positive outlook on high quality companies having better capital allocation and producing sustained and predictable cash flows over the long time period.
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