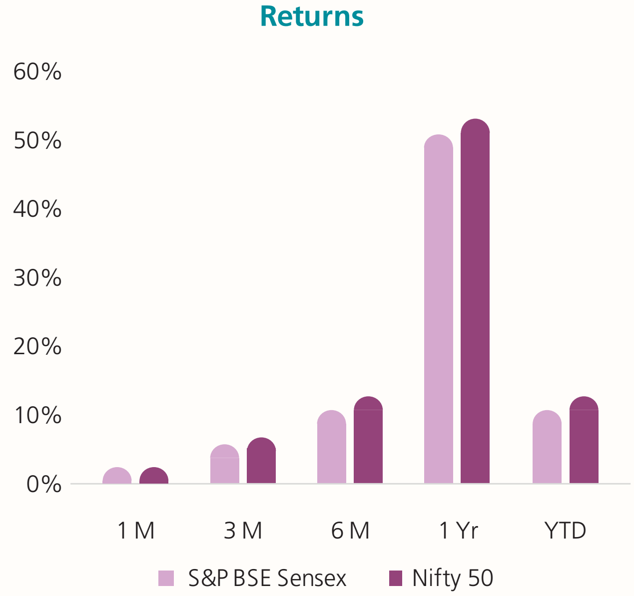
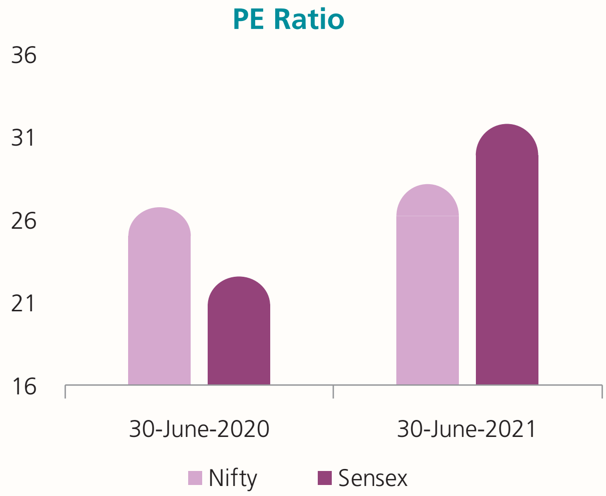
EQUITY MARKET REVIEW

JUNE, 2021

L&T Financial Services
Mutual Fund

Indian equities continued its uptrend with the Nifty50 gaining 0.9% in the month of June (as of June 30, 2021). While Nifty has been trading in a close range of 15,600-15,800, BSE Midcap and BSE Smallcap indices gained 3.6% and 6.9%, respectively as COVID-19 cases have been going down, markets are pricing in an improving demand outlook as states ease restrictions. MSCI India (USD) declined -0.8% in June underperforming peers, the MSCI APxJ / EM (-0.6%/-0.1%) indices due to INR depreciating by versus the US dollar by 2.3% in June.





Past performance may or may not be sustained in the future.

GLOBAL MARKETS

Global equities traded higher in June by 1.2%, with the US continuing to lead other developed markets (US up 8.5% vs Europe +6.4% over 2Q). The FOMC shifted guidance in a slightly hawkish direction mid-month. May CPI reports continued to be a string of upside surprises and highlighted the sharp and broad-based acceleration in global inflation. 1H global growth was strong, but gains were uneven across regions, owing to variations in policy support and vaccination programs.

Worldwide, most major indices saw positive trends. S&P500 was out-performer with (+2.2%) returns, followed by Euro Stoxx (+1.3%) and FTSE (+0.2%). Nikkei and Hang Seng were the worst performer with (-0.2%) and (-1.1%) respective returns.

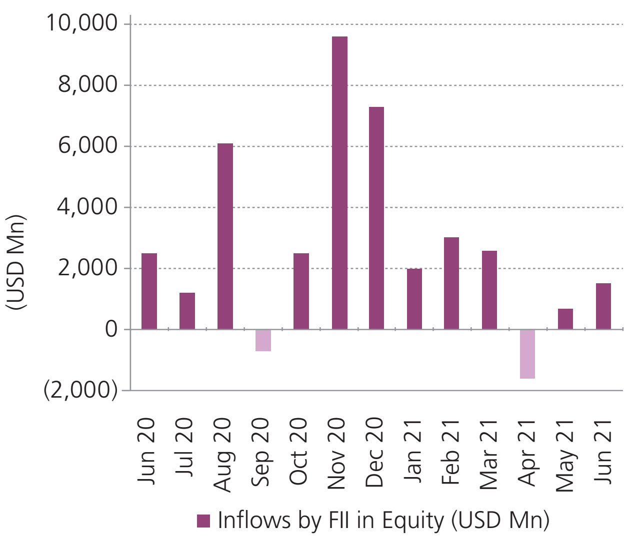
SECTOR PERFORMANCE

By sector, IT Services, Consumer Durables and Health Care outperformed while Metals, Energy and Financials were notable laggards. IT was the best performing sector in June also aided by the depreciation of the rupee with a 9.2% return outperforming Sensex by 8%. Consumer Durable 6.5%, Healthcare 4.3%, FMCG 2.9%, Realty 2.3% and Capital Goods 2% were the other outperformers while Metal -1%, Oil & Gas -1.8%, Power -2.2% and Banks -2.5% were the underperformers.

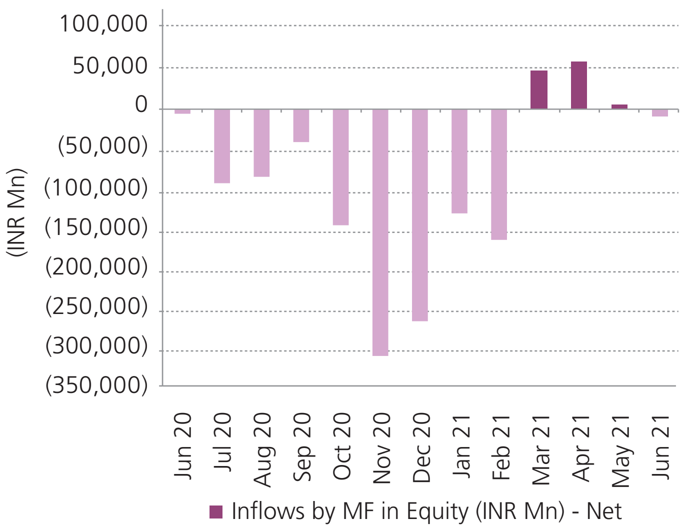
INSTITUTIONAL ACTIVITY

FIIs were net buyers in June to the tune of +$1.4bn vs +$0.7bn in May, taking YTD inflows to +$8bn. 1QCY21 saw $7.3bn of inflows, while 2Q ended at a modest $908mn of net buying due to net selling of $1.5bn in April. DIIs remained net equity buyers for the fourth month (+$958mn, vs +$282mn in May). DII buying accelerated in June to +$0.9bn (vs +$0.3bn in May), taking their YTD flows to -$0.5bn.

Inflows by FII in Equity (USD Mn) - Net



Inflows by MF in Equity (INR Mn) - Net



MACRO-ECONOMIC DEVELOPMENTS

RBI cut India's FY22 GDP growth forecast to 9.5% and inflation revised upwards by ~20-30bps to 5.1%. RBI MPC maintained status quo on rates / forward guidance, effectively deferring policy normalization.

May CPI increased dramatically to 6.3% y/y, almost a percentage point higher than what consensus expected. On a sequential basis, headline prices surged underpinned both by firming food prices and an unprecedented increase in core-core prices.

IP printed above expectations in April, expanding 134% YoY, largely on account of very favorable base effects from last April, when the country had just entered a national lockdown. Restrictions led to core sector output to decline sequentially in May.

The composite PMI in May contracted sharply to 48.1 in May, from 55.4 in April, as the deepening of the second wave crisis hit business and output. The manufacturing index fell to 50.8 in May, down from 55.5 in April. The service index fell to 46.4 in May, down from 54.0 in April. This was the first decline in 8 months.

India's FX reserves are at an all-time peak, standing at $604 bn currently. FX reserves have increased by US$11.0bn in the last 4 weeks. INR ended at ~74.33/USD, a loss of 2.3% in June, as USD appreciated, with DXY up 2.9% over the month.

Benchmark 10 year bond yield gained 3bps in Jun to end the month at 6.05%. The Brent oil price rose a whopping 9.3% in June, following a 3.3% increase in May (up 20.4% in 2QCY21).

For 2MFY22, the fiscal deficit came at just 8% of the full-year budget vs the pre-Covid average of 47%. This was due to robust direct tax collections, which came at ~14% of full-year budget compared to ~9% historical average. GST collections in May moderated after record-high monthly collection in April (Rs 1.03tn, from Rs 1.41tn in April, -27%MoM, +66% YoY). This was the eighth consecutive month with collections of more than Rs 1tn.

OUTLOOK

After a very challenging few months, India's second COVID-19 wave peaked and rolled over in early May, with new cases now trending down to 47k. Similarly, the positivity rate peaked at about 23% in early May but has now declined to below 3%. The administration of vaccine shots administered has increased sharply from under 2mn a day in the middle of May to over 5.7mn now. As of 30 June, ~331mn shots have been administered in India (~20% of the population has taken at least one shot). With the improved pace of 4Mn shots a day post-June, it is expected that 60% of the population above the age of 18 can receive at least one shot by the end of 2021.

The government announced relief measures to support the economy including Rs 1.1 tn worth of loan guarantee scheme for Covid-affected sectors, increasing the outlay for the ECLGS scheme to Rs 4.5 tn (from Rs 3 tn). The RBI announced, the Resolution Framework 2.0. The restructuring threshold for MSME, small businesses and individual business loans was expanded from Rs 250 million to Rs 500 million. The broadened credit guarantees should help mitigate stress for SMEs and those at the bottom of the pyramid.

Other key developments: (1) the Indian government announced free vaccination for all adults from June 21, (2) the government raised MSP for kharif crops, (3) the US Federal Reserve kept interest rates unchanged but signaled they expect two increases by the end of 2023.

The dip in cases, increased vaccination efforts and removal of restrictions will result in improvement in sequential growth momentum. The intensity, duration and spread of restrictions are lesser this year, which has cushioned the impact on economic activity to some extent. Overall, a steady increase in the vaccination drive, favorable policy mix, and a robust global growth outlook should support cyclical recovery in subsequent quarters.

Source: Bloomberg, MSCI