MONTHLY UPDATE
FEBRUARY 2020

HDFC Life

Sar utha ke jiyo!

February 2020

"Nurture your mind with great thoughts, for you will never go any higher than you think."

- Benjamin Disraeli

Equity markets

Indices	31st Jan 2020	28th Feb 2020	1 Month Return (%)	1 Year Return (%)
BSE Sensex	40,723.49	40,723.49	-5.96	6.77
S&P CNX Nifty	11,962.10	11,962.10	-6.36	3.79
BSE 100	12,082.99	12,082.99	-6.54	2.77
BSE Mid Cap	15,462.01	15,462.01	-5.57	1.97
BSE Small Cap	14,667.96	14,667.96	-6.54	0.14

Source: Bloomberg

Equity markets saw a steep decline during the month of Feb'20. Large cap as well as mid cap domestic indices declined in the range of 5.6% to 6.5% during Feb'20. On a 1 year basis, large cap indices are outperforming the mid cap and small cap indices

All the major global equity indices too posted negative returns. Dow Jones declined the most by 10.1% during the month while Hangseng index declined the least by 0.7%.

Except for consumer durable sector (flat on a month on month basis), all the sector declined during Feb'20. Auto and metal sector declined the most.

Nifty50 Q3FY20 continued to see a fairly segmented performance led by a) weak earnings reported by commodity oriented companies, b) strong show by financials and c) strong base effect support from Tata Motors (TAMO). Ex-TAMO, Nifty PAT grew 22% yoy. Ex-financials, commodities and TAMO, PAT (for 24 out of 50 Nifty companies) increased by 8%yoy. Led by overall weak demand environment in consumption as well as commodities space, overall Nifty revenue was broadly flat yoy.

The yield of benchmark 10-year G-sec oved from 6.60% at the end of Jan'20 to 6.37% as at end Feb'20

Commodities (USD)	1 Month Return (%)	One Year Return (%)
Gold	-0.22	20.74
Silver	-7.63	6.74
Crude Oil	-11.20	-23.97
Copper	1.22	-13.43
Primary Aluminum	-1.60	-11.33
Lead	-1.65	-14.09
Nickel	-4.63	-6.09
Tin	-0.52	-24.76
Zinc	-8.11	-27.23

Source: Bloomberg

All the major commodities except Copper declined on a mom basis during Feb'20. Copper gained 1.22% during the month while Crude oil declined 11.20%.
On a YoY basis, Gold and silver have posted gains while Zinc has declined the most.

Macro Economic Data

Indicators	Nov-20	Dec-20	Jan-20	Feb-20	Comments
IIP (%)	1.80%	-0.30%			Industrial output contracted by 0.3% in Dec’19, following 1.8% growth in Nov’19, mainly led by the decrease in manufacturing output (-1.2% in Dec'19 vs. 2.7% in Nov'19). However, mining output growth (5.4% in Dec'19 vs. 1.8% in Nov'19) accelerated.
Core Sector (%)	-0.60%	2.10%	2.20%		Core sector output growth marginally accelerated to 2.2% in Jan’20, following 2.1% growth in Dec’19, led by an increase in coal output (8.1% in Jan'20 vs. 6% in Dec'19) and electricity output (2.8% in Jan'20 vs. -0.1% in Dec'19)
RBI monetary policy (Repo Rate) (%)	5.15%	5.15%	5.15%	5.15%	In its 5th bi-monthly monetary policy of FY20, RBI kept the repo rate unchanged at 5.15%. During Feb- Oct'19 RBI cut the repo are by 135bps. Real GDP growth for FY21 is projected at 6% (5.5-6%) in 1H and 6.2% in Q3.
CPI inflation (%)	5.50%	7.40%	7.60%		CPI Inflation rose to 7.6% (the highest in the last 68-months) in Jan’20 vs. 7.4% in Dec’19 majorly driven by food inflation which remained high at 11.8%.
Trade Deficit ($, bn)	-12.15	-11.25	-15.17		In Jan’20, exports fell 1.7% to $25.9bn, while imports declined 0.8% to $41.61bn, as a result trade deficit widened to $15.2bn in Jan’20 vs. $11.3bn in Dec’19.
GST Collection ($, bn)	1035	1032	1108	1,054	Total gross GST revenue collections in Feb’20 stood at Rs. 1,054bn, following Rs. 1,108bn collection in Jan’20.
FII Flows-Equity ($, bn)	3.54	1.03	1.71	0.27	On equity side, FPIs bought $0.27bn in Feb’20, following an inflow of $1.71bn in Jan’19. On debt side, FII purchased $0.30bn in Feb’20, following an outflow of $1.63bn in Jan’19.
FII Flows-Debt ($, bn)	-0.32	-0.65	-1.63	0.3	
Exchange Rate (INR/USD)	71.73	71.27	71.51	72.19	Indian Rupee depreciated by 0.9% during Feb'20, as it closed at 72.2 per USD in the end of Feb’20 from 71.5per USDat the end of Jan’20.
GDP (%)	5.10%	4.70%	4.70%	4.70%	India’s real GDP growth stood at 4.7% in 3QFY20.HH consumption growth marginally up to 5.9% in 3QFY20 vs. 5.6% in 2QFY20. Notably, the 2QFY20 GDP growth was revised higher from 4.5% to 5.1%.

Outlook

Global equities witnessed a sharp selloff in the second half of the month post rising cases of COVID-19 across countries and subsequent impact on global economic growth. The World Health Organization (WHO) on 28th February raised its assessment of the global COVID-19 risk from high to very high, which is the most serious assessment. US Markets recorded the worst weekly fall since the financial crisis as escalating outbreak challenged premium valuations. While prospects of global economic revival in CY2020 are fading amid Corona virus outbreak monetary policy actions globally may provide some support.

On the domestic front, Budget fell short of somewhat heightened expectations as government refrained from any big stimulus announcement (despite FY21 Budgeted Deficit revised upwards by 50bps), being constrained by stretched finances. Some of the key announcements included a modified personal tax regime with lower tax rates subject to a curtailed list of exemptions which implied limited stimulus. Dividend distribution tax was abolished but long term capital gain on share sales was untouched. RBI kept policy rates on hold in line with consensus expectations, while maintaining its accommodative stance. Moody's slashed India's GDP growth forecast to 5.4% for CY2020 from 6.6% earlier and 5.8% for CY2021 from 6.7% earlier.

The markets are going through a turbulent time as coronavirus is showing signs of turning into a pandemic which has triggered a risk off sentiment. However, interest rate cut by Central banks globally is likely to support investor sentiment. In order to protect the US economy from the impact of Corona virus the US Fed announced an unscheduled 50 bps interest rate cut. In line with US Fed and other central banks, the RBI is also expected to announce proactive measures aimed at liquidity support and transmission. On the positive side, softer commodity prices are good news for domestic macro-economic stability (lower inflation, lower interest rates and lower trade and fiscal deficit levels). Virus crisis in China may also bring to light India's worth as a large global manufacturing hub given its plentiful labour, large coastline, port capacity and lesser complicated geopolitics than China.

The risk to GDP and earnings growth has increased with more and more countries reporting cases including India. Policy response has been triggered globally and India should follow but its efficacy is unknown. This construct makes us slightly cautious in the short term. Notwithstanding the short term challenges, we expect earnings growth in FY21 to be better driven by lower loan loss provision in corporate banks and turnaround in telecom sector. Nifty has corrected around 9% from the top and is now trading at roughly18X FY21 P/E. Overall from here market should deliver long term returns in line with earnings growth which is expected to improve.

February 2020

Fixed Income Markets Update

Bond markets had a positive month in February supported by favorable developments in the Budget and the Monetary policy. While presenting the Budget for FY21, the Finance Minister acknowledged the slippage in the fiscal deficit for the current year, and pegged it at 3.8% of GDP, against the 3.3% budget estimates. However, contrary to expectations, the slippage in the deficit did not entail additional supply of GSecs, with the Government resorting to fund the slippage from other means. For a market that had been wary of the excess supply, this was a big positive development.

The February Monetary Policy maintained status quo on policy interest rates, as expected, as the immediate prior inflation readings were above the mandated range. The RBI also maintained the ‘accommodative’ stance of the policy. However, the key development was the introduction of ‘Long Term Repo’, (LTRO), under which the RBI announced that Rs 1 tn of liquidity would be provided at a fixed repo rate for 1-year and 3-year tenors. The availability of assured liquidity for long tenors was intended to hasten the transmission of RBI’s rate cuts to lending rates. The first impact of the transmission was felt in the bond markets as yields softened markedly.

CPI inflation for January rose further to 7.59% from 7.35% in November, as food prices, especially perishables – vegetables and fruits, stayed elevated. RBI, in the monetary policy forecasts, estimated inflation to ease over the course of the year, and hence the further spike in inflation did not affect the market.

Global risk assets corrected sharply in February as the novel coronavirus (COVID-19) infection spread outside China at an alarming pace, even though the spread of the virus in China slowed down. The earlier hopes of containment of the virus within China, were belied and markets saw a sell-off in risk assets.US 10-year Treasury yields eased from 1.91% to 1.50% in February, while the Brent crude oil prices fell further to USD 50.52 / barrel from USD 57.94 / barrel. The fall in oil prices and the expected weakness in growth due to the coronavirus epidemic saw a sharp fall in most global bond yields. The domestic 10-year benchmark GSec yield also eased to 6.37% by the end of the month, from 6.60% at the end of the previous month.

Outlook

Going forward, the concerns on the spread of the coronavirus and its impact on economic activity is expected to drive market movements. The rapid spread in multiple countries has led to markets pricing in the most pessimistic scenarios for economic outlook and factoring in multiple monetary and fiscal stimulus from EM and DM authorities. The process for containment of the virus is expected to cause widespread dislocations in economic activity. The recovery from the disruptions is expected to be a gradual process.

The domestic economy has slowed down over the last few quarters necessitating the multiple fiscal and monetary stimulus measures implemented over the last one year. The impact from these measures was just being felt as a few leading indicators had turned positive, leading to expectations that a bottom in economic activity was in place. However, the impact of the virus is expected to derail and further delay economic recovery. The slowdown in economic activity is expected to soften inflation further. In view of the slow growth and easing inflation, RBI is likely to maintain its 'accommodative' stance on monetary policy for an extended period of time. While the RBI may look for a window of opportunity to cut interest rates further, as the inflation trends turn benign, RBI is likely to continue to use its unconventional measures – 'Operation Twist' and 'LTROs' to sustain bond yields at low levels. However, in a slowing economy, the Government's fiscal balance will once again be under stress, which may temper any further softening of yields.