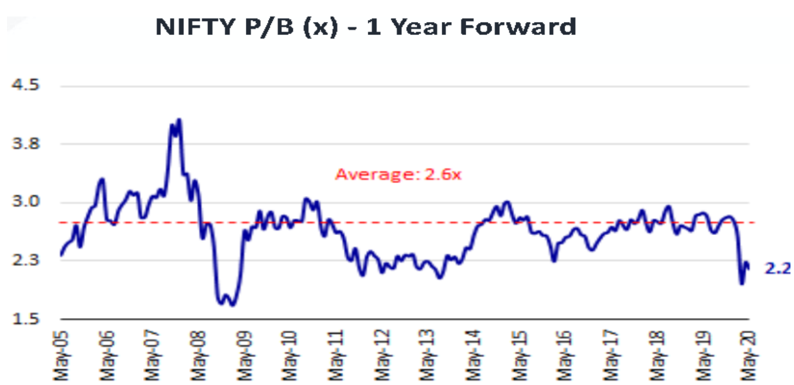
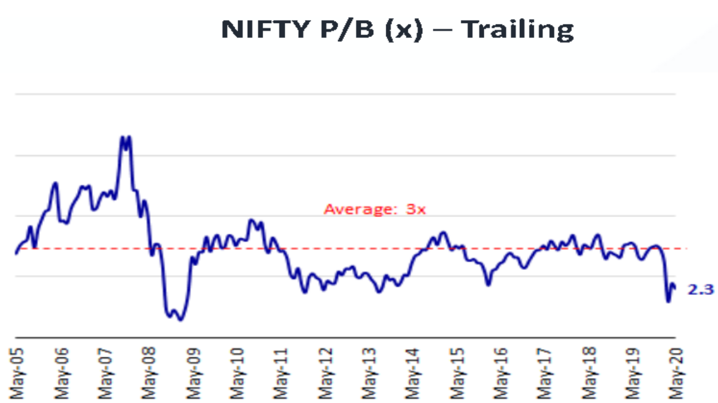
Jun, 2020

Indian Economy

- **GDP**: India's Q4 GDP Growth fell to 3.1% resulting in FY20 GDP growth at 4.2%. Due to lockdown, the FY21 GDP is likely to see a contraction, a first in 40 years. However growth rate should recover in second half of FY21 with resumption of economic activity.
- Even as pandemic has impacted many sectors, agriculture has been a bright spot. It is likely to witness a growth of approx. 2.5% in FY21. The government has announced MSP hike for 14 kharif crops, assuring farmers 50-83% returns on their cost of production. The forecast of a normal southwest monsoon, 40-60% higher water availability in the reservoirs, and 5% higher offtake of fertilizer during the first four months of this year are key indicators of agricultural growth.
- **Unemployment**: levels are nearly back to pre-lockdown levels which is a sign of revival in economic activity. This has been led by massive rural recovery.
- Increase in power consumption and higher generation of e-way bill also indicates pickup in economic activities.
- Equity markets are below historical levels on number of parameters. Market Cap to GDP ratio is below long term averages of 79%.
- At 2.2X, The Nifty 12 month forward P/B is well below historical average.



- At 2.3X, the Nifty 12 month trailing P/B is also below historical averages.



- FIIs turned net buyers in May'20, after remaining net sellers for previous two months. FPIs bought equities worth USD 1.9 Bn in May'20 and USD 2.8 Bn in Jun'20(MTD). While ground reality is dismal, markets are forward looking. Markets are discounting low oil, implementation of government stimulus, resumption of economic activity, capital flow to India, as a result of very low global interest rates etc.
- RBI reduced the repo rate by another 40 bps to 4.0%. While the rate cut will help lower finance costs for borrowers hit by the pandemic, depositors will continue to bear the brunt of lower returns.

Global Economy

- Resumption in economic activities is visible, around the world in May'20. US unemployment claims declined to 2.1 Mn in May'20 vs 3.8 Mn in Apr'20, but remained much above compared to Mar'20.
- Global interest rates are at historical lows.

Major Global Central Bank	Last Key Interest Rate
US Federal Reserve	0.00 - 0.25%
Bank of England	0.10%
European Central Bank	0.00%
Bank of Japan	-0.10%
India	4.00%

- OPEC and its allies are slashing millions of barrels of output in a bid to increase oil prices.
- Commodity prices (Steel, Zinc, Copper, Aluminium, Lead etc) have increased as economic activity restarts.
- **Gold**: Price has increased by nearly 16% (in USD terms) in 2020. The monetary stimulus from various central banks Is inflationary and Gold is a hedge against inflation and currency debasement.

Outlook

- Corporate profits are squeezed (weakening operating leverage). Thus they are likely to delay capex plans, lower salaries and cut jobs, which in turn will weaken consumption demand.
- As of 31st May’20, Nifty50 was trading near 19.3x FY21E and 14.6x FY22E price to earnings ratio (source: Kotak Institutional Equities). While multiples are reasonable in uncertain times, P/E ratios may not be very reliant. Market cap/GDP and P/Book value are better indicators of valuation. All three ratios are at historical lows.
- The gap between 10Y G-Sec and 1Yr -Forward Nifty 50 Earning Yield (1/ One year forward P/E) has reduced significantly and is now below 10 year average. This also indicates equity markets are attractively priced.
- Our recommendation is to maintain Debt / Equity asset allocation (as per risk profile). Fresh funds to be added in staggered manner.
- In Debt funds we continue to favour Short term, corporate bond and PSU & Banking funds of high credit quality.