MIRAE ASSET
Mutual Fund

# Monthly Market Insight

June 2020

# EQUITY UPDATE

- The BSE Sensex and Nifty-50 Index indices gained 7.7% and 7.5% respectively in the past month led by a gradual resumption in business activities. However gains were kept in check by various factors: escalating India and China tensions, fears of a second wave of Covid-19 infections, pessimistic outlook by US Fed on recovery timelines, no immediate relief by the Supreme Court on AGR dues, and on expected lines weaker 4QFY20 results.
- The BSE Mid-cap and BSE Small-cap indices gained 10.2% and 13.7% respectively. On the sectoral front, BSE realty recovered the most (12%) and was followed by the BSE Banks (9.7%) and BSE Auto (8.4%) indices. The defensive sectors, BSE FMCG and BSE Healthcare, that had outperformed over the last few months were laggards in the month of June with gains of just 3.3% and 3.9% respectively.
- Covid-19 cases / deaths in India continued to rise (3x vs May end, now >500k cases / >16k deaths), taking India to fourth most affected country in the world. Due to steady uptick in cases, most Indian states announced further extension of lockdowns. India's sovereign rating was reviewed and all 3 major rating agencies still rated India as investment grade with stable or negative outlook.
- Global developed markets continued the upward trend in June - S&P 500 rose 1.8%, Euro Stoxx 50 gained 6%, and the MSCI Emerging Markets index was up 7%.

## Global Macros

- The US 10 year bond yield was broadly flat at 0.66 on June 30th. The dollar index declined 1% to 97.4 at the end of June.
- Crude gained 16.5% in June and was quoting at USD41.2/bbl on June 30th.
- China passed the controversial national security law for Hong Kong even as US prepared to pare back Hong Kong's special status.

## Domestic Macros

Inflation: (a) NSO did not release May CPI owing to data collection issues, but disclosed CPI food inflation, which moderated to 9.3% in May (10.5% in April), (b) May WPI inflation fell by (-3.2% as against 0.4% in March. WPI food inflation moderated to 1.1% (vs 2.6% in April).

Currency: Rupee remained broadly unchanged at INR75.5/USD on June-end.

Growth: April IIP fell by 55.5% YoY as compared to a contraction of 18.3% in March amid the nationwide lockdown.

Trade deficit: Trade deficit in May was USD3.2b (v/s USD6.8b in April) on weak crude and faster recovery in exports vs imports. RBI's forex reserves hit a record $500bn on portfolio inflows and lower trade deficit

## Regulatory, Policy and Market Developments

Equity trading trends: FIIs net bought equities worth USD2.5b and DIIs bought equities worth USD319m during June. For calendar year 2020, FIIs have net sold USD2.4b and DIIs have been buyers of net USD11.8b.

India Sovereign Rating: All the three rating agencies retained India's investment grade rating. Moody's downgraded India's rating to Baa3, last level of investment grade rating, while keeping outlook as negative. Fitch reaffirmed BBB- rating but changed the outlook to negative. S&P retained BBB- rating with a stable outlook.

Fiscal Stimulus: PM Modi announced extension of free food ration scheme till end-November, a period coinciding with many Indian festivals.

Monsoon: As per IMD, India Southwest monsoon witnessed 18% surplus outturn vis---vis the LPA (long period average) in month Jun-20, covering the entire country by 26th June.

## 4QFY20 results so far

- Given the disruption in the last 2 weeks of March 2020, the 4QFY20 results are not comparable and indicative. Nifty-50 Index sales declined 5% YoY, while EBITDA/PAT declined 4.8%/20.1% YoY.
- Some of the key sectoral highlights include - strong ARPU in telecom companies, good domestic growth in pharma, healthy PPOP of banks but hit by Covid-related provisions and poor volume/realizations for metal players, book losses led by inventory/forex losses for energy companies, subdued auto numbers and weak IT spending environment.
- As the earnings do not reflect the underlying economic trends, it is important to focus on the management commentary. Key highlights from the commentaries and results include: a. Financials: For banks, 25-50% of book under moratorium with cautious outlook on growth and asset quality. In NBFCs, near term outlook is challenging, improvement in collection efficiency in June provides hope.

Source: Bloomberg, as on 30th June, 2020.

b. Discretionary: Auto demand outlook uncertain although finance availability better than expected.

c. Consumer: Food companies clearly outperformed their HPC(Household and Personal Care) and discretionary peers given underlying consumer trend of pantry loading and a tailwind towards in-home consumption.

d. Commodities: Strong marketing margins offset weak GRMs for SOE OMCs but high inventory losses impacted earnings. In metals, domestic and export volumes were impacted by COVID-19 disruption.

e. Industrials: The lockdown impacted cement volume but lower cost supported EBITDA per tonne. In cap goods / infra, both revenue and order flows were lower than our estimates primarily due to COVID-19 led disruptions and management commentaries were cautious as well.

f. IT: revenue momentum weak; margins disappoint.

g. Pharma: Pre-buying boosted India business, positive surprise in US business as well

## Outlook

- The COVID situation is still evolving as some of the countries have witnessed second wave. As an investor, we are hopeful, given the encouraging news flow on the vaccine development.
- On the corporate earnings front, as expected, the 4QFY20 was weak and 1QFY21 earnings too will be impacted by lockdown. While the COVID-19 situation continues to be challenging, execution and efficacy of various Govt/RBI measures will determine the pace of economic recovery. Low interest rates and benign oil price will be supportive as and when recovery resumes. Investors are now focusing more on earnings beyond FY21 and the pace of normalization and recovery in the economy – both at the domestic and global level.

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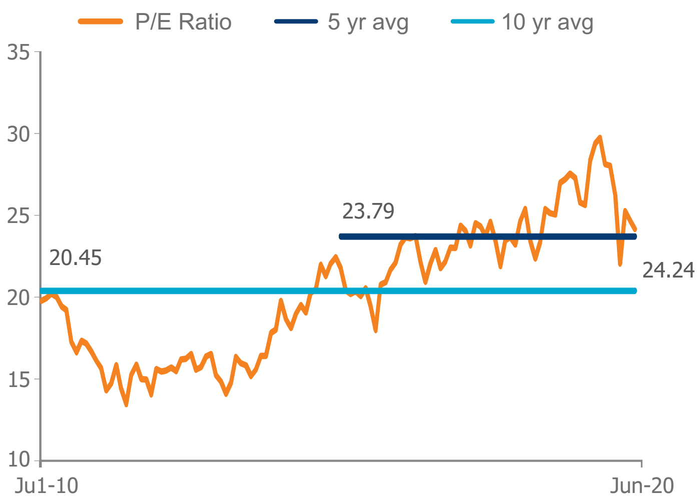
- In India, the rural economy is relatively less affected due to minimal COVID infections, cashflow from various government schemes and better start of monsoons.
  Overall, while there is recurrence of lockdowns in some pockets, wherever the micro-markets are open, the early signs of recovery are encouraging but is a combination of pent-up demand and recovery and will have to wait to get more clarity on the recovery. The supply side is gradually coming back to normalcy, while demand will take some time to review, in our view.
- On a CYTD basis Nifty-50 index after recovering ~40% from the bottom on 23rd March is now down ~12%. At the current index levels, it is now still trading below 5/10 year averages at 16.9x FY22 earnings. India's 3-5 year outlook is encouraging as the benefits of various government reforms over the last few years would start to accrue. However, near term performance will be function of the inter-play of COVID situation and restoration of normalcy in the economy.
- **Recommendations for Investors**
  - Asset allocation: Whenever there is a crisis, it is extremely important to revisit and maintain asset allocation discipline. We recommend investors to balance and front-load asset allocation in favour of equities. We would recommend investors to look at equities and allocate capital that is not required for the next 3 years.
  - Large caps vs midcaps: We continue to prefer large caps, and would advise investors to allocate about 70% towards large or multi-caps funds. Our preference for large companies is due to superior risk-adjusted returns, a decent growth profile, and the fact that large franchises are better able to weather challenging times.

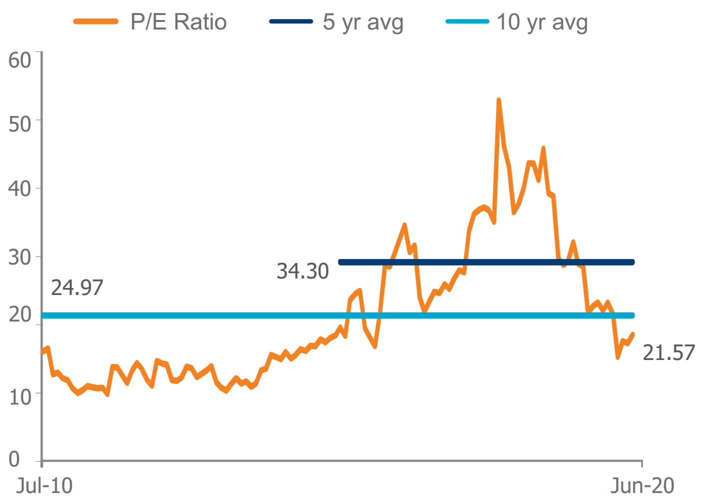
Source: Bloomberg, as on 30th June, 2020.

**We would suggest to invest in a disciplined way in equities for long term, within the earmarked asset allocation (based on individual risk profile). In the current market scenario, staggered investments through SIP or STP, may be one of the best ways to invest in equities.**

### Nifty 50 Trailing 12 Months PE Ratio

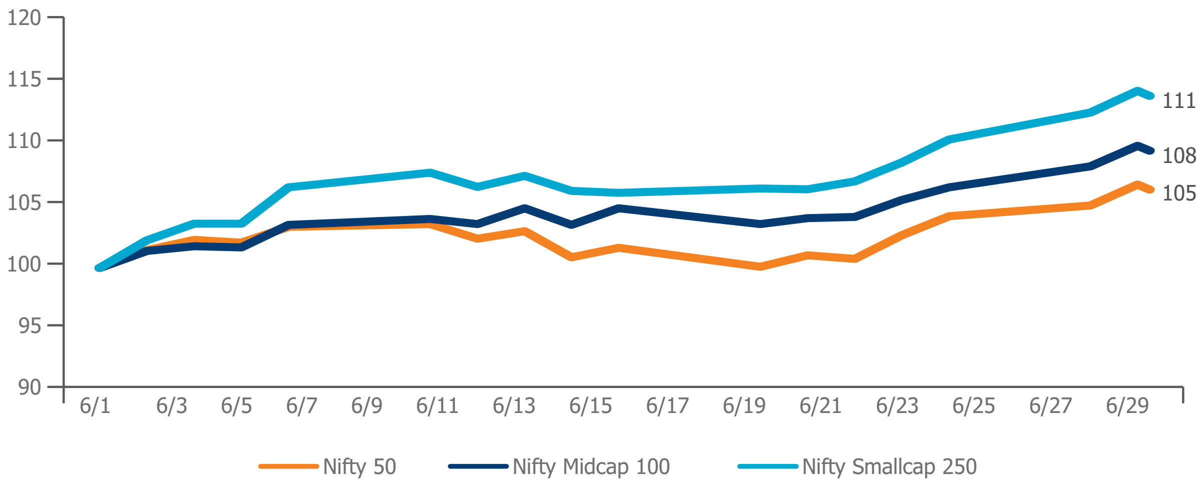



### Nifty Midcap 100 Trailing 12 Months PE Ratio




Source: Bloomberg, as on 30th June, 2020.

## Index Movement




## PERFORMANCE IN JUNE OF MAJOR INDIAN INDICES

| Major Indian indices | Jun-2020 | May-2020 | Performance (%) | | | |
|---|---|---|---|---|---|---|
| | | | 1m | 3m | 6m | 1Y |
| S & P BSE SENSEX | 34,916 .00 | 32,424.00 | 7.7 | 18.5 | -15.4 | -11.4 |
| NIFTY 50 | 10,302 .00 | 9,580.00 | 7.5 | 19.8 | -15.3 | -12.6 |
| NIFTY Midcap 100 | 14,704 .00 | 13,273.00 | 10.8 | 25.6 | -14.0 | -16.7 |

Source: Bloomberg, as on 30th June, 2020.

## PERFORMANCE OF GLOBAL AND REGIONAL INDICES

| Name | Performance (%) | | | |
|---|---|---|---|---|
| | 1m | 3m | 6m | 1Y |
| **Global and regional indices** | | | | |
| BSE (Sensex) | 7.7 | 18.5 | -15.4 | -11.4 |
| Brazil (Bovespa) | 9.5 | 31.1 | -17.2 | -5.2 |
| Shanghai (SHCOMP) | 4.6 | 8.5 | -2.1 | 0.2 |
| Germany (DAX) | 5.5 | 23.1 | -7.7 | -1.4 |
| Hong Kong - HSI | 6.4 | 3.5 | -13.3 | -14.4 |
| Japan (Nikkei) | 1.9 | 17.8 | -5.8 | 4.8 |
| Korea (Kospi) | 3.9 | 20.2 | -4.1 | -1.0 |
| Russia (MOEX) | -0.1 | 20.1 | -21.3 | -11.8 |
| UK (FTSE) | 1.5 | 8.8 | -18.2 | -16.9 |
| US (Dow Jones) | 0.8 | 16.8 | -10.3 | -3.8 |

Source: Bloomberg, as on 30th June, 2020.

## PERFORMANCE OF INDIAN SECTOR INDICES

| Name | Performance (%) | | | |
|---|---|---|---|---|
| | 1m | 3m | 6m | 1Y |
| **BSE sector indices** | | | | |
| BSE Auto | 8.4 | 42.1 | -17.4 | -14.7 |
| BSE Bankex | 9.7 | 10.2 | -33.8 | -30.5 |
| BSE Capital goods | 4.3 | 17.1 | -24.1 | -35.2 |
| BSE Consumer durables | 7.2 | 5.0 | -18.7 | -22.2 |
| BSE FMCG | 3.3 | 9.8 | -1.3 | -0.9 |
| BSE Healthcare | 3.9 | 33.9 | 21.1 | 26.2 |
| BSE Infotech | 5.8 | 15.9 | -3.8 | -4.9 |
| BSE Metals | 5.9 | 26.2 | -30.9 | -35.1 |
| BSE Oil & Gas | 7.0 | 26.4 | -14.1 | -14.4 |
| BSE Power | 6.3 | 14.3 | -18.2 | -24.8 |
| BSE Realty | 12.0 | 16.8 | -30.7 | -28.2 |

Source: Bloomberg, as on 30th June, 2020.

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