FRANKLIN TEMPLETON

Equity Market Snapshot

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Global Markets

Global equities continued to rally in April. The US markets rose as the US Federal Reserve's March meeting minutes reaffirmed that the central bank may not raise interest rates this year. The first estimate of US Q1 GDP growth was much higher than expected at 3.2% annualized. This along with promising economic data from China and hope of receding trade risks aided global market sentiments during the month. After posting strong rally in Q1 Chinese equities lost some momentum in the latter part of April primarily due to fears of government scaling back its stimulus measures amid signs of economic stabilization. The Brexit extension to UK granted by the European Union (EU) removed the threat of a no-deal exit. This along with positive economic data aided UK investor sentiments.

Crude oil prices advanced after the US said that it would end the waivers for countries to import Iranian oil and because of receding worries over global economic growth. Base metals weakened during the month due to subdued global demand and rising inventory levels. Gold remained flat in April.

Monthly Change for April 2019 (%)	
MSCI AC World Index	3.2
MSCI Emerging Markets	2.0
Dow Jones	2.6
Nasdaq	4.7
S&P 500	3.9
FTSE Eurotop 100	2.8
FTSE 100	1.9
Hang Seng	2.2
Nikkei	5.0
Brent crude (USD/bbl)	7.22
Spot LME Aluminium USD/MT	-5.81
Spot LME Copper USD/MT	-0.92
Spot LME ZINC USD/MT	-1.33

Monthly Change for April 2019 (%)	
S&P BSE Sensex	0.9
Nifty 50	1.1
Nifty 500	0.0
Nifty Midcap 150	-3.3
S&P BSE SmallCap	-2.7
S&P BSE Finance	-1.8
S&P BSE Auto	0.1
S&P BSE Information Technology	6.4
S&P BSE Fast Moving Consumer Goods	0.2
S&P BSE OIL & GAS	0.6
S&P BSE Capital Goods	-2.4
S&P BSE Healthcare	-0.3
S&P BSE Metal	1.4

Domestic Market

Indian equities remained flat in April after making strong gains in March due to effects of both positive and negative cues. Markets got a positive boost led by encouraging economic cues from China and hopes of progress in the US-China trade talk. Normal monsoon forecast by the Indian Meteorological Department (IMD) also supported investor sentiments. Rise in crude oil prices as the US announced to end sanction waiver on Iran oil imports raised concerns of fiscal slippage and inflation. Among Indian equity sectors, the S&P BSE Information Technology sector led gains in April, followed by the energy sector. The Telecom sector was the worst performer dragged by weak results. Discretionary and utilities sectors also ended lower. Although large-caps and broader indices gained during the month, mid and small caps declined.

Slowdown in consumption indicators continued with contracting sales of two-wheeler and passenger vehicles along with a decline in consumption-linked imports (non-oil and non-gold imports). Investment related indicators were mixed with a slowdown in cement and steel production on the one hand and a modest pickup in capital goods imports and CV sales on the other. Export growth accelerated to double digit levels in March after remaining in low single digits for last 4 months. FPI flows stood at a positive USD 3.05bn in April. Domestic institutional investor flows were negative at INR 42.9 bn (USD 602mn) for April 2019.

Macroeconomic Indicators: Macroeconomic indicators remained mixed during the month. Manufacturing PMI index declined to 51.8 in April (52.6 in March) due to softer increase in new orders which restricted the growth of output, employment, input buying and business sentiment. Services PMI dropped to a seven-month low of 51 (52 in March). Trade deficit widened to USD 10.89 bn in March from February (USD 9.6 bn in Feb) due to higher imports. As compared to data from a year ago trade deficit narrowed, aided by robust exports growth (11.02 % YoY) and modest import growth (1.44% YoY). Exports received a boost from chemicals and engineering goods segments. INR depreciated 0.6% against USD in April due to higher crude oil prices. CPI inflation rose to 2.86%YoY in March, primarily due to fuel inflation. Retail inflation remained below the RBI's medium-term target of 4% for eight consecutive months. The industrial production grew at a 20-month low of 0.1%YoY in February 2019 (1.7%YoY in January) due to sequential declines in the production of capital, intermediate, infrastructure and consumer goods.

Corporate Earnings: Q4FY19 earnings could get a boost from financials on account of low base from the previous year in corporate banks which have been ridden so far by provisioning requirements. Earnings in the consumer discretionary (weak topline growth and margins in auto sector), commodity (metals – weak pricing; energy - weak refining margins), oil & gas sectors (lower gross refining margins) and telecom sectors (tariff war and intense competition) could remain weak. Consumer staples (strong base effect, lower volumes, moderation in demand), cement (demand and volumes growth) and IT (aided by momentum in deal activity) could report flat earnings growth. Capital goods (strong execution) and healthcare sectors (low base) are expected to deliver improvement in earnings. In the results released so far, major IT sector companies reported healthy top line growth. Auto sector posted weaker sales. Cement sector showed improvement in growth as well as pricing power.

Outlook

IMF has revised India's growth forecast for FY2019-20 downwards to 7.3% in its April 2019 projection. However, the 2020-21 forecast for India stands at 7.5%. We expect growth to remain weak in H1 (due to weak consumer spending and export income). Policy easing in both fiscal and monetary space will support growth momentum in the second half of 2019. Fiscal stimulus in the form of farmer income support and tax rebates could likely have a positive spillover effect on income and consumption while monetary easing could lead to lower real rates and funding cost. Tighter liquidity situation is warranting OMO purchases and adoption of an easier monetary policy stance by the Indian central bank. Further rate cuts of 25-50bps are expected in 2019 based on benign inflation outlook and favorable external environment (dovish stance by the US Federal Reserve). Current account deficit situation will need to be watched closely, considering rising crude oil prices.

The election related volatility could continue to dominate the market till the results are declared.

Accommodative monetary stance adopted by central banks of both developed and emerging economies could provide much needed liquidity boost to global markets. The European Union extending the Brexit date to 31 October is expected to lend support to investors sentiments. Risks to global equity trends could emanate from an adverse turn of events in the China-US trade issues resolution talks as well as from a spike in crude oil prices post the US sanction on Iranian oil and OPEC supply cuts.

While global cues remain mixed, domestic macroeconomic and micro indicators are also trending mixed. These factors along with a potential moderation in corporate earnings growth place a significant emphasis on the importance of normal monsoon for the economy in CY2019.

From an investment perspective, diversified equity funds with core exposure to large caps and prudent risk-taking in mid/small-cap space may be well positioned to capture medium to long term opportunity presented by the equity markets.