MUTUAL FUNDS Sahi Hai

LIC MUTUAL FUND

Equity Market Review

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Market Review

- On ground momentum in the economy continues to remain weak however, the economic activities seem to start post the lockdowns. India's current account balance recorded a marginal surplus of USD 0.6 bn (0.1% of GDP) in Q4FY20 and USD 2.6 bn (0.4% of GDP) in Q3FY20. The surplus in Q4FY20 was primarily on account of lower trade deficit. Core sector contraction slowed to 23.4% contraction in May'20 vs 37% contraction in April'20. During the month, equity market saw appreciation with BSE Sensex rising by 7.7% month-on-month and CNX Nifty rising by 7.5% for the same month.

- Sector-wise indices- The indices continued their momentum of recovery during the month gone by with all indices in the green. BSE Small Cap, BSE Realty, BSE Mid-Cap, BANKEX, BSE Auto, BSE 500, BSE 200, BSE 100, BSE Consumer Durables, BSE Oil & Gas, BSE Power, BSE Metal, BSE IT Sector, BSE Capital Goods, BSE Healthcare and BSE FMCG Sector rising by 13.7%, 12.0%, 10.2%, 9.7%, 8.4%, 8.2%, 7.8%, 7.4%, 7.2%, 7.0%, 6.3%, 5.9%, 5.8%, 4.3%, 3.9% and 3.3% respectively.

Benchmark Index	Latest Price	1 Month Return	3 Month Return	6 Month Return
BSE Sensex	34,916	7.70%	22.80%	-16.00%
CNX NIFTY	10,302	7.50%	24.40%	-15.90%
BSE Small-Cap	12,381	13.70%	32.70%	-9.30%
BSE Realty	1,581	12.00%	19.10%	-30.30%
BSE Mid Cap	13,055	10.20%	26.60%	-12.80%
BANKEX	24,294	9.70%	12.40%	-34.10%
BSE Auto	15,275	8.40%	43.90%	-18.10%
BSE 500	13,438	8.20%	25.40%	-14.70%
BSE 200	4,356	7.80%	25.10%	-14.70%
BSE 100	10,411	7.40%	24.60%	-15.50%
BSE Cons Durables	20,338	7.20%	6.80%	-19.00%
BSE Oil & Gas	12,668	7.00%	37.40%	-14.40%
BSE Power	1,575	6.30%	17.10%	-17.70%
BSE Metal	7,210	5.90%	33.00%	-30.80%
BSE IT Sector	14,887	5.80%	19.30%	-4.40%
BSE Cap Goods	12,859	4.30%	18.70%	-24.30%
BSE Healthcare	16,263	3.90%	38.40%	20.80%
BSE FMCG Sector	11,258	3.30%	16.10%	-1.70%

Capital flows:

FIIs were net buyers in the equity to the tune of ₹ 18,684 crores (US$ 2,467 mn) in June 2020. Cumulatively, FIIs bought equity worth ₹ 842 crores (US$ 219 mn) in last twelve months i.e. from July'19-June'20 and DII bought equity worth ₹ 72,951 crores (US$ 10,165 mn) for the same period. (As on 30th June 2020, Source: SEBI) (June 2020 Avg. 1 USD = INR 75.7479).

Outlook

- June saw the gradual resumption in business activities and an earlier-than-expected normalization in certain sectors. It also marked the end of 4QFY20 results. 4QFY20 results were blemished by disruptions to both supply and demand across sectors in the second half of March. The market's focus is on management commentary on improvement in demand and supply from lockdown-affected depressed levels of April-May.

- The obvious read-through is that demand will improve on a MoM basis for some time from the lows seen in April, however we believe the sustainability of the same will only become clearer after a few months. Furthermore, the eventual level of credit costs and NPLs for the BFSI will become clear only from 3QFY21 as the extended moratorium on loan repayment until August 31, 2020 will hide the true financial position of borrowers.

- Having said this, escalating tensions between India and China, 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 kept the gains in check. Rural revival has been much faster and better than urban driven by (a) lower containment zones; (b) expectation of normal monsoons; (c) reverse migration; and (d) good rabi crop season.

- Market clearly is pricing in a swift and profound recovery in FY22 (and possibly a bit in late FY21), however the problem is that this is a medical crisis, most of the risks are unknown and unpredictable. Having thought through this, two trends get amplified: (a) industry consolidation; and (b) technology adoption. Businesses winning in both these trends should be the ones to look out for. Within industries, we place our bet on the defensiveness of the business model rather than the discretionary nature of demand. We prefer to focus on existing leaders who are likely to disrupt / innovate in their businesses to ensure that their leadership/competitive advantage remain strong. Value creation imperatives in investments viz high standards of governance, high capital efficiency strong moats, and sustainable growth are unlikely to change.