EQUITY
Market Outlook
February 2020

Good gets better

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.
After a great finish to 2019, global markets started the year on a somber note. MSCI World ended down 0.7%m/m in January. While the economic data looked great, the concerns related to Chinese “corona virus” scare led to sharp selloff in the later part of the month. All pro-reflation asset classes delivered negative returns in January. Within equities, emerging markets were significantly impacted down 4.7%m/m in January. Within developed markets, US outperformed other markets. The S&P 500 index (US) lost just 0.2%m/m in January. Indian equities outperformed MSCI EM index in January. US dollar index gained 1%m/m in January. Commodities prices sharply declined in January. LME metal index went down 7.5%m/m. Crude oil prices crashed 15%m/m owing to slowdown concerns.

Indian markets delivered negative returns in January as headline indices fell over the month. Sensex lost 1.3%m/m. However, the broad market materially outperformed in January. BSE small cap and midcap indices were up 7.1% and 3.3% respectively during the month. Foreign Portfolio Investors (FPIs) inflows continued for the fifth consecutive month with net inflows of US$2 bn in Indian equities. Communication Services, Consumer Staples and Industrials were the best performing sectors in January, while Energy, Consumer Discretionary and Utilities were laggards.

*For the month of Jan 2020. Past performance may or may not be sustained in the future.

**India’s high frequency data update:**

After remaining weak for a prolonged period, there are definite signs of some improvement in economic data.

- **Purchasing Managers’ Index (PMI):** India’s manufacturing PMI rose to the highest level since February 2012 in January led by a meaningful recovery in demand. Leading indicator (order to inventory ratio) suggest strong growth momentum in near term.

- **Auto sales:** Sequential improvement seen in January though the annual growth remain marginally negative. Inventory levels in auto companies remain low.

- **Core sector production:** Growth in the eight core sectors came in at 1.3% in December as against -0.6% in November 2019. For April-December the annual growth in core sector is 0.2%yoy.

- **Index of Industrial Production (IIP):** November IIP growth was at 1.8% led by favorable base effects. Manufacturing sector grew by 2.7%yoy in November.

- **Credit growth:** Bank credit growth slowed down to 7.2%yoy in January. Ex-NBFC non-food credit growth continues to decline to 5.5% yoy, with personal loan growth remaining stable.
Trade deficit: Trade deficit in November came in at US$11.25bn. November exports grew by 1.8%yoy while imports grew by 8.8%yoy in December as domestic demand remained subdued.

Inflation: CPI inflation rose sharply to 7.35% as against 5.54% in November owing to higher-than-expected food inflation of 14.1%. Core inflation rose to 3.8%yoy versus 3.7% in November.

GST collection: GST collection in January came in at INR 1.1 tn, after INR 1.03 tn in December.

Advance GDP estimate: The National Statistical Office (NSO) expects FY2020 real GDP growth to decelerate to 5% from 6.8% in FY2019. With 1HFY20 GDP growth at 4.8%, the implied 2HFY20 GDP growth is likely around 5.2%.

Budget FY21: A pragmatic budget: The fiscal deficit target has been pegged at 3.8% of GDP in FY20, and 3.5% for FY21. Budget assumptions for FY21 both on the tax revenues as well as on the expenditure side are credible. Budget has clear focus towards agriculture, infrastructure and lower middle class. Rationalization of personal income tax particularly at the bottom of the pyramid has been done to enhance middle class purchasing power. Budget has refrained from tinkering in many sectors. Incentives have been provided to attract foreign savings towards infrastructure sector. For capital markets, the abolition of DDT is positive for tax payer in the lower tax slabs. Overall, a balanced budget towards supporting growth without deviating from fiscal prudence.

Market View

The current economic slowdown and the growth apprehensions has to a large extent resulted in polarized equity markets with returns being concentrated in few index heavyweights. However there are some early indicators of potential improvement like rise in Nikkei India Manufacturing Purchasing Managers Index (PMI) which touched a 7-month high based on Dec-19 data, Goods & Services Tax (GST) collections crossed Rs 1 trillion mark for second straight month, improving interest rate transmission etc. This along with Government policy support like Rs 102 lakh crore infrastructure drive, corporate tax rate cuts, incentives for manufacturing etc. has created platform for a likely revival over the medium term. From a risk perspective we need to monitor the impact of the recent geo-political tensions on the oil prices and the domestic credit availability.

We believe the prevailing market narrowness has created relatively attractive valuations for the broader markets especially the Mid cap space and these segments may benefit meaningfully as the market conditions normalize.

Chart of the month: The manufacturing PMI accelerated to an eight-year high, led by strong growth in new orders, both domestic and exports.
Products you may consider

1. **Nippon India Growth Fund** (formerly Reliance Growth Fund)
   - Mid Cap Fund - An open ended equity scheme predominantly investing in mid cap stocks

2. **Nippon India Multi Cap Fund** (formerly Reliance Multi Cap Fund)
   - Multi Cap Fund - An open ended equity scheme investing across large cap, mid cap, small cap stocks

3. **Nippon India Large Cap Fund** (formerly Reliance Large Cap Fund)
   - An open ended equity scheme predominantly investing in large cap stocks

4. **Nippon India Balanced Advantage Fund** (formerly Reliance Balanced Advantage Fund)
   - An open ended dynamic asset allocation fund

5. **Nippon India Value Fund** (formerly Reliance Value Fund)
   - An open ended equity scheme following a value investment strategy

**Product Labels**

**Nippon India Growth Fund**
(Mid Cap Fund - An open ended equity scheme predominantly investing in mid cap stocks)

This product is suitable for investors who are seeking*:

- Long term capital growth
- Investment in equity and equity related instruments through a research based approach

*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.

**Nippon India Multi Cap Fund**
(Multi Cap Fund - An open ended equity scheme investing across large cap, mid cap, small cap stocks)

This product is suitable for investors who are seeking*:

- Long term capital growth
- Investment in equity and equity related securities

*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.

**Nippon India Large Cap Fund**
(An open ended equity scheme predominantly investing in large cap stocks)

This product is suitable for investors who are seeking*:

- Long term capital growth
- Investment predominantly into equity and equity related instruments of large cap companies

*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.
### Nippon India Balanced Advantage Fund
(An open ended dynamic asset allocation fund)

**This product is suitable for investors who are seeking***:

- Long term capital growth
- Investment in equity & equity related instruments, debt, money market instruments and derivatives

*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.

![Riskometer](image)

Investors understand that their principal will be at Moderately High risk.

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### Nippon India Value Fund
(An open ended equity scheme following a value investment strategy)

**This product is suitable for investors who are seeking***:

- Long term capital growth
- Investment in equity and equity related securities

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![Riskometer](image)

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