EQUITY OUTLOOK

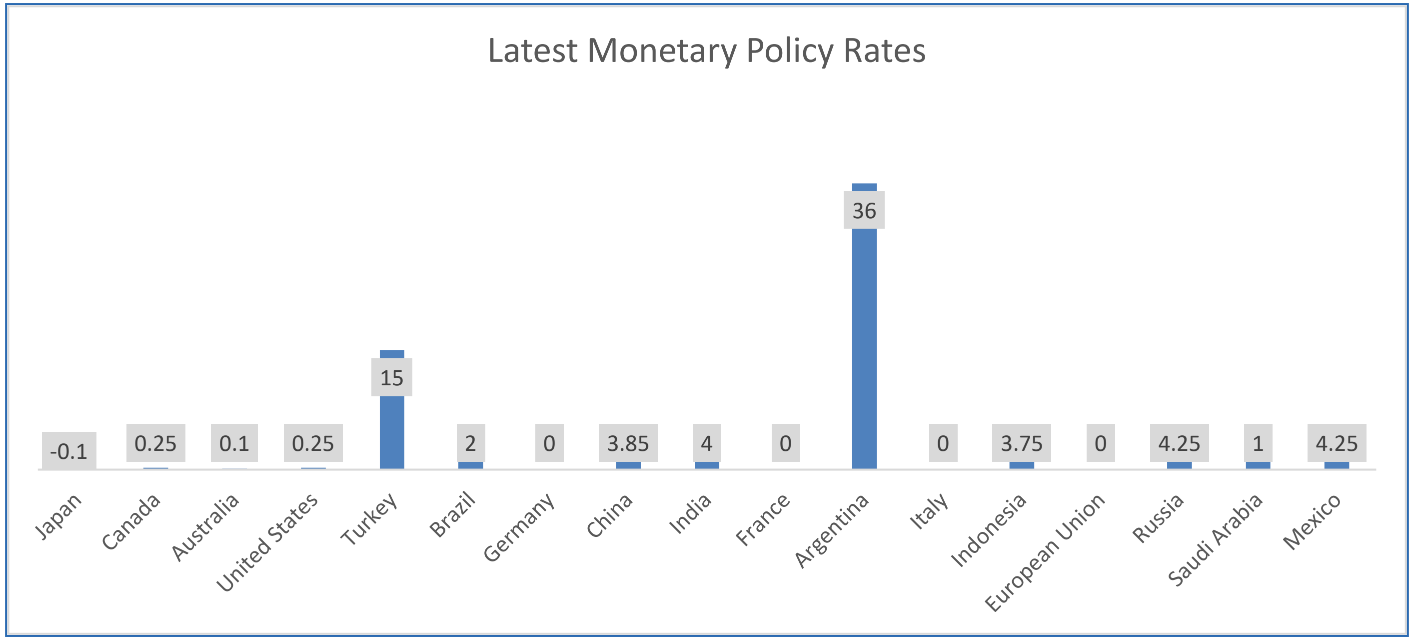
January 2021

MACRO

MARKET RALLY

The market rally has been supported by two drivers

Liquidity driven by lower rates globally

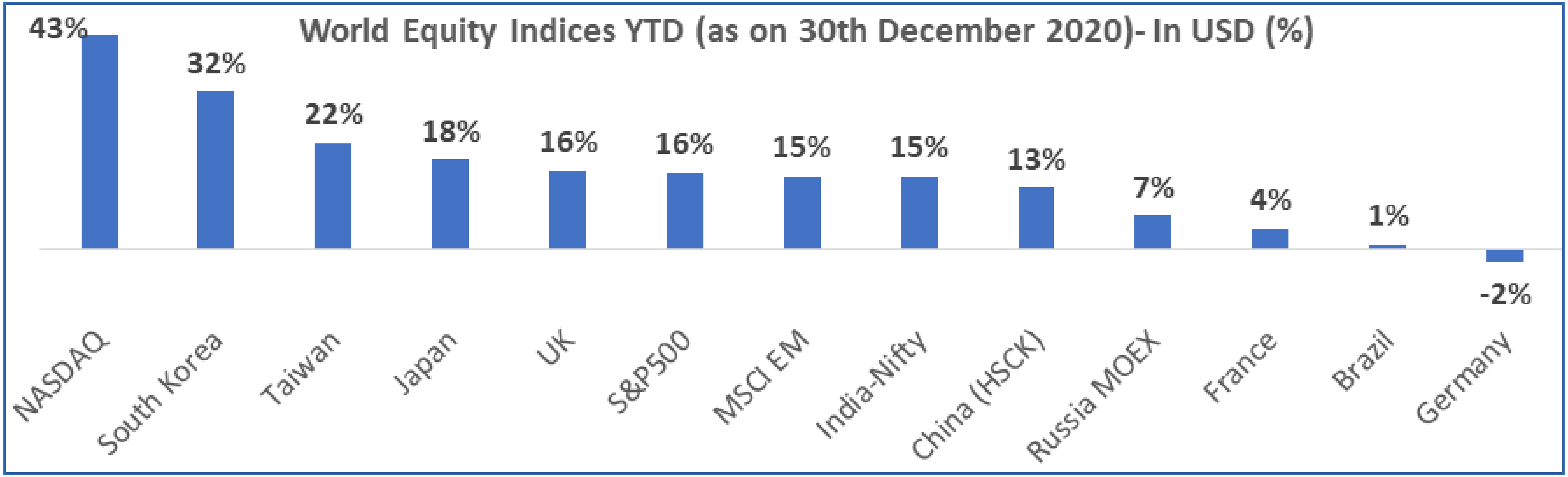


Bounce back in corporate earnings as cost cuts, tail winds in certain sectors like IT/pharma and lower-than-expected stress in financials

	EBITDA growth(%)		EBITDA margin(%)			PAT growth(%)	
	yoy	qoq	Dec-19	Sep-10	Dec-20E	yoy	qoq
Nifty 50 Index	19	14.7	16.4	20	19.9	19.3	19.1
Nifty 50 (ex-energy)	28.4	17.4	20	22.8	23.3	22.7	25.3
Nifty 50 (ex-financials)	19	14.7	18.1	22.7	22.3	31.1	18.6

SOURCE: Kotak Institutional Equities, IMF

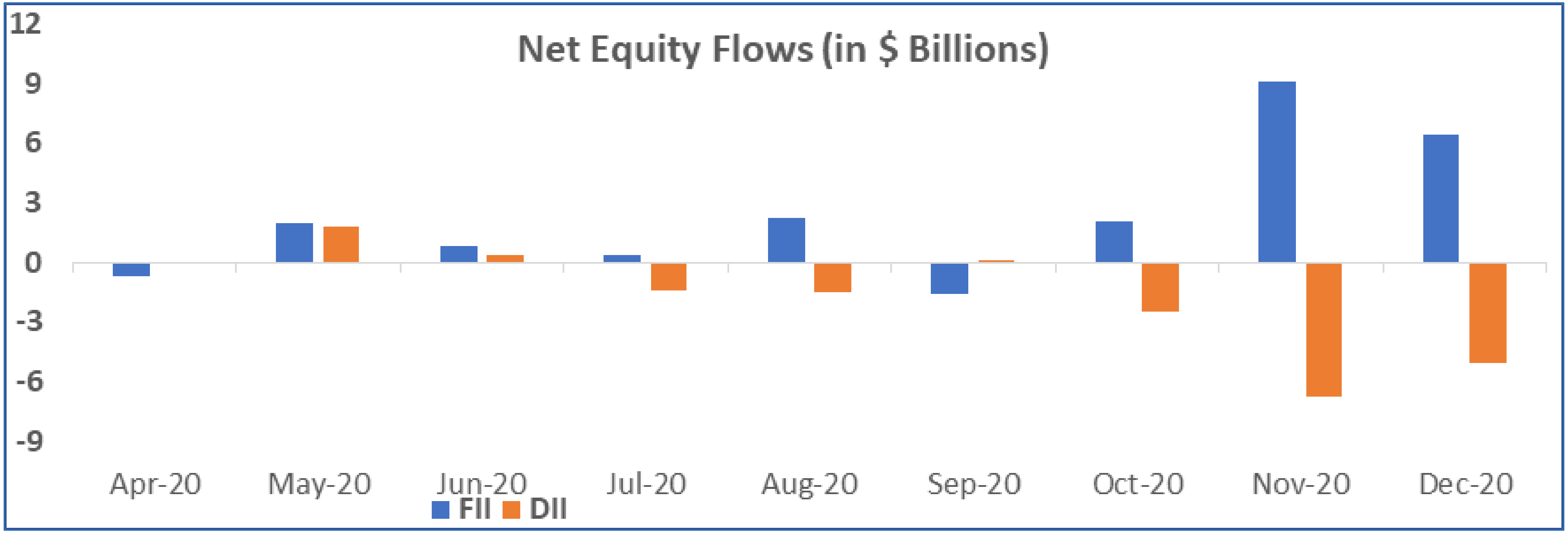
EMERGING MARKETS PERFORMANCE



EMs have under-performed Developed markets in CY 2020 in USD terms

SOURCE: Bloomberg

EQUITY FLOWS IN EMERGING MARKETS



- High liquidity and low interest rates have led to inflows of equities in Emerging markets.
- FIIs invested US $ 18 billion net in CY2020, highest ever over the last 10 years. Nov 2020 peaked at 8.3 bln dollars.

SOURCE: NSDL

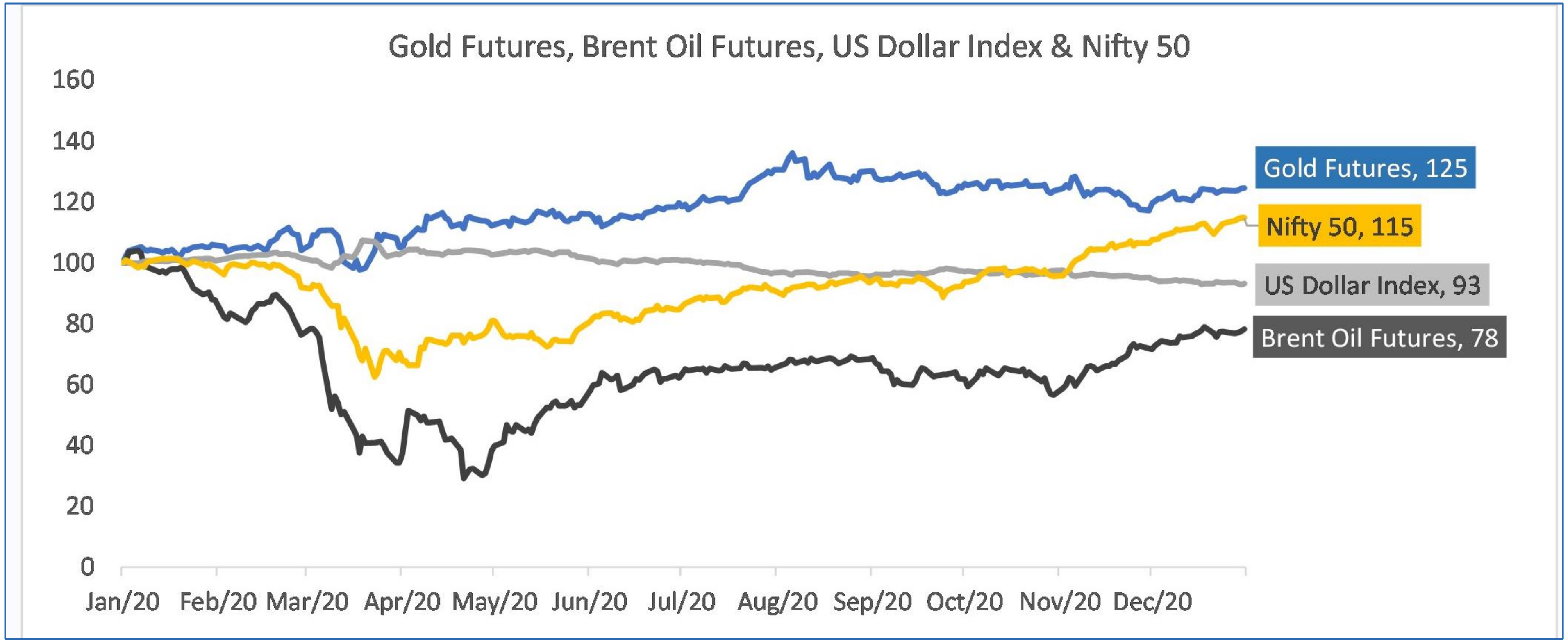
GOLD, DOLLAR & BONDS

- US Dollar Index is at a 31 month low.
- Gold in USD terms has appreciated by ~25% and in INR terms it has appreciated by a little over ~24%.
- Bond yields too fell – India 10 year came down by 60 bps and US 10 year came down by close to 1% since the start of CY2020.

Particulars	As on 31st December 2019	As on 30th December 2020	Change
Gold INR	40370	49930	23.68%
Gold USD	1517.4	1893.37	24.78%
10-Year G-Sec- India	6.50%	5.90%	60 bps
10-Year G-Sec- USA	1.92%	0.93%	99 bps
US Dollar Index	96.39	89.68	-6.96%

SOURCE: Bloomberg

GOLD, DOLLAR & BONDS

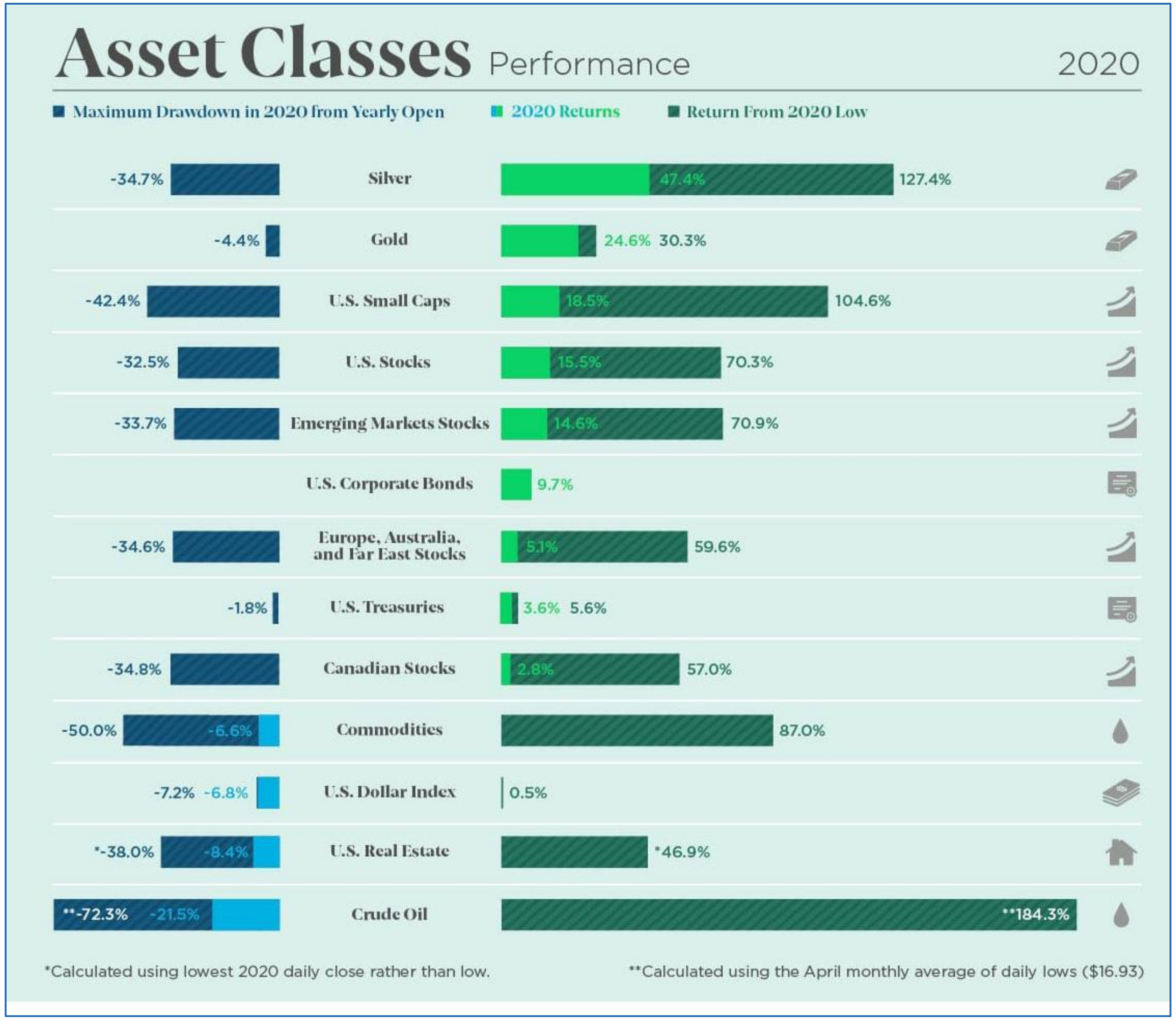


- The Dollar Index is down by 7% while Gold has moved up by 25%
- In April-20, Brent Oil Futures were down by 70%. It has appreciated since then, yet ended 22% lower in 2020

SOURCE:Investing.com

GOLD INVESTMENTS

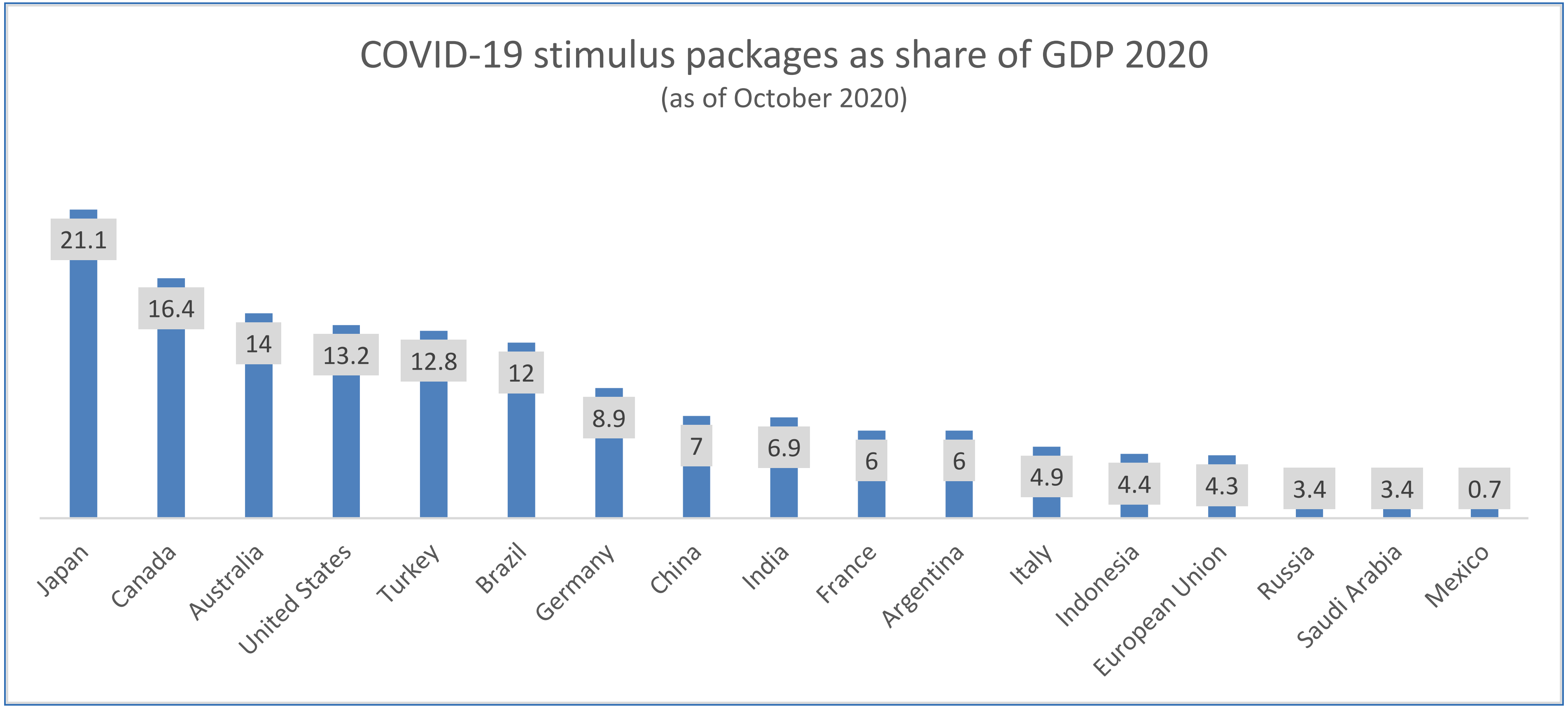
- Gold is a hedge against any negative global risk-off event.
- Gold can act as a perennial insurance policy providing protection to the portfolio.
- If globally things deteriorate and risk off comes to the fore, exposure towards Gold would benefit / protect the portfolio. A small allocation ranging from 5-15% into Gold can be looked at.



SOURCE: Visual Capitalist

RELIEF PACKAGES, INFLATION & FISCAL DEFICIT

- US announced relief packages worth 13% of GDP to companies, small businesses and low income adults to deal with the pandemic. Other countries which announced large relief packages are Japan, Canada and Australia. YTD 2020 US Fed has increased the Balance sheet by 76% and since 2002 the number is 900%.
- In case of India, given the constraints on the fiscal deficit as well as the tightrope walk on the credit rating, the size of fiscal stimulus announced is the optimum quantum of response (~ 1% of GDP) which maximizes the support while minimizing the actual fiscal cost.



SOURCE:Trading Economies

RELIEF PACKAGES, INFLATION & FISCAL DEFICIT

- Inflation is below target rate across countries and in countries of Japan, Switzerland, Denmark and Eurozone have negative central bank rates. US is holding rates at zero as inflation is running below target rate. Across the countries, Central banks have cut rates and real rates are currently negative – US at -1.1%, UK at -0.6%, India at -3.6%
- In India, degrowth in GDP in 2020 is expected to be contributed more by Industry followed by Services while Agriculture will be least impacted. India's GDP is expected to be negative 4-6% in FY2021. Most of the countries experienced GDP degrowth CYTD Q2 and Q3 YoY

Country	Rate	Central Bank Rate	CPI YoY	Real Rates
US	Fed funds	0.13%	1.20%	-1.10%
UK	Bank Rate	0.10%	0.70%	-0.60%
Canada	Overnight	0.25%	0.70%	-0.50%
Switzerland	Target Rate	-0.75%	-0.70%	-0.10%
Eurozone	Deposit rate	-0.50%	-0.30%	-0.20%
Japan	Policy rate	-0.10%	-0.40%	0.30%
Australia	Cash rate	0.10%	0.70%	-0.60%
South Korea	Repo rate	0.50%	0.60%	-0.10%
Taiwan	Discount rate	1.13%	0.10%	1%
China	Loan Prime rate	3.85%	-0.50%	4.40%
India	Repo rate	4%	7.60%	-3.60%
Russia	Key Policy rate	4.25%	4.40%	-0.10%

SOURCE: Bloomberg

INFLATION

- India's Wholesale Price Inflation (WPI) Index came in at 1.55% YoY during the current month as compared to 1.48% for the previous month on account of benign core inflation.

- The Consumer Price Inflation index moderated from previous months and came at 6.93% YoY in the current month as compared to 7.61% in the previous month due to lower fruits and vegetable inflation and favorable base effect. Inflation is likely to fall with food inflation expected to come down going forward.

SOURCE: MOSPI

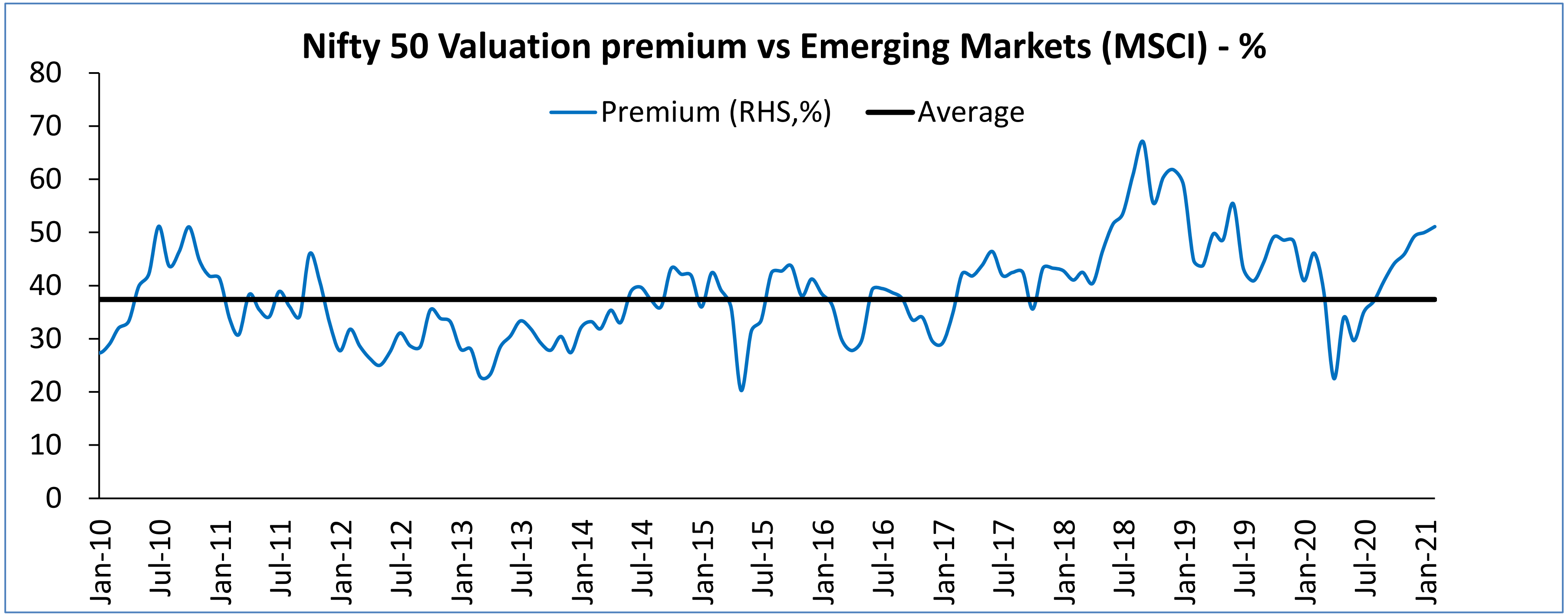
GROWTH

- India’s Real Gross Domestic Product (GDP) growth forecast for FY21 has been raised to -7.5% (-9.6% earlier) with 2H growth turning positive. Inflation forecast revision has also been sharp – 3Q at 6.8% (5.4% earlier), 4Q at 5.8% (4.5%) and 1HFY22 at 5.2 – 4.6%.

SOURCE: MOSPI

VALUATION

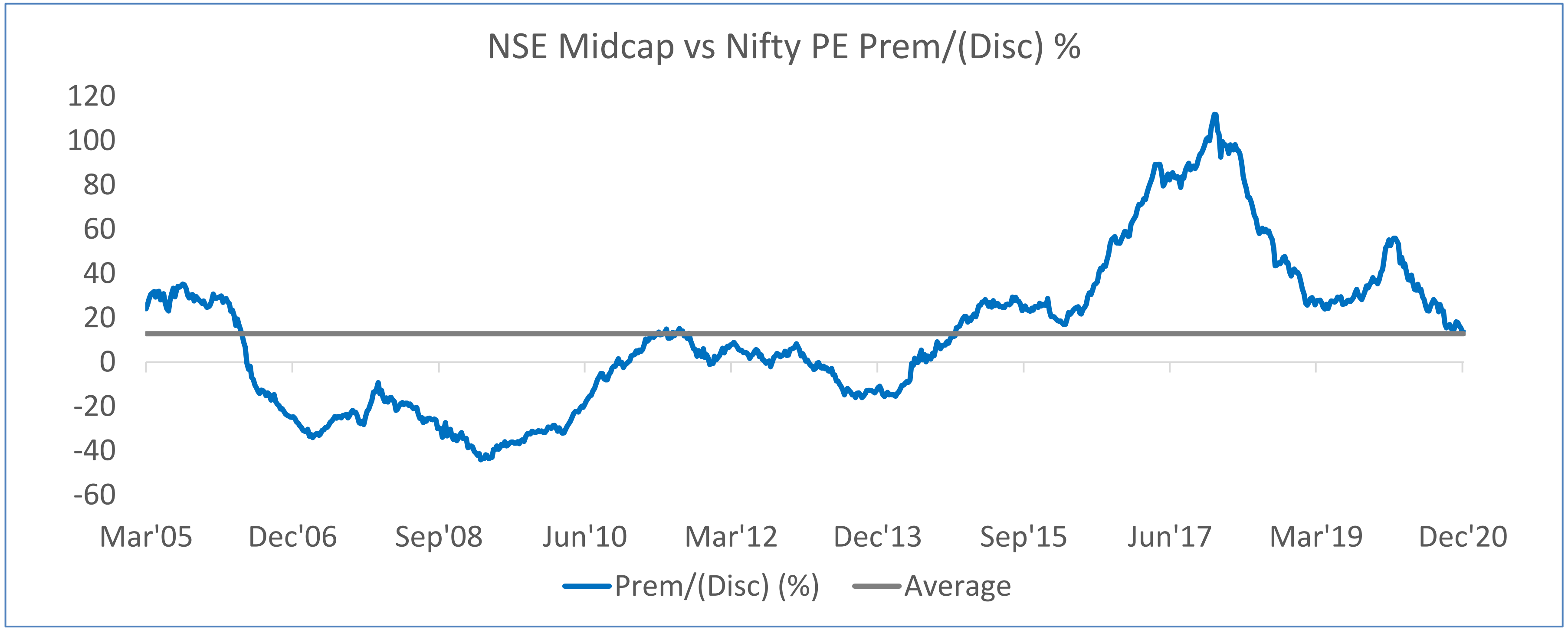
INDIA VALUATION VS EMERGING MARKETS



- Even after the rally we have seen so far, Indian markets are trading at near or slightly above its long-term averages (@19.5x FY22).
- India's valuation premium with respect to MSCI Emerging markets has remained stable at 40-45% over the last 4 months indicating that the rally has been a global one.
- 1 year forward valuations for the Nifty stands at 21.4X PE which is at the higher end of the range in terms of historical benchmarks.
- Weak dollar, strong Asian govt Balance sheets as compared to the West (debt as a % of GDP), earnings growth differential / strong EM earnings recovery to favour EMs going ahead.

SOURCE: Bloomberg

MID CAP VALUATION



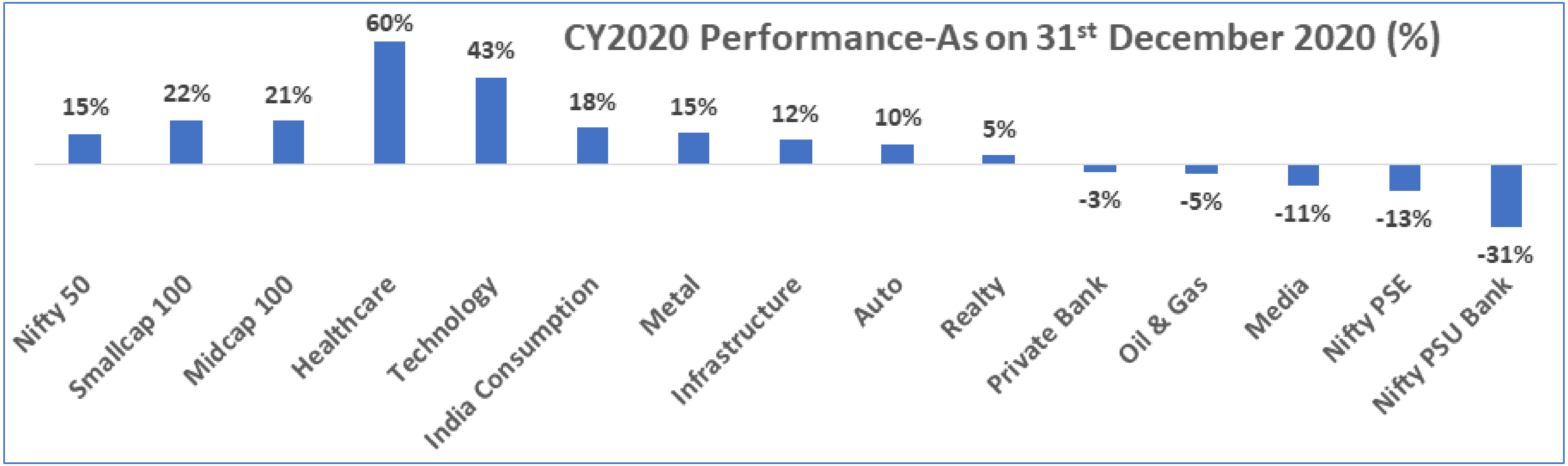
- The headline valuations for Nifty Midcap 100 suggest that we are in an acceptable zone which can act as a platform for the broader markets to do better from hereon.
- Midcaps in a growing market with market leadership and low leverage can be equally attractive investment option as any large cap. Sector performance has so far been led by large caps, but gradually within sectors mid-caps and small caps are emerging as top performers. In the sectors with post-Covid tailwinds viz. pharma, digitization, ecommerce, electronic manufacturing, large caps and midcaps are adequately represented and in some cases even dominated by midcaps.
- Covid impacted most sectors, however certain sectors have emerged as relatively Covid-proof i.e. Pharma, Telecom, Packaged foods, Chemicals, Digital spending and Digital transformation.

SOURCE: Bloomberg

SECTOR

SECTOR-WISE PERFORMANCE

TATA MUTUAL FUND



- In India, Midcaps and Smallcaps have outperformed Nifty in CY 2020.
- Healthcare and Technology have been top sector performers in CY2020, Banks being negative

SOURCE: MFI

Pharmaceutical and Healthcare Sector -

- US revenues have declined over 25% for most large Indian pharma companies over FY15-19.
- Increasing number of shortages, improving pricing scenario, product prioritization is leading companies back to growth trajectory.
- Balance sheets to become more leaner with most companies turning net cash over next two years.
- Valuations are around long-term average with substantial earnings visibility for next two years.

Infrastructure / capex cycle theme-

- Companies which invest in long term physical infrastructure (roads, electricity networks, ports etc.), make large scale capital investments (metals, telecom, realty, oil and gas etc.) or benefit from such investments (building materials, engineering, construction, capital goods etc.).
- The capex cycle for past few years has been largely driven by government (which is expected to remain steady) while private sector has been on the sidelines.
- Private investment may increase, especially on the manufacturing side, as India becomes more attractive for manufacturing due to various game changing initiatives taken by the government like production-linked incentives, reduction in corporate tax and relaxation in labour laws.
- Further an expected revival in real estate sector due to decade high affordability can help the housing sector to revive and spur demand for allied industries like building materials and construction.

EQUITY INVESTMENTS

WHY INVEST IN EQUITIES

- Market are trading at 5-10% high compared to historical valuations, yet it’s a good time to invest in equities because-
  - Lower interest rates
  - Weakening dollar
  - Normal range of valuation premium amongst emerging markets
  - Recovery of economy leading to opportunities to generate above average returns

A DIVERSIFIED MIX OF FUNDS

- Diversified mix of funds which can give stability and increase exposure to mid & small caps which can perform relatively better
  - As we move ahead, Government’s tax revenues are likely to recover
  - Coupled with likely start to manufacturing investments due to demand uptick (Example: Cement)
  - Government’s PLI can lead to revival in both public and private investments

- This will be a new leg to sustaining economic growth in the medium to long term which cannot sustain only on consumption

THANK YOU

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