Market Update

March 2021

The month of February was yet another strong one for Indian equity markets with the Nifty 50 gaining 6.6%. The broader markets did much better with the BSE Midcap index up 10.5% and BSE Small cap 250 index up 12%. Interest clearly shifted to economy related stocks and cyclicals even as valuations became the dominant driving factor for stocks. On the domestic front, positive sentiments were driven predominantly by expansionist announcements in the Union Budget and strong corporate results for Q3 FY21. Foreign flows continued to be strong with inflows of ~USD 3.5 bn.

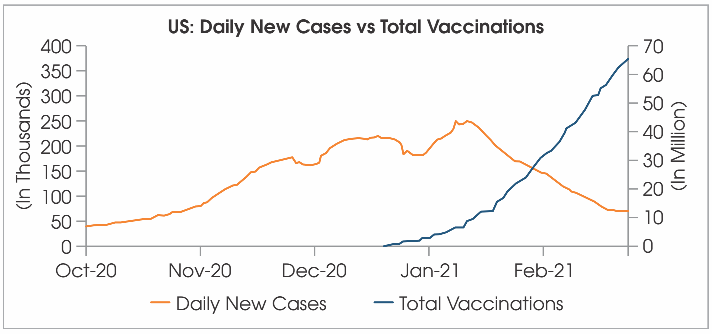
Indian economy exited recession as real GDP growth came in marginally positive in 3QFY21, driven by manufacturing, construction, and financial/real estate sectors. The Prime Minister and Finance Minister reiterated privatisation of most government companies in multiple forums. That led to renewed interest in PSU (public sector undertakings) stocks and boosted general investment environment.

Globally, concerns arose towards end of the month led by a sharp increase in US 10-year yields to 1.6% briefly. However, US Federal Reserve chairman Jerome Powell reiterated the Fed will not hike interest rates prematurely and the central bank's support to the economy will continue despite a brighter outlook.

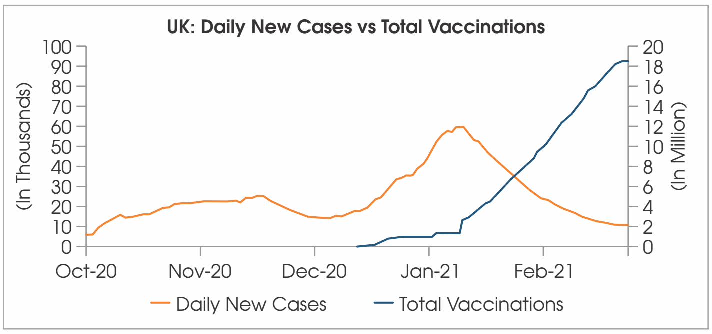
Covid Updates

There was a sharp jump in daily and active covid cases, predominantly in US and European region. However as more people are getting vaccinated, a sharp decline in the daily and active cases is clearly visible (see charts below of USA, UK and Israel). This is clearly indicating very good efficacy of the vaccines and as the number of vaccinated increases, we should see a sharp fall in number of active cases and normalisation returning.

India has also seen rise in COVID-19 cases in a couple of States. However, with the second phase of vaccination starting, we expect numbers to start falling.

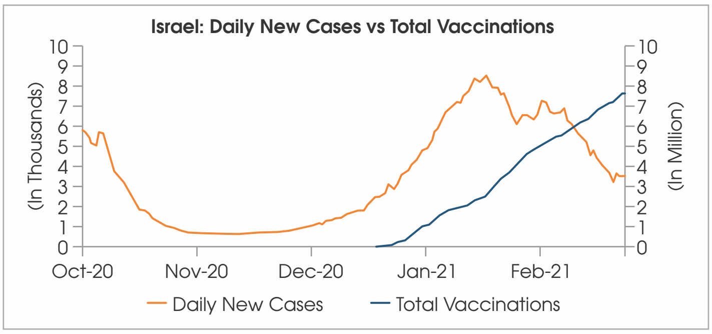


Source: Worldometer



Source: Worldometer

Source*: NSDL, PTI, ANI, Bloomberg, BSE ## Axis, Motilal Oswal Research.



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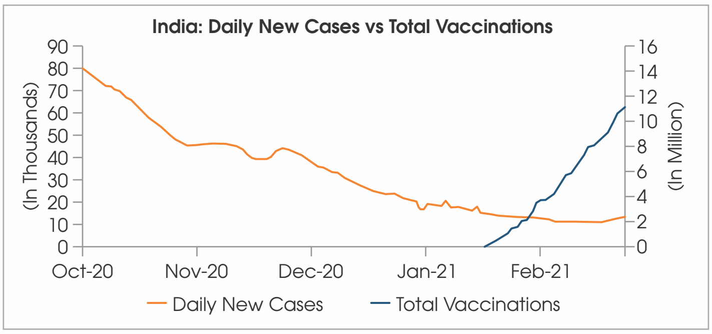


Source: Worldometer

Best Quarterly Earnings Season in a Decade:

Some highlights of the earnings season for Q3FY21 quarter[##]:

- Second consecutive quarter of earnings upgrades (Nifty50 EPS upgraded by 3-5%)
- In a blockbuster earnings season, earning upgrade to downgrade ratio of 7:2
- Nifty Sales were in-line with flat growth. However, EBITDA/PBT/PAT growth stood at 15%/23%/22% YoY.

Key factors that drove the earnings beat v/s expectations were:

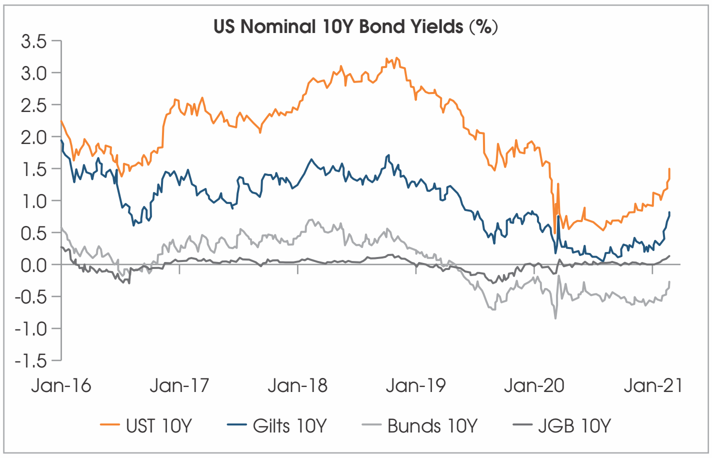
- Sharper-than-expected demand recovery with the opening up of the economy;
- Continued cost optimization measures;
- The festive season boosting consumption demand across the Staples, Durables, and Discretionary sectors;
- Strong operational delivery by the BFSI sector (especially large banks with 70%+ Provisioning coverage ratio and low restructuring of sub 1%); and
- Cyclical sectors – such as Metals, Autos, Oil & Gas (O&G), and Cement – accounting for ~three-fourths of the incremental PAT.

What we learnt this month? – Taper Tantrum

Global market reacted sharply on fears of "Taper Tantrum" towards the second half of February.

What is "Taper Tantrum"?

The phrase, taper tantrum, describes the 2013 surge in U.S. Treasury yields, resulting from the Federal Reserve's (Fed) announcement of future tapering of its policy of quantitative easing. The Fed announced that it would be reducing the pace of its purchases of Treasury bonds, to reduce the amount of money it was feeding into the economy. The ensuing rise in bond yields in reaction to the announcement was referred to as a taper tantrum in financial media.



Source: Citi Research, Datastream

Why did the markets react sharply during February 2021?

The sharp rise in US 10-year yields from 1% to a high of 1.6% within the month of February led to speculation of Taper Tantrum 2, with speculation running high of US Fed stopping the liquidity tap and rates beginning to rise in response to rising inflation. This triggered massive unwinding of consensus carry trades leading to spike in US dollar and sell off in global equities. Emerging markets including Indian were amongst the worst hit.

Our Take?

The underpinnings driving the normalisation of US bond yields to 'pre-covid' level of ~2% should not spook equity markets, although knee-jerk reactions are expected in bull runs. Also, it is unlikely that the Fed will let US real yields rise much higher, given high levels of public and private sector leverage, higher than normal unemployment in USA and continued low inflation along with the nascent recovery stage.

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Source*: NSDL, PTI, ANI, Bloomberg, BSE