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Equity Market Review

Mr. Sachin Relekar, CIO - Equity

Market Review

- The Indian economy and the sentiments appear to break-out from the fears of the pandemic. The supply side challenges have recovered significantly, however; demand aggregates appear challenging. The growth of the Index of eight core sector industries declined by 15.0% in June'20 vs 22% contraction in May'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 most of the indices in green. BSE IT, BSE Healthcare, BSE Metal, BSE Auto, BSE 100, BSE 200, BSE 500, BSE Consumer Durables, BSE Mid-Cap, BSE Small Cap, BSE Oil & Gas, BSE FMCG and BANKEX rose by 22.6%, 12.4%, 8.5%, 8.0%, 7.2%, 6.8%, 5.6%, 5.4%, 5.2%, 4.0%, 1.7% and 1.8% respectively. BSE Power, BSE Capital Goods and BSE Realty declined by 2.3%, 1.0% and 0.4% respectively.

Benchmark Index	Latest Price	1 Month Return	3 Month Return	6 Month Return
BSE Sensex	37,607	7.70%	11.50%	-7.70%
CNX NIFTY	11,073	7.50%	12.30%	-7.40%
BSE IT Sector	18,251	22.60%	28.20%	15.00%
BSE Healthcare	18,285	12.40%	19.30%	31.00%
BSE Metal	7,826	8.50%	16.00%	-17.60%
BSE Auto	16,490	8.00%	23.50%	-9.20%
BSE 100	11,159	7.20%	12.10%	-7.60%
BSE 200	4,653	6.80%	12.40%	-7.70%
BSE 500	14,346	6.80%	12.80%	-8.30%
BSE Cons Durables	21,479	5.60%	4.60%	-17.90%
BSE Mid Cap	13,759	5.40%	14.50%	-11.00%
BSE Small-Cap	13,022	5.20%	17.30%	-11.20%
BSE Oil & Gas	13,174	4.00%	9.20%	-5.40%
BSE FMCG Sector	11,445	1.70%	6.30%	-1.70%
BANKEX	24,599	1.30%	-0.50%	-30.30%
BSE Realty	1,576	-0.40%	8.60%	-37.60%
BSE Cap Goods	12,735	-1.00%	4.50%	-27.10%
BSE Power	1,539	-2.30%	3.20%	-19.00%

Capital flows:

FIIs were net buyers in the equity to the tune of ₹ 9,506 crores (US$ 1,268 mn) in July 2020. Cumulatively, FIIs bought equity worth ₹ 22,197 crores (US$ 3,209 mn) in last twelve months i.e. from August'19-July'20 and DII bought equity worth ₹ 55,036 crores (US$ 7,654 mn) for the same period. (As on 31st July 2020, Source: SEBI) (July 2020 Avg. 1 USD = INR 74.9667).

Outlook

- The Indian economy seems to have gradually moved past the worst days of the pandemic and is now on the road to recovery. This can be gauged by the economic data points as well as through the confidence in management commentaries. Most of the companies declaring 1QFY21 results witnessed a decline in their topline due to the lockdowns, very much on expected lines. The key takeaways from the results declared so-far has been (a) Most activities in rural and semi-urban areas have largely returned to pre-Covid-19 levels, while urban demand remained subdued; (b) lenders have witnessed a drop in their Morat book; (c) strong fertilizer demand; and (d) auto (2Ws and PVs) demand is largely sustained MoM in July and tractors are seeing good traction. The silver lining across sectors has been on the cost savings/control and the rebound in sales with the onset of unlock phase. However, we believe the sustainability of the same will only become clearer after a few months.

- From the economic standpoint, the economy was steadily slipping into a slowdown phase even before the pandemic. The government's fiscal position will require a more focused approach to spending. Income/job losses and uncertainty due to the pandemic will further strain household finances. Although job losses will reverse in the near term, wages could be depressed, impacting overall consumption. However, economic indicators have shown signs of improvement post the partial reopening. Even as exports are gradually normalizing, continuous domestic weakness led to positive trade balance in June

- Market clearly is pricing in a swift and profound recovery in FY22 (and possibly as early as 2HFY21), however the problem is that this is a medical crisis, most of the risks are unknown and unpredictable

- We continue to advocate the two trends getting 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.