Equity Review

Commentary on Equity Markets

The MSCI India Index started the month at 17.95 and closed at 18.12, increasing by 0.9% over the month. As per latest data, FIIs were net buyers in Equity with inflow of USD 0.33 Bn and in Fixed Income with inflow of USD 0.83 Bn. Domestic Institutions were net buyers in equities with net buying of USD 0.39 Bn in the month.

Commodities and Inflation

NYMEX Crude Oil prices fell by ~10.8% from the previous month levels, ending at 45.41 per barrel; the prices were lower by ~24.8% yoy. LMEX closed at 2801.1 lower by 3.7% over the month (lower by ~18.1% yoy). Gold prices closed at USD 1282.56/oz higher by ~4.9% over the previous month (lower by ~1.13% yoy). The USD Index fell by ~1.13% vs. other currencies over the month; over the year the USD Index was higher by ~4.4%.

November CPI at 2.33% came in lower than higher revised 3.4% in October tracking sharp fall in food prices (consecutive negative food inflation) and steep decline in retail fuel prices. November has exhibited lower global commodity prices (oil and food) and stronger INR. CPI print thus reflected comfort from these supply side pressures. Overall inflation has been moderating with subsiding cost push factors. Core inflation moderated to 5.73% vs 6.2% in October. Core inflation ex-Transport & Communication stood elevated at 6.1%. April-November 2018 core inflation and headline CPI have averaged 6.1% and 4% respectively. Headline rates are likely to remain sub 4% in the near term. Core inflation is likely to remain above 5%.

Markets & Real Economy

October IIP at 8.1% came in higher than 4.5% in September gaining from festive demand (ahead of Diwali in November) and a favorable base effect. YTD FY19 production stands higher at 5.6% v/s 2.5% seen in April-October FY18. Mining, Manufacturing & Electricity grew 7%, 7.9% & 10.8% respectively. Primary goods gained 6% YoY while Capital goods came in at +16.8% (highest in 3 years). Intermediate goods (+1.8%) remained muted while Infrastructure goods (+8.7%) show consistent gains. Consumer durables improved substantially to +17.6% (highest in 3 years) while Non-durables improved to +7.9%. As per the latest RBI data, Forex reserves position improved to USD 393.29 Bn over the month. The Rupee depreciated over the month closing at 69.818 Rs/USD vs. 69.675 Rs/USD last month.

Sector-wise Performance

Key outperforming sector during the month was Financial Services. The outperformance of the sector was driven primarily by a revival in NBFCs which had been beaten down over the previous couple of months due to concerns of a liquidity squeeze in the system leading to fear that certain NBFCs might not be able to meet their short term debt obligations. These concerns also led to expectations that the cost of funds will rise significantly and many NBFCs and banks dependent of wholesale funding will not get capital for growth. However, no incidence of a default by any listed NBFC during the period led to these concerns subsiding. Also, inflation remaining low has given rise to expectations of a pause in rate hikes and a possibility of rate cuts. The expectation of stress on asset quality of corporate focused banks has also led to sentiment turning positive. We continue to remain positive on the sector with exposure to high quality private sector banks and NBFCs.

Key underperforming sector during the month was Healthcare. Stocks within the sector have underperformed for the second month in a row as concerns regarding high competition in the US market continue. Also, continued investment in R&D focused on developing a specialty product pipeline for the US market and costs incurred to establish marketing strength for the same are expected to impact the profitability and return on capital for US focused companies. However, we believe that these factors are largely transient in nature and unlikely to impact the long term growth potential. Price stability seems to be returning back to the US generics market which is positive for Indian companies as well. We remain positive on the sector's long term growth potential in both domestic as well as international markets

Key Stock Movements

Symphony Ltd – Symphony is a leading player in the Indian Air Cooler industry with a market share of ~50% within the organized segment. The industry has a long growth runway as penetration of air coolers is miniscule and the cost of ownership is substantially lower than ACs both at the time of purchase as well as running cost. The stock has been under pressure for some time due to two back to back poor summer seasons. We remain confident of the company's ability to grow ahead of the industry and gain market share driven by new product launches and focus on R&D and innovation.

Page Industries Ltd – Page Industries is an exclusive licensee for Jockey innerwear in India, Srilanka, Bangladesh, Nepal and UAE. The stock has underperformed during the month post reporting muted volume growth in Q2FY19 (lowest growth in the past many quarters). This was on the back of above expectations growth and profitability in Q1. We see this as a minor hiccup in the long term growth potential for the company. We believe that Page Industries shall benefit from rising income levels and shift in consumer preference towards branded premium segment and focus on increasing penetration in women's wear and kid's wear. We remain positive on the company.

Market Outlook

While sentiment remained muted driven by the outcome of state elections and its implications on the General Elections next year, we maintain that election outcomes impact equity market only for a brief period and long term returns are dependent on fundamental factors. Short terms pressure points like sharp rise in crude oil prices and INR depreciation have also stabilized now. Earnings growth momentum had been muted over the last 3-4 years as capacity utilizations and fresh capital investment remained low, demonetization as well as GST implementation impacted economic growth, stressed assets in the banking system were high and domestic consumption remained the only steady driver of growth. However, as evident from the GDP data and corporate results over the last couple of quarter, growth momentum not just appears to picking up but is also more broad-based. While government driven investment remains robust, private sector participation has started to improve. Stress within banking sector seems to have peaked out providing gradual improvement in banks' Balance Sheets and their ability to provide growth capital. These factors provide confidence about the visibility of growth over the coming years. Post the recent correction in the market, valuations are now back to reasonable levels, especially within the mid cap space.

Fixed Income Review

India's consumer prices (CPI Inflation) corrected sharply to 2.3% in November 2018 from 3.8% in October 2018 primarily on account of continued deflation in the food group as well as a sharp sequential fall in core inflation. Food inflation continued on deflation territory and declined by 2.6% in November 2018, on account of softening in vegetables, pulses and sugar prices as well as partly due to favourable base effect. The core-CPI inflation softened to 5.7% in November 2018 from 6.1% in October 2018 led primarily by miscellaneous items, housing, and clothing and footwear. The inflation related to fuel and light declined to 7.4% in November 2018 from a level of 8.5% in October 2018. The Wholesale Price Index (WPI) moderated to 4.6% in November 2018 from 5.3% in October 2018 led by lower food, fuel and core inflation.

The RBI's Monetary Policy Committee (MPC), at its review meeting in December, decided to keep policy rates on hold, at 6.50% while sticking to a calibrated tightening stance. RBI also significantly lowered the inflation range for H2FY2019 by more than 100 bps to 2.7-3.2% while H1FY2019 forecasts were kept at a benign 3.8-4.2% owing to moderating inflation, softening crude oil prices and waning of HRA impact. Further, RBI also highlighted that they will continue to manage the banking system liquidity on a durable basis through further OMO's till end of March 2019 and may increase the frequency and quantum of OMO's depending on FX intervention and overall liquidity requirements of the system.

In a rapid turnaround of events, and about 24 hours after the resignation of Dr. Urjit Patel, the government moved swiftly and appointed Shaktikanta Das as the 25th Governor of the Reserve Bank of India for a period of three years. Governor Das is not new to policy making. He is an experienced bureaucrat from the Indian Administrative Service. He served as the Economics Affairs Secretary and Revenue Secretary at India's Ministry of Finance. He was a member of the Fifteenth Finance Commission of India, and India's Sherpa to G20. In these capacities he is well acquainted with the domestic and foreign investor community and policymakers across several institutions of India. He was amongst the top government officials during the demonetization episode, Goods and Services Tax implementation and the enactment of India's new Bankruptcy Code.

Outlook

A rate pause in the RBI policy was largely factored in by the market. However the RBI's mention of space opening up ahead for appropriate policy action in case upside risks to inflation do not materialize led to market expectations of policy easing going ahead. In light of the developing macro-economic environment, we believe that rate hike cycle has ended and expect policy continuity with the next policy probably seeing a change in stance to neutral at the back of benign inflation prints assisted by low food and fuel inflation. Durability of the current benign inflation would probably determine the course of future rate action. Since the environment is supportive of local bond yields, we have added duration in our fund.

Guernsey

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Hong Kong

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United Arab Emirates

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U.K

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Copies of the legal documents can be obtained in English, free of charge, from the Facilities Agent at 120 New Cavendish Street, London W1W 6XX, United Kingdom. The promotion of the Company in the United Kingdom can be carried out by persons authorized to carry on investment business in the United Kingdom under the FSMA and is not subject to the restrictions on promotion contained in section 238 of the FSMA. The FCA has not approved and takes no responsibility for the contents of the Prospectus or the UK Country Supplement or for any document referred to in them, nor for the financial soundness of the Fund or for the correctness of any statements made or expressed in the Prospectus or the UK Country Supplement or any document referred to in them.

United States of America

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