Equity Review

The MSCI India Index started the month at 19.43 and closed at 19.42, decreasing by 0.1% over the month. As per latest data, FIIs were net buyers in Equity with inflow of USD ~2.89 Bn and net sellers in Fixed Income with outflow of USD ~0.66 Bn. Domestic Institutions were net sellers in equities with net outflow of USD -0.72 Bn in the month.

Commodities and Inflation

NYMEX Crude Oil prices rose by ~6.3% from the previous month levels, ending at 63.91 per barrel; the prices were lower by ~6.8% yoy. LMEX closed at 2958.2 lower by 3.2% over the previous month (lower by ~10.3% yoy). Gold prices closed at USD 1285.01/oz 0.5% lower from the previous month level (lower by ~2.4% yoy). The USD Index rose by ~0.2% vs. other currencies over the month; over the year the USD Index was higher by ~6.1%.

March 2019 CPI came in higher at 2.86% compared to 2.57% in February. The headline print inched up basis an upmove in the price momentum led by food prices. The comfort from cost push factors seems to be abating with global oil prices sharply higher since January 2019 (passed on in retail fuel prices) and food prices (largely volatile items) reversing their seasonal softer trends. Core inflation softened further to 5% (compared to 5.3% in February) pulled down by favorable base effects, moderation in certain services and lower gold prices. Core internals mark uptick in "Transport & Communication" due to pass through of higher petrol and diesel prices. FY19 headline CPI and core inflation have averaged 3.43% and 5.81% respectively.

Markets & Real Economy

February IIP at 0.1% (compared to lower revised 1.4% in January) continued to paint the gloomy growth picture with a decline in seasonally adjusted activity. Mining, Manufacturing and Electricity grew 2%, -0.3% and 1.2% respectively. Primary goods (1.2%) remained weak gaining marginal support from mining activity while Capital goods (-8.8%) marked the lowest growth in ~4.5 years. Intermediate goods (-4.9%) marked a series low further dimming near-term production prospects. Infrastructure goods grew 2.4%, Consumer durables grew 1.2% while Consumer Non-Durables grew 4.3%. IIP ex-non durables stood at -0.8%. YTD FY19 IIP stands at 4% compared to 4.3% in Apr-Feb FY18.

As per the latest RBI data, Foreign exchange reserves position improved to USD 414.15 Bn over the month. The Rupee depreciated by ~0.5% over the month closing at 69.6450 Rs/USD vs. 69.2725 Rs/USD last month.

Sector-wise Performance

Key outperforming sector during the month was Information Technology. Stocks within the IT sector had witnessed some pressure during the previous month and there was a bounce-back during April. Also, most results for the fourth quarter for most IT companies show sustained growth with healthy demand across verticals and a continued momentum in digital services. We continue to maintain positive outlook on the sector on account of a strong and robust business model that Indian IT companies have build over the years. Companies in the sector are building capabilities in digital technologies and hence preparing for the next wave of growth in IT spends by clients.

Key underperforming sector during the month was Industrials. Stocks within the sector have seen good momentum since the beginning of the year as expectations of a capex revival drove stock prices higher. As a result, some profit booking was witnessed during the month of April. While we believe that there shall be a pick-up in growth momentum as the economy revives, capacity utilization improves and private sector capital investments come back gradually, the benefit will be limited to companies with strong Balance Sheets and product / technology advantages. We shall remain selective within the industrial space and focus on high quality companies.

Tata Consultancy Services Ltd – TCS Ltd has been the leader in the Indian IT sector and has delivered industry leading growth and margins among the large cap IT companies. The stock has rallied during the month driven by healthy results for the fourth quarter declared by the company. The company has reported highest deal wins for the year during Q4 and has maintained strong growth in digital revenues taking the share of digital to over 30% of revenues. The management also sounded confident of being able to protect margin and maintained its long-term target of 26-28% EBIT margin. We continue to believe that TCS is best placed among Tier-1 IT companies to deliver strong growth and consistent margins going ahead as well.

Igarashi Motors Ltd – Igarashi Motors stock has been under pressure due to concerns regarding a decline in Chinese market, continued WLTP issues in Europe and slowdown in US market which have impacted the company's revenue growth. However, we believe that these are near term issues and the long term growth prospects remain healthy. The company shall be a key beneficiary of the technology shifts of EV, hybridization, fuel economy and emission control improvement in ICE engines as well as growing comfort and safety applications in the passenger vehicles. It is a key supplier to global automotive system leaders like Bosch, Delphi, Continental, Inteva along with entrenched relationship with their key OEMs like VW, Merc, BMW, GM, Ford, etc.

Market Outlook

The equity market continued to witness strong momentum during the month on the back of healthy FII inflows. Markets are now pricing in the prospect of no further rate hikes by the Fed this year which has led to liquidity flowing towards emerging markets, and India has benefitted from the same. RBI has cut policy rates in order to provide growth support and has left room for further rate cuts if needed. We believe that earnings cycle has bottomed out and growth shall start to pick-up going ahead. Corporate results declared so far do not present any negative surprises, although recovery still seems to be gradual. While the market may see some volatility around the elections, valuations are reasonable and the long term growth outlook continues to be healthy.

Fixed Income Review

India's consumer prices (CPI) inched up to 2.86% in March 2019 from 2.57% in February 2019 on account of sequential increase in food and fuel prices. The food inflation went up by 0.3% in March 2019 as compared to a decline of 0.73% in February 2019, primarily on account of rise in prices of vegetables, fruits and pulses. The core-CPI inflation moderated further to 5% in March 2019 as compared to 5.3% in February 2019, on account of broad-based moderation led by miscellaneous items, housing, clothing and footwear. Fuel inflation increased to 2.4% in March 2019 from a level of 1.2% in February 2019 led by higher LPG prices. The Wholesale Price Index (WPI) inched up to 3.18% in March 2019 from 2.93% in February 2019 led by higher food and fuel inflation.

The Monetary Policy Committee (MPC) in its first bi-monthly monetary policy for fiscal year 2019-2020 voted by 4/2 majority in favour of policy rate cut of 25 bps. With this rate cut, the repo rate has been revised lower from 6.25% to 6.00%. The MPC decided to maintain the neutral monetary policy stance.

The MPC revised inflation forecast downwards by 40 bps to 2.4% in Q4 2018-19, 2.9%-3.00% in H1 2019-20 and 3.5%-3.8% in H2 2019-20. In the sixth bi-monthly monetary policy resolution of February 2019, CPI inflation was projected at 2.8% for Q4:2018-19, 3.2-3.4% for H1:2019-20 and 3.9% for Q3:2019-20, with risks broadly balanced around the central trajectory. Actual inflation outcomes averaged 2.3% in January-February. GDP growth for 2019-20 was also revised downwards to 7.2%, in the range of 6.8%-7.1% in H1, and 7.3-7.4% in H2 on back of weakening investment activity and slowdown in production activity.

Outlook

RBI's move to cut rates by 25 bps was in line with market expectations. However certain market participants were expecting a change in policy stance which did not materialize, leading to profit booking. We expect the steepening bias in the yield curve to continue due to the continuous liquidity measures taken by RBI especially the introduction of the forex swap tool which has had a very benign effect on short end rates whereas the long end of the curve is likely to remain sticky on fiscal concerns and overhang of huge supply of Central and State government bonds. Projections of monsoons, outcome of general elections and trajectory of global crude prices would be important triggers to be closely viewed by the local bond markets this month. With inflation expected to remain comfortably below the 4% target in FY20, we expect another 25-50 bps of rate easing from the central bank in this calendar year. Overall, fixed income market continues to present decent opportunities for investors entering into local fixed income fund with a medium-term investment horizon.

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United Arab Emirates
The Fund is registered with the Securities and Commodities Authority ("SCA") of UAE as a foreign investment fund. The fund can be offered and marketed by licensed distributor who has individually obtained approval from SCA to distribute this Fund. The information on the list of licensed distributor for this fund will be available from the investment manager of the Fund.

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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