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Equity Update

Indian Markets

After going up sharply in the previous two months (S&P BSE SENSEX up by 6.8%), the equity markets corrected during March. The SENSEX and Nifty were down 4.8% and 4.6% respectively. The CNX Midcap Index fell 0.9%. Barring Healthcare sector which performed well (up 9%), all other sectors corrected during the month, with Metal sector being the worst performer (down 10.5%). INR depreciated 1% in March. FII's bought ~US$ 1.9bn of Indian equities in March. Domestic Mutual funds continue to see healthy inflows, equity mutual funds net inflows between April 2014 and February 2015 have been around Rs. 61,000 crs.

Global Markets

Performance of global equity markets was mixed during the month. The Dow Jones and the NASDAQ were down 2% and 1.3% respectively. In Europe, while the FTSE was down 2.5%, CAC and DAX were up 1.7% and 5% respectively. In Asia, Nikkei, Kospi & Hang Seng were up 0.3-2.8%, and Taiex was down ~0.4%. The Shanghai Composite was the best performer up ~13.2%.

Commodities

Commodities continued to move lower during the month. Brent Crude was down sharply by ~13% after gaining ~15% in February. Gold was down 2.4% during the month. Copper, Lead & Zinc were up 0.8-5.3% while Aluminium was down 1.7%

Economic Update

Improving growth prospects of the economy, especially of the capex cycle, improving margin outlook of corporates, likely lower interest rates and reasonable valuations lead to a positive outlook for equity markets over the medium to long term.

Analysis & Outlook

In our opinion therefore, there is merit in increasing allocation to equities (for those with a medium to long term view) in a phased manner and to stay invested. However, given the sharp rally in markets in last year or so, it is not advisable to invest in markets with a short term view.

Debt Update

During the month of March 2015, the yield on 10-year benchmark Government bond (8.4% GoI 2024) ended at 7.74% as against 7.73% in end February 2015, up marginally by 1 bps. The liquidity availed through various sources (Liquidity Adjustment Facility, export refinance, marginal standing facility and term repos) from RBI during the month was marginally lower at ~Rs. 98,252 crs as compared to ~Rs. 97,838 crs in February 2015. The NSE overnight MIBOR ended at 8.35%, higher than the rate seen in end February 2015 (7.79%). The INR depreciated to 62.50 against the US dollar as compared to 61.84 at the end of previous month. The net FII investment in equities & debt was an inflow of ~US$ 3.5 billion in March 2015 as compared to an inflow of US$ 4 billion in February 2015. The net FII investment in equities & debt has been US$ 12.8 billion in calendar year 2015. The annual rate of inflation, based on monthly WPI, stood at -2.1% (provisional) for the month of February, 2015 (over February, 2014) as compared to -0.4% (provisional) for the previous month and 5.0% during the corresponding month of the previous year. Headline CPI came in at ~5.4% YoY in February 2015 compared to ~5.1% in January 2015. Core CPI for February 2014 came in at ~4.9%. Industrial production (IP) increased by 2.6% YoY in January 2015. Consumer durables output continue to declined, 5% in January 2015, while capital goods reported a jump to 12.8%. Electricity output increased by 2.7% and mining declined by 2.8% respectively

OUTLOOK

In view of benign outlook on inflation, gradual fiscal consolidation and a sharp improvement in current account deficit, there is reasonable room for yields to move lower in the medium term. We maintain our view that interest rates should continue to move lower in the medium term.