May saw the Sensex grow by 4.1% to 31,146. Obamacare replacement being passed by a whisker, US averting a shut down and Trump's firing of the FBI director were the highlights of the month globally. On the domestic front, the GST council's fixing of rates for goods and services and a sharp drop in CPI inflation were the highlights. The Indian markets saw a net inflow of $4.7bn. in May. After continued strength, the rupee saw a marginal depreciation of 0.4% to 64.5 to the dollar, while the dollar index witnessed continued weakness and fell by (2.2)% during the month.

**Global**

May saw equity markets broadly positive in the developed world and a bit mixed among emerging economies. Indian markets continued to trend up, with a sharp run up in the last week of May. The month was dominated by news flows around the Trump administration. Trump was seen calling for a new Glass Steagal act for the 21st century, to split consumer businesses from their investment operations. The US was seen averting a shutdown of operations, with lawmakers passing a $1.1tr. spending bill that would finance the US till end September this year. The Obamacare replacement was also passed during the month with a narrow margin. US macro prints remained positive with continued labour market strength. The GDP series saw an upward revision on the back of better investment growth. Further, the month saw the US budget proposals slash food stamps, health care for low income patients, disability benefits and eliminate subsidies for student loans. The proposals also saw an increase of 10% in its allocation to defence spending. Moving geographies, Europe saw continued PMI strength and a landslide victory for Macron in France, boosting their respective markets. May also saw its share of noise around geo-politics with Trump's firing of the FBI director Comey on Russia, noise around Brazilian president's pay-off and two ballistic missiles fired by North Korea.

**Central banks**

The month was quiet on the central banks front with a hold from both the Fed. and the BoE. The Fed. saw a change in its language, acknowledging incremental softening in macro variables. However, it continues to see a strong labour market with solid job gains and sees this softening to be transitory in nature. The Fed.'s normalisation is on two fronts, rates and balance sheet. While the markets await the Fed.'s decision on rates from policy to policy; what is equally important is the central bank's view on balance sheet normalisation. The Fed. minutes continue to carry the view of balance sheet normalisation later this year. Further, the Fed. sees "significant uncertainty" around the policies that the government is likely to adopt. Alongside the Fed., the BoE also saw a hold, but qualified with a downward revision to its growth forecast and more interestingly, expression of lower tolerance above the CPI target. The Latin American space, witnessed a few rate hikes and some others saw cuts.

**Domestic**

May saw the GST council decided on a 4 slab rate structure for both goods and services, with an expected roll out by July 1st. The government has aligned the new GST rates close to the existing rate structure, thereby minimising the impact of the regime change. The new GST rate structure for goods and services were classified into a four broad rates of 5%, 12%, 18% and 28%. The standard rate hovers around 18% for goods and services. Monsoon news flow has been favourable and aiding sentiment. The month also saw a surprise 90bps drop in CPI inflation, on the back of drop in food items and transportation. During the month there was a complete revision of the WPI and IIP series that fed into the GDP print for Q4. The GDP numbers for theQ4 showed weakness that is being attributed to the demonetisation exercise. Going forward it is expected that the MPC view lower CPI prints and weaker than expected growth momentum favourably. The markets are keen to see if the RBI would tone down its language from its hawkish commentary in the earlier policy.

**Flows**

Fund inflows continued into both the EM and DM space. The EM space appeared to see more incremental inflows in May. The DM space saw outflows from the US and inflows into Europe. After April's Trump trade waning on the back of the administration's U-turns on key issues, May saw a likely confirmation of this trade closing out for 2017. EM equity inflows saw a drop in pace while EM debt inflows saw an increase. The markets lost hope on the Trump trade, partly explaining the outflows from the US. However, with currency stability and relative performance, the structural EM differentiation story continues to remain attractive. May saw inflows into Indian equities to the tune of $1.5bn. and $3.2bn. into debt.

**Outlook**

The Government's firm commitment to spur the infrastructure investment cycle is already reflecting in improved execution on the ground. Focus on rural incomes and spend will also in help broad-basing growth and serve as political support during times of state elections. The stress in the banking system is expected to see more targeted addressing, with recognition, provision of bad loans and subsequent capitalisation commitments. The Govt. has been laying the foundations for the road to sustainable growth through broader reforms & efficient administration. The Government's demonetisation drive has resulted in a kind of demand shock across many sectors, though short term. We expect the economy to be back on track now spurred by improved velocity of new currencies, rising rural incomes and improved demand. The quarterly results have shown a fair bit of improvement in terms of trend and it is expected that the uptrend will gather steam into FY18.

Softer inflation and better growth will gradually lead to a shift in the saving pattern of Indian households from physical to financial with a sharp bias towards equity. Mutual funds are well positioned to absorb this incremental shift. Corporate earnings are set to enter a double digit growth trajectory driven by the domestic recovery in the next fiscal. Our funds are very well positioned to reap these benefits.

Fed. is likely to move ahead gradually, keeping in mind not to pull down economic growth that has just seen some momentum. 2017 is likely to be the year of the fiscal with most governments acknowledging the need to create demand through fiscal spending. India will not be far behind in this move and will continue to remain prudent in such deficit spending. With the twin deficits well contained, inflation well under control, bottomed out growth, a relatively stable currency and an extremely strong political mandate, India stands taller than the rest. While broader valuations, driven by domestic liquidity, indicate market discounting near term earnings, one will have to look beyond FY18 and look forward. Near term markets may undergo a time consolidation or be range bound, which could be a good time to get invested in a disciplined manner. Every bull market is interspersed with both time and value corrections while reasons could be varied. Every point of volatility would be an opportunity to buy India. With every turn of the markets, the India-differentiation story gathers more interest, momentum and conviction in that order. This would get louder in the coming quarters and a stable rupee would give comfort to the inflows. We continue to remain positive on our equity markets with a medium to long term outlook.