November saw the Sensex rise by 5.1% to 36,194. US mid-term election results and an eventual positive narrative on the US-China trade wars were the highlights of the month globally. On the domestic front, improving short frequency macro prints, rising electoral uncertainties and the resolution of policy differences between RBI & Government were the key domestic notables. The continued fall in crude prices helped with local rates easing further. The markets saw a net inflow of $1.8bn. in November. The rupee saw an appreciation of 5.9% to 69.6 to the dollar, while the DXY strengthened by just 0.1% during the month.

Global

The month of November was extremely eventful for the markets especially with positivity emerging after a secular drop in markets the previous month. Indian markets continue to tag their global peers, given that trade wars and global growth appear to be the movers of the market. While the dollar remained fairly muted through the month, the rupee saw considerable strength on the back of a sharp 22% drop in crude oil prices. Note here that it was crude that had depreciated the rupee and pushed up bond yields in India. November saw a reversal of most of those crude related fears. The US mid-term elections and continued noises from the US-China trade wars were the underlying two key concerns for the markets. The trade war narrative witnessed a positive outcome by the end of the month on the US-China talks. The talks during the G20 meet are broadly perceived to be successful with a cease fire on incremental tariffs between the two countries for a period of 3 months starting 2019. More importantly, the month saw a 'blue wave' in the form of a significant increase in Democrat support that translated into the Republicans losing control of the House to the Democrats. However, they managed to retain control of the Senate. This greatly puts a cap to Trump's influence in the House. Important and large legislations would now be completely dependent on Democrat support. The shift in House control to the Democrats saw a number of pushbacks to Trump in the form of US intelligence questioning Trumps relation with Saudi, a restraining order on his earlier immigration ban, expected probes into Trump's liberal use of executive orders etc. In Europe, the UK struck a divorce deal on Brexit and is expected to garner support from the parliament in December. Europe also witnessed concerns crop up from Italy with its government refusing to backdown from increasing its fiscal deficit targets; quite to the ire of the EU. On growth, US macro prints continued to remain positive with some softness emerging from the US housing market.

Central banks

November was active both on the rate action front and on central bank commentary. The developed world remained muted on rate hikes, but Emerging Asia witnessed a number of rate hikes from the likes of South Korea, Indonesia and Philippines. India witnessed a perceived tussle between the government and the RBI on several issues that appears to have been smoothened out during the month. November marked a key shift from the Fed that changed market perception of rates altogether. Mid-November saw Powell acknowledge softness in global growth, US housing and also speak of concerns around US corporate debt. Further the Fed's minutes from the last policy also reiterated the same. End November saw Powell mention that the Fed rates were closer to the neutral rates than earlier thought. This has indicated a clear shift in the market's perception of the Fed's view on rates. This has led to increased market expectation of fewer rate hikes into 2019 by the markets.

Domestic

The month of November was fairly positive on the short frequency macro indicators. While wholesale inflation saw a marginal rise, retail inflation dropped, industrial production rose alongside with continued increase in the PMI numbers. India moved up 23 places to the 77th rank in the World Bank's Ease of Doing Business rankings. The perceived tussle between the RBI and the government saw smooth resolution. The RBI's board decided to institute a joint committee to examine the Economic Capital Framework (ECF), plan a restructuring scheme for the SMEs, extend the transition period for implementing the last Capital Conservation Buffer (CCB) tranche and finally examine issues pertaining to banks under PCA. The fiscal accounts however witnessed continued containment in expenditure while the revenue shortfall appeared to fall in focus. However the government reiterated multiple times that it would commit to the fiscal deficit targeted for this fiscal and would not slip on the same. India's Q2FY19 GDP was seen lower than expectations as a drop in private consumption and a sharp increase in imports played spoil sport. Nevertheless, the RBI's growth target of 7.4% for FY19 appears fairly achievable.

Flows

With a sharp drop in crude and an increase in risk sentiment, the EM space saw positivity in November. Flows also saw a pickup, in contrast to the concerning outflows seen in October. India bonds and the rupee clearly reflect this sentiment. A muted dollar helped flows into EMs including India. Indian equity markets witnessed a return of inflows into both equity and debt. Equity witnessed inflows to the tune of $0.9bn, while debt saw inflows to the extent of $0.9bn. The currency volatility appears to have greatly subsided on the back of a sharp drop in crude. As the turmoil in the currency space subsides, within the EM pack, India continues to stand out, bringing about the well needed renewed differentiation.

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 is also helping broad-basing growth and serves as a long-term driver of the consumption story. The stress in the banking system has seen significant & targeted addressing, as expected, with recognition, provision of bad loans, resolution and subsequent capitalization. The Govt. has been laying the foundations for the road to sustainable growth through broader reforms & efficient administration. Growth will be spurred by strong infra related spend, urban consumption, rising rural incomes and improved demand going forward with the bottom behind us clearly. The uptrend in corporate results and earnings trend has seen gathering steam over the last 12 months.

Softer than historic 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 into a double-digit growth trajectory driven by the domestic recovery.

Fed. is likely to slow its pace of raising rates while also calibrating the tightening of its balance sheet given the emerging softness in growth, amidst uncertainties. India continues to remain prudent in managing its fiscal while providing stimulus to sustain growth, a fairly well-balanced act. In the medium term, India, with its twin deficits reasonably managed, lower base levels of inflation, improving corporate growth, stands taller than the rest of the EM pack.

With the ongoing correction in the broad markets - more severe in small and midcaps - valuations are getting more comfortable than before with PE multiples tending to long term averages and lower. Domestic liquidity continues to be reasonably strong and we would keep faith in the corporate earnings recovery and look ahead into forward valuations of FY20 and beyond. State election outcomes could create some short-term weakness in markets as also the noises on the trade war front. Near term Indian 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.