March saw the Sensex drop by 3.6% to 32,969. On a fiscal year basis, the Sensex witnessed 11.3% returns for FY18. Continued global market sell-off, Trump's tariff war and China's retaliation were the highlights of March globally. On the domestic front, growing core GDP, pull out of TDP from the NDA alliance and BJP losing three bye-polls were the key notables. The markets saw a net inflow of $0.9bn. in March. The rupee remained flat at 65.2 to the dollar as the dollar index (DXY) weakened by 0.7% during the month.

Global

The market weakness that started in February continued into the month of March, but to a much lesser degree. While the February selloff was driven by volatility-related products, the weakness in March was driven by uncertainty and fears around a possible trade war breaking out globally. The month started with Trump announcing tariffs on the import of steel and aluminium and an added commentary on a plan to levy tariffs on $60bn. of Chinese imports. Canada, Mexico and the European Union soon threatened retaliation with tariffs on their own on US imports. The month then saw this narrative gradually die down with Trump temporarily excluding these three regions from its steel and aluminium import tariffs. The month however closed with China's retaliatory tariff on US imports totalling $3bn. Trade-war talk aside, the US saw its trade deficit touch its highest since 2008 and US GDP saw an upward revision on the back of stronger consumption growth. The tariff imposition of the US saw the state of Illinois reopening a steel furnace and calling back workers. While this is not likely to impact US growth significantly, the narrative around this is important. Though China retaliated with counter tariffs, at this stage, the concept of a trade war appears unlikely; especially given that both nations have a lot to lose if such a scenario unwinds. Further in China, the national parliament witnessed annual growth targets revised lower, a plan to reduce its budget deficit and increase fund flow to the SMEs in agriculture and rural segments.

Central banks

Central bank activity focussed on the rate hike by the Fed., while witnessing rate cuts in Emerging markets with focus in Latin America. March started with commentary from the Fed. governor Powell reiterating market expectations of four rate hikes in 2018. He further suggested that fiscal policy in the US was becoming more stimulative for growth. The close of the month however saw the Fed. hike rates and keep their rate trajectory for 2018 unchanged at three hikes. Growth was revised higher and inflation flat with a 'moderate" tone in their policy language. This surprised the markets that have initiated a re-calibration of their Fed. rate hike expectations lower to three. The BoJ and the ECB left their rates unchanged and expressed their concern over the protectionist global narrative. The BoJ noticed moderate expansion in their growth while the ECB revised upwards their growth forecasts and was seen pushing for structural reforms in the region. On the rate rise expectations by the markets, we continue to feel that the developed central banks would be more tolerant of inflation and would deliver lesser hikes than the markets expect them to.

Domestic

The Indian equity markets continue to be dragged down by global market momentum. On the macro front however prints reflected strength. GDP growth inched up higher with a continued increase in core GDP growth. Industrial production strengthened on the back of an increase in capital goods and consumer non-durables and inflation eased on the back of a drop in vegetable prices. Liquidity remained comfortable with the RBI infusing money through variable Repos. On the fiscal front, the government announced a plan to front load a much lower percentage of its full year borrowing program. The led to a sharp welcome drop in Indian yields, a welcome reprieve for bank balance sheets. Developments on the political front were not very encouraging. TDP, BJP's key ally pulled out of the NDA over not granting special status to Andhra Pradesh. The month saw the BJP lose three bye-polls; two in UP and one in Bihar

Flows

March witnessed increased inflows into Emerging market debt through hard currency and reducing inflows into Emerging market equities through a drop in GEM inflows. The Developed markets however saw inflows into the US and some moderation in Europe's outflows. Currency stability, relative performance and the structural differentiation story continues to hold for India. The month saw equity inflows into India to the tune of $2.1bn. and debt outflows to the tune of $(1.1)bn. March marks the end of the fiscal year FY18 that saw equity inflows into India to the tune of $3.5bn. and debt inflows of $18.4bn.

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. GST transition impact though real in few quarters, we believe is a short term phenomenon and hence investors are advised to see it through patiently and have faith in the strong India growth story. 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 is gathering steam in the SH of FY18.

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 moving into a double digit growth trajectory driven by the domestic recovery, as we exit this 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. FY18 was a year of the fiscal with most governments acknowledging the need to create demand through fiscal spending. India was not behind in this move and continues to remain prudent in such deficit spending. With the twin deficits reasonably contained, inflation well under control, bottomed out growth, a relatively stable currency and an extremely strong political mandate, India stands taller than the rest. With the ongoing correction - more severe in small and midcaps - valuations are getting more comfortable than before. Domestic liquidity continues to be strong and we would keep faith in the corporate earnings recovery and look ahead into forward valuations of FY19 and beyond. State election outcomes could create some short term weakness in markets s 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 fairly stable rupee would give comfort to the inflows. We continue to remain positive on our equity markets with a medium to long term outlook.