January saw the Sensex rise by 5.6% to 35,965. Continued macro positivity in the US and Eurozone, dollar weakness and US debt ceiling discussions were the highlights of January globally. On the domestic front, the awaited bank recapitalisation announcement by the government and continued cuts in GST rates were key focus points during the month. The markets saw a net inflow of $3.5bn. The rupee saw an appreciation of 0.4% to 63.6 to the dollar as the dollar index (DXY) weakened by 3.2% during the month.

Global

January saw a strong month for the markets. Developed markets saw robust returns which were more than matched by emerging markets. The global macro remains positive with US and Eurozone seeing incremental growth impetus. US and Eurozone manufacturing PMIs continue to inch upward. Economic confidence in the Eurozone touched a two decade high in January and German unemployment touched a record low, reflecting macro strength. US rig counts were steadily on the rise and so is US oil output, which is expected to reach levels last seen during President Nixon (1970's). The month saw the Trump administration talking down the dollar and slap tariffs on solar panels and washing machines, triggering concerns around trade wars. Apple was seen announcing plans to repatriate its overseas dollar piles by paying taxes, investing in capex and creating jobs. Talks around the US debt ceiling also took place in January that led to another postponement in the timelines into early February. China witnessed continued financial sector reforms and a small tweak in the Yuan daily fix. Dollar weakness and reduced outflows from China has translated into Yuan strength in 2018 thus far.

Central banks

A good part of the market's mind space was dominated by concerns around central bank rate action. The fixed income space witnessed a sell-off at the start of the month when the Bank of Japan was seen paring its bond purchases and the US 10 year crossing crucial yield levels. The month saw US 10 year yields increase sharply which in turn raised the demand for inflation protection. The ECB minutes indicated that a change in language was likely by the March policy, while the Fed. monetary policy tone saw a marginal increase in hawkishness, indicating that the central bank was on course for a March rate hike. The markets have their eyes glued on policy language more than before. With 2018 likely to see rate rises in the DMs, the markets will be hyper sensitive to any language tweaks/ changes / shifts.

Domestic

While the Indian equity markets saw a very strong month in terms of returns, the macro was a bit mixed. Industrial production saw a jump in growth led by an increase in capital goods. PMIs rose to its highest levels since demonetisation. However, wholesale and retail inflation saw increases, though expected. The trade deficit also saw an increase on the back of a rise in imports. The GST council continued to ease the rates with a cut in around 29 commodities. January saw the government announce an awaited bank recapitalization program with a capital infusion of Rs.881bn. The first tranche is expected to be front loaded into the end of FY18. This recapitalization program is set to increase the credit capacity of public sector banks by Rs.5tr. The month also witnessed a continued rise in yields for India debt on the back of inflation concerns and comments from the RBI.

Flows

January witnessed strong flows into both Emerging equities and debt. The Developed markets also saw inflows with a skew towards the US. 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 $2bn. and debt inflows to the tune of $1.5bn. India debt space has seen inflows despite rising yields.

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 1Q GDP print being the bottom. The uptrend in corporate results and earnings trend is gathering steam into 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 set to enter a double digit growth trajectory driven by the domestic recovery in 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 is a year of the fiscal with most governments acknowledging the need to create demand through fiscal spending. India is not be far behind in this move and will continue 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. While broader valuations, driven by domestic liquidity, indicate market discounting near term earnings, one will have to look into FY19 and beyond. The impending budget could hold the key in terms of fiscal, growth stimulus and employment generation. Strengthening dollar may spell some short term weakness in EMs and few other asset classes. 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.