March saw the Sensex surge 7.8% to 38,673. Continued cuts in global growth forecasts, Fed's surprise dovishness in its recent policy and an inverted yield curve in the US were the highlights of the month globally. On the domestic front, the RBI's $5bn dollar swap to boost durable liquidity and the government's borrowing calendar for were the key domestic notables. The markets saw a net inflow of $7.0bn. in March. The rupee saw an appreciation of 2.2% to 69.2 to the dollar, while the DXY strengthened by 1.2% during the month.

Global

Global markets were broadly positive with exuberance in EMs, especially India. While the Indian markets directionally moved in line with their DM peers, the magnitude of returns for India was much higher than even its EM counterparts. The narrative of global economic growth slowing down continued in March. Following IMF's downgrade of economic forecasts in January, OECD also cut its forecasts for almost all G20 economies. March continued to witness increasing positivity emanating from US-China trade negotiations and commentators expected both the parties to conclude a deal by early April. While comments from the Trump administration sounded firmer than before on talks, considerable progress was reported during the Beijing negotiations with progress on written agreements in as many as six areas: forced technology transfer and cyber theft, intellectual property rights, services, currency, agriculture and non-tariff barriers to trade. While US macro prints were mixed, the US economy was broadly seen to be holding up for most part. A brief inversion of the yield curve at the 6month-5 year segment and a negative spread on the 10Y-3M, after nearly twelve years, raked up fears of a US recession. However, a more commonly used metric of 10Y-2Y spread remained positive. The economic slowdown in the Eurozone intensified with a number of macro prints in the red. ECB also acknowledged this slowdown and sharply cut Eurozone's growth forecast for 2019 by 60bps that took a fair share of the markets by surprise. Moving to Brexit, the political uncertainty worsened after the British parliament rejected Prime Minister May's Brexit deal three times. While the Brexit deadline stands extended to 12th April, the month saw the British parliament vote to strip Prime Minister May of her powers over the Brexit process. A number of possibilities now lie ahead of UK starting from a no-deal Brexit, a renegotiation of Brexit deal, or even another referendum. Chinese growth concerns also continued to weigh on investor decisions. The month witnessed China's growth target for 2019 lowered to the range of 6-6.5% down from 'about 6.5%' mentioned last year. China has planned tax cuts of nearly Yuan 2 tr to support its economy in 2019, significantly more than Yuan 1.3 tr announced in 2018.

Central Banks

Central Banks around the world appeared to be cognisant of global macro weakness and were seen shifting their stance to accommodative. The Fed's March policy positively surprised the markets on interest rates, with the dot plot indicating no rate hikes in 2019; from an earlier stance of two hikes. This came as a surprise to the markets. The Fed also indicated that it would end its balance sheet run-off by September this year. The Fed was also seen cutting its GDP and inflation forecasts 2019, 2020 and 2021. The Fed's dovish surprise on the rates front also kicked up increasing market concerns around both global and US growth. Post the Fed's policy, market metrics now suggest an increasing probability of rate cuts from the Fed in its November policy this year. The ECB in its policy sounded negative on Eurozone growth and cut its growth and inflation forecasts for 2019 and 2020. ECB also announced the comeback of a third targeted long term refinancing operation (TLTRO 3) program, of two year maturities, that would infuse cheap loans into the system. On the domestic front Indian markets look forward to RBI's April bi-monthly policy. With inflation contained well within RBI's forecasts, markets expect the RBI to deliver a 25bps rate cut in its April policy.

Domestic

Retail and Wholesale inflation inched up in February, with a clear bottoming out of retail inflation in January. India's current account deficit stood lower at 2.5% GDP in Q3FY19 from 2.9% seen last quarter. However, from a YTD standpoint, FY19YTD stood at 2.6%, well above 1.8% for FY18YTD. In a bid to infuse durable liquidity into the markets, RBI announced a dollar-rupee swap auction to garner $5bn; which then saw offers more than three times at $16bn. US announced that it would be revoking duty free status given to Indian exports under the Generalised System of Preferences (GSP). Indian products that are likely to be affected by this move are motor vehicle parts, ferro alloys, precious metal jewellery, generators, electric motors, rubber tyres, insulated cables etc.

Flows

Outflows from developed markets equities continued with back-to-back months of outflows from Europe. Outflows from the US however were relatively marginal. While the Emerging markets saw a mild pickup during the start of the year, outflows from the EMs appear to have continued on the whole. Flows into India however were extremely strong. India equity witnessed a surge in inflows to $4.8bn and debt saw an inflow of $2.2bn. The Fed's pause with a market bias towards rate cuts, a much softer and accommodative ECB and increasing adoption of accommodative stances by EM central banks; all of the above create a very conducive atmosphere for the RBI to deliver rate cuts and also think over a shift in stance towards accommodative. The Fed's policy March policy will continue to remain pertinent for India and the EM pack for most of 2019.

Outlook

The Government's sustained push to spur the infrastructure investment cycle, focus on rural incomes and spend is 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 has chosen to pause on rates while also calibrating the tightening of its balance sheet given the emerging softness in growth, amidst uncertainties. ECB has moved to induce more targeted liquidity in the backdrop of softening growth too. We expect the US$ to remain soft with yields also more range bound. This scenario coupled with benign inflationary trends is quite positive for emerging markets and provides space for central banks here to cut rates and provide growth stimulus alongside with a fiscal equivalent. We expect continued fii flows into EMs.

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 a global risk on trade towards EMs coupled with reasonable valuations across broader markets, there has been a reversal of the weakness in the markets. Foreign inflows have turned up sharply while domestic liquidity continues to be reasonable. We would keep faith in the corporate earnings recovery and look ahead into forward valuations of FY20 and beyond. The run up to the central elections and outcomes could create some short-term volatility in markets as also the noises on the trade wars, weaker monsoons and crude prices. Investors should continue to get invested in a disciplined manner without trying to time the markets. We continue to remain positive on our equity markets with a medium to long term outlook.