November saw the Sensex grow by 1.7% to 40,794. The broad positivity heard around the US-China trade war, US macro prints firming up and signs of positivity around Eurozone macro narrative, were the highlights of the month globally. On the domestic front, continued growth softness clubbed with a vegetables-led inflation spike, government's bail-out fund for real estate and cabinet approvals for strategic disinvestment were the events in focus. The markets saw a net inflow of $2.7bn. in November. The rupee saw a depreciation of 1.1% to 71.7, while the dollar index (DXY) strengthened by 1% during the month.

Global

Markets remained buoyant during the month of November with developed markets strongly in the green on the back of trade positivity. India broadly caught up and tagged global markets for most part. After the IMF's global growth downgrade, November witnessed OECD'S global growth forecast revised lower by 10bps to 2.9% for 2019 and 2020, the lowest growth projection in a decade. The 'phase one' trade deal that was expected to be signed during an APAC summit in Chile had to be cancelled due civil unrest in the host nation. However, incremental positivity was heard from both sides with China mentioning that it had reached a 'consensus on principle' on the trade deal with the US. Adding to this narrative, commentaries circled around US considering a roll back on some of its tariffs imposed on China, as a part of the trade deal. The markets currently expect the 'phase one' deal between US and China to be signed in December this year. Markets also await clarity in December regarding US's planned tariff hike on $156bn of Chinese goods; set to kick-in on 15th December. While the trade war narrative saw positivity, November saw the US House of Representatives' approval to proceed on Trump's impeachment inquiry. While it looks very difficult for Trump to be impeached without support from the Republican backed Senate, fresh developments in this narrative could be a source of potential volatility for markets. Global macro prints continue to hold up. While US ISM manufacturing PMI remained in contraction mode, October data witnessed a marginal uptick. US Manufacturing PMI prints on the other hand have been witnessing a continued rebound for more than a couple of months now. US retail sales improved, and US GDP was revised upwards on the back of strength in consumption. Eurozone PMIs hinted at a possible bottoming out through stabilisation in its PMIs with German bunds turning less negative on the back of improved employment and manufacturing outlook. Germany also avoided entering a technical recession. Brexit continues to remain an overhang for the revival of business sentiment. However, political pundits expect Boris Johnson to win a majority in UK's elections set for 12th December. Chinese macro prints remained supportive with its manufacturing PMI touching a three-year high.

Central banks

The central banking space remained quiet with continued rate cuts from some relatively small emerging markets. 2019 has been the year of continued rate cuts in a broad synchronised manner. Markets took note of the Fed's policy minutes in November that reflected a pause before proceeding with any more rate cuts. The Fed chair Jerome Powell mentioned that the Fed's stance would change from the above only if there were a material change in the US economic outlook. China's PBoC sprang into action by cutting rates on its medium term lending facility (MLF) for the first time since early 2016 to help reduce borrowing costs for its companies. It also cut the rate on its Reverse repo rates in addition to supporting domestic liquidity in the system. China has been consistently cutting both lending rates and reserve ratios for a while now, in order maintain a broad range of growth in its economy.

Domestic

November witnessed weak macro prints with a continued growth slowdown and a vegetable-led spike in retail inflation. While broad short-frequency indicators reflect weakness in growth, some indicators appear to hint at a bottoming out of growth. Passenger car and commercial vehicle sales, though still negative, have seen an appreciable abatement in its growth rate. Manufacturing PMI numbers have indicated a marginal bump-up from its weak trend. If this trend were to sustain, H2 of FY20 could indicate a gradual pick-up in growth. Government expenditure witnessed a sharp catchup from its earlier slack pace in Q1. The retail inflation spike is not broad-based and could see moderation on the government's swift action to contain the same through imports. On domestic policy, India's decision to pull out of RCEP negotiations took centre stage; after negotiations failed to address India's concerns about getting swamped by imports under the agreement. India was worried that this would put its domestic industry and agriculture at risk. The government announced setting up a Rs.250bn bailout fund to finance 1,600 stalled housing projects through setting up an alternate investment fund (AIF). This measure is expected to gradually help boost aggregate demand through employment and through the channel of increased demand for inputs like cement, iron and steel. This would relieve stress from a major sector in the economy, with significant contribution to investment. The Cabinet approved the strategic disinvestment of BPCL and four more PSUs alongside approving the labour code for fixed term contracts.

Flows

November saw inflows into global equities with continued outflows from long-only funds and larger inflows into ETFs. After October's DM outflows, November witnessed inflows with an equal contribution from US and Europe. EM also saw inflows, below that of DMs. In India, November saw strong inflows into equity to the tune of $3.2bn., while debt witnessed a marginal outflow of $0.4bn.

Outlook

The slowdown in the economy has been continuing over the last five quarters and is hurting. The broader segments of housing, finance companies, auto and auto component sectors remain weak impacting the economy at large. The uncertainty over the corporate stress and labour markets are adding to the worries. Weakness in the rest of the world is not helping either; though monetary policies are in full swing to reverse it.

The NDA Govt., in its second term, continues its push to spur the infrastructure investment cycle, focus on rural incomes and spend to help broad-based growth and serve as a long-term driver of the consumption story. The stress in the banking system has seen significant & targeted addressing, though elongated in timelines, as expected; with recognition, provision of bad loans, resolution and subsequent capitalization. The NBFC sector is slowly emerging from high cost of funds and liquidity tightness thanks to efforts of efforts of Govt. & RBI. We expect continued action here in order to bring back confidence in the asset quality of the book. The government's initiative to set up an AIF to finance 1,600 stalled housing projects and expected measures to restructure real-estate developer loan books are announcements that could go a long way to bring about a structural pick-up in domestic growth.

The major policy reform from the Govt. in the form of the corporate tax rate cut and incentivisation of a low 15% rate for new manufacturing companies is a game changer to kick start the next big corporate capex cycle. We expect a fairly huge FDI acceleration as India positions itself as a major alternative to China. The recent Jewar airport (UP) award to Switzerland's Zurich International Airport stands indicative of many more such investments ahead. Upon completion, the Jewar airport is set to be India's biggest. Another big step is the privatisation and or strategic divestment program of the Govt., something that again is a bold step in the right direction, necessitated by the deteriorating fiscal condition.

The Govt. continues the path of sustainable growth through broader reforms & efficient administration. Monsoon progress has improved significantly and is not a worry any longer this year. We expect economic growth to steadily improve from here and accelerate in the next fiscal. Spurred by strong infra related spends, urban consumption, rising rural incomes and improved demand, with the bottom clearly behind us. Recent softness in commodity prices and enhanced political capital should provide adequate levers for the Government to deal with economic challenges without compromising on macro stability. We expect the RBI to provide enough domestic liquidity, soft rates, enable strong rate cut transmission and confidence in financial market stability. The recent results have been a bit of a mixed bag and still reflect the weakness in demand conditions. However, earnings growth boosted by better margins are helping. We expect the earnings trend to be better over the next 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 set to enter a double-digit growth trajectory driven by the domestic recovery.

India continues to remain prudent in managing its fiscal while providing stimulus to sustain growth; a well-balanced act. In the medium term, with its twin deficits reasonably managed, lower base levels of inflation, improving long term corporate growth, India stands taller than the rest of its peers within the EM pack.

In the near term however, the markets continue to remain volatile while the broader markets have seen a bounce post the tax reforms and expectations of a festive demand recovery. As we highlighted, the growth scare, we feel is temporary and transient. Foreign equity outflows have picked up sharply while domestic liquidity continues to be comfortable. We would keep faith in the corporate earnings recovery and look ahead into forward valuations of FY21 and beyond which are reasonable. The noises on the trade wars, local growth scares and loan defaults could create some short-term volatility in markets. Investors should continue to invest in a disciplined manner without trying to time the markets. Valuations look reasonable across broad markets and we continue to remain positive on our equity markets with a medium to long term outlook.