Sun Life Excel India Fund
MONTHLY COMMENTARY

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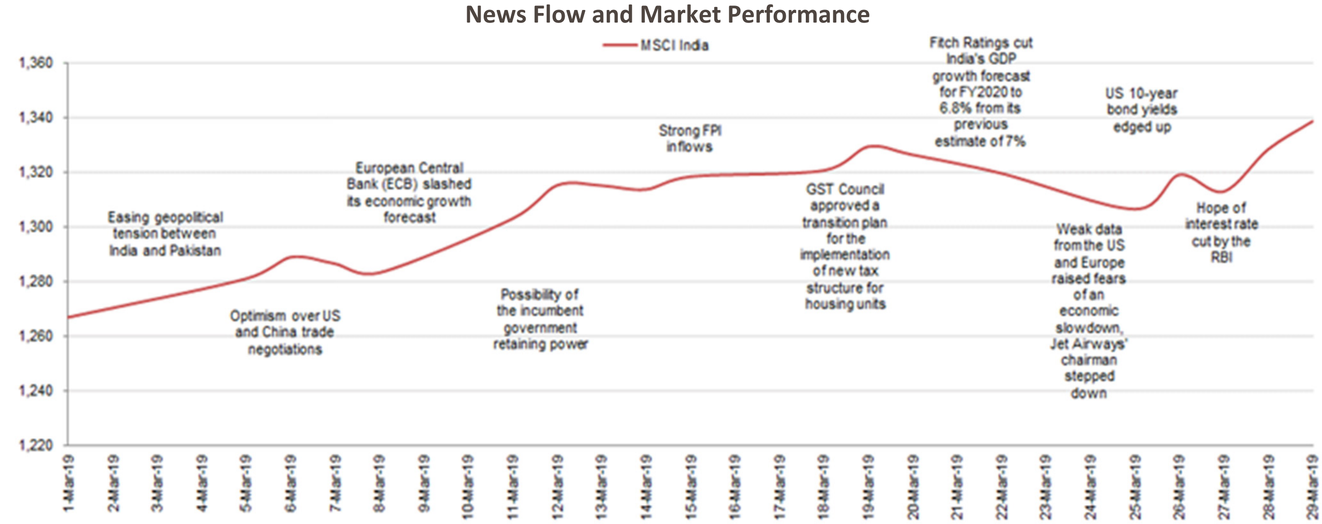
Opinions and commentary provided by Aditya Birla Sun Life Asset Management.

Equity Market Synopsis & Outlook

The MSCI India Index rose by 9.1% in March, outperforming its peer group. The MSCI Emerging Markets Index increased 0.7% and the MSCI Asian Pacific (excl. Japan) Index was up 1.3%. Dollar returns were underpinned by a strengthening Indian Rupee (INR), which was up 2.1% in March despite the U.S. Dollar Index (DXY) appreciating by 1.2%. The broader market outperformed the large cap index.

News Flow and Market Performance



Source: Bloomberg.

Global equities had a volatile month. Markets rebounded from monthly lows in early March as the U.S. Federal Reserve delivered a more dovish stance vs. expectations. As a result, a large majority of Federal Open Market Committee (FOMC) participants are now expecting no rate hikes this year, compared to a median projection of two hikes in December. However, gains were pared in the last week amid growth concerns as data remained soft. The U.S. treasury yield curve inverted for the first time since 2007.

Indian equities were on the upside from the narrow range-bound trading in the previous 3-4 months as macro variables including inflation, interest rates and foreign exchange sustained the favourable trend. Other drivers included opinion polls suggesting a relatively better performance than previously expected by the incumbent Government in the upcoming national elections. This has been easing concerns of fragmentation in seats in favour of regional parties and the consequent adverse impact on policy-making. Foreign Institutional Investors (FIIs) have recorded net equity inflows of $4.8 billion USD in March. Positioning is light as emerging markets fund managers generally maintain neutral positions on India, coupled with developed markets' central banks pulling back on the pace of monetary policy and balance sheet normalization given concerns on global growth.

FIIs recorded net inflows of $4.8 billion USD in Indian equities in the month of March, which was the highest net inflow since March 2017. Year to date, FIIs recorded net inflows of $7.1 billion USD. FIIs net inflows in debt markets at $2.2 billion USD in March (vs. net outflows of $1.3 billion USD in February). Year to date, FIIs remain net buyers at $560 million USD in debt markets. Domestic Institutional Investors (DIIs) were net equity sellers at $2.3 billion USD in March. March was the second consecutive month of net outflows after 22 months of net inflows until January 2019. Year to date, DII outflows are at $2.0 billion USD. Mutual funds broke their streak of net inflows after 31 consecutive months. Mutual funds sold $1.0 billion USD of equities in March, the highest net selling since March 2016. Insurance funds remain net sellers for fifth consecutive month at $1.2 billion USD in March. Year to date, mutual funds are net equity buyers at $255 million USD while insurance funds are net equity sellers at $2.3 billion USD.

Market Outlook

Global equity markets started the year on a positive note. Sentiment was buoyed by optimism of a resolution to U.S./China trade tensions and an expansionary Fed, offsetting a stronger dollar and weak global macro growth data. Indian equities, however, underperformed the global rally due to a reversal in Brent crude oil prices, up 23% in January to February 2019, posted a 36% drop in the fourth quarter of 2018. Mixed earnings, seasoned with disproportionate losses in some large companies and negative sentiment on companies where promoters have significant pledged shares were headwinds for Indian equities. Moreover, uncertainties surrounding outcome of upcoming election in May 2019 and heightened tensions between India and Pakistan were economic roadblocks. However, stock markets ended the financial year on a good note, thanks to a sharp rally in March after weak global cues, and an Infrastructure Leasing & Financial Services (IL&FS) crisis during the second half of the fiscal dented the investor sentiment. The S&P BSE Sensex (INR) rallied 17% in 2019, while the broader Nifty 50 Index (INR) of the National Stock Exchange gained 1%. MSCI India (USD) rallied by 5.2% in the first quarter of 2019.

Equities may maintain their upward trajectory; however, volatility due to upcoming elections, occasional profit booking, global developments such as Brexit, central banks' policy decisions and oil prices cannot be ruled out. With a slew of tailwinds, including potential recovery in corporate earnings, Reserve Bank of India rate cuts, injection of liquidity in the system and the end of bad loan provisioning in banks, could lead to markets delivering steady returns. After four tepid years, earnings appear set for a recovery, especially led by the financial industry. This may drive profit and return on equity recovery for corporate banks. With the exit from Prompt Corrective Action, public sector banks could also be back in business now. Meanwhile, comparison between mid-caps and large-caps on several frontiers suggest that the relative attractiveness of mid-caps has gone up. Hence, the broad underperformance of the mid-caps could be overdone and interesting bottom-up opportunities may be available in this space across sectors.

The team's philosophy is that India may be a growth region given its youthful population and low base of GDP per capita. With some economic and market reforms, bottlenecks may be reduced to create higher sustainable growth