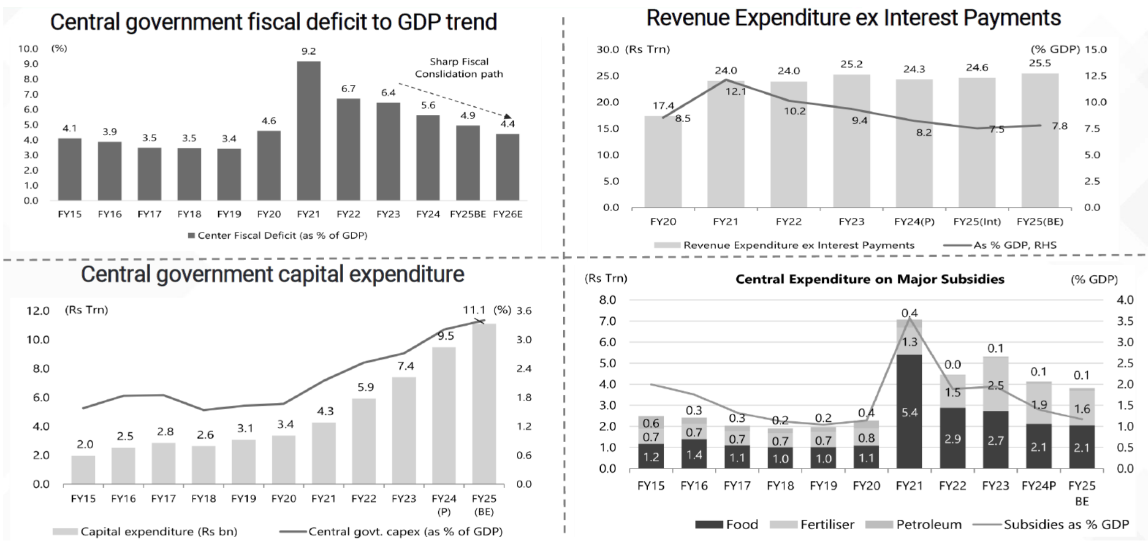
Capital League
OUTLOOK

AUGUST 2024

Indian Economy

- IMF has raised India's FY25 growth forecast to above 7%.
- Economy's high frequency indicators are positive and economic activity is at an all-time high. Both Manufacturing and Services PMI are in an 'expansionary' zone since June'21.
- Indian economy's fiscal situation is getting stronger. Revenue Expenditure is decreasing and Capex is increasing as % of GDP. Subsidies are being steadily reduced and overall fiscal deficit is reducing year on year.

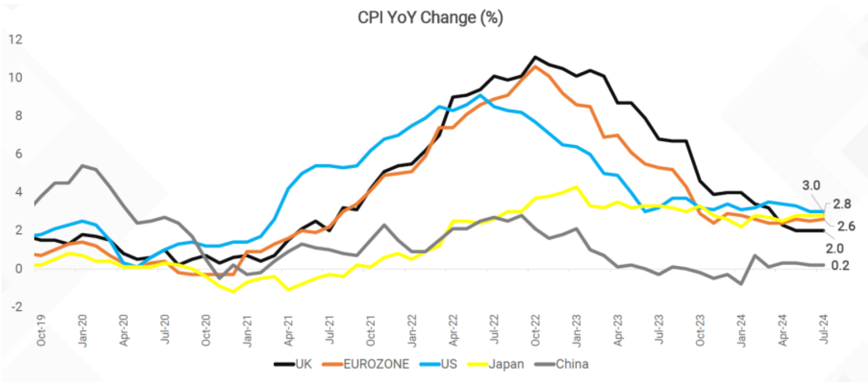


Source: Jefferies

- India's share of World exports is increasing – both for Goods and Services.
- Monsoon – All India rainfall at normal level, but slightly lower in North India. Reservoir levels are close to trend at aggregate level but lower in North India.
- India's contribution to World Market cap at 4.4% is at an all-time high. India is ranked 4th in the World in terms of Market Cap at USD 5.2 Trillion.

Global Economy

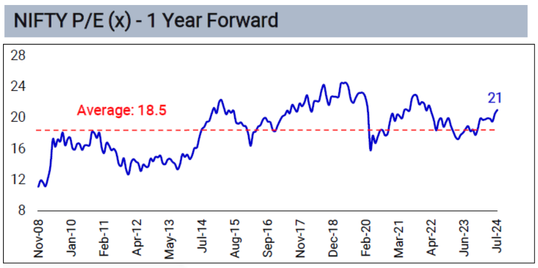
- US non-farm payrolls data for July was sharply below expectation. Unemployment rate (4.21%) was highest since October 2021. The Manufacturing PMI reading came in at 46.8 for July vs 48.5 for June indicating acceleration in contraction.
- Globally inflation is coming down giving leeway to Central Bankers to cut rate. It is widely expected that US FED will cut interest rates in September or earlier.
- Oil prices have fallen ~12% since Aug'23 on expectations of slowdown in China and the US.
- On the other hand, Bank of Japan raised interest rated from 0 to 0.25% leading to a sharp unwinding in YEN Carry trade leading to a more than 20% correction in Nikkei Index and 10% correction in some of the US Indices.

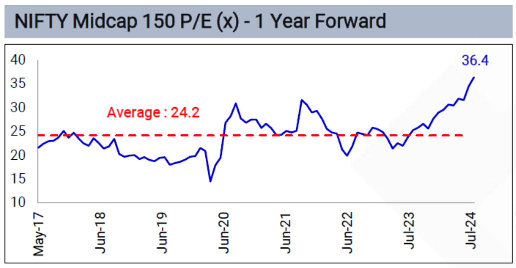


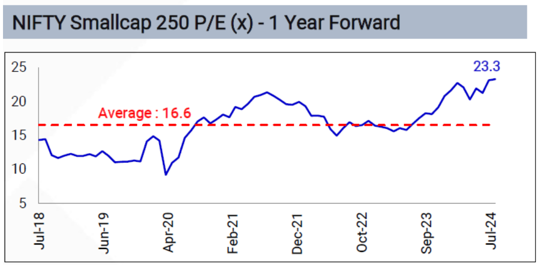
Source: Bloomberg, Elara Capital

Outlook

- India's growth remains steady supported by expansion in Manufacturing and Services. Monsoons are near 'normal' and this should support Rural Incomes where the green shoots are now visible. Overall investments in economy are growing by way of Real Estate growth, increasing Government Capex spending and improvement in Private Corporate Capex post elections. Private Capex can gain momentum in view of low leverage on Balance Sheets, increasing Capacity Utilisation, Corporate profitability, strong cash flows and healthy IPO Market and Banking Sector to support fund requirements.
- Aggregate PAT (Profit after Tax) of Corporate India is increasing but so is Market Cap. Equity valuations are higher than long term averages. Higher P/E need to be viewed in context of changing composition of the index. Higher Pvt Ownership, Higher Domestic Share and more B2C companies in NIFTY are increasing the average PE Vs historical P/Es.







Valuation	
Largecap	14% premium to historical average
Midcap	50% premium to historical average
Smallcap	40% premium to historical average

Source: Motilal Oswal, Bloomberg, As on 31th July 2024

- Global markets are in risk-off phase due to concerns about US slowdown, Israel-Iran conflict, Unwinding of Yen Carry Trade and China slowdown. Concerns about slowdown in US and China will keep oil and commodities subdued.
- Looking ahead, the medium-term outlook for India's economy appears promising. This optimism is fuelled by policy continuity, benefits from Production-Linked Incentive schemes, opportunities arising from shift in the global supply chain, enhanced infrastructure investments, the potential of resurgence in private sector capex, and the enduring robustness of consumption.

- US Bond market is indicating over 100 bps (1%) rate cut by Dec'24. Global bonds have started to rally. Indian 10 Yr bond yield has softened. This is the time to buy long duration debt funds.
- It would be prudent to rebalance portfolios as per desired asset allocation. Fresh equity investments can be made in a staggered manner over the next 3-4 months. Risk-return continues to be in favour of Large caps. Long term debt exposure through Conservative Hybrid funds and short term through Arbitrage Funds is recommended for tax efficiency despite increase in taxation from 10% to 12.5%. Tactical investments to be made in Long Duration debt funds.