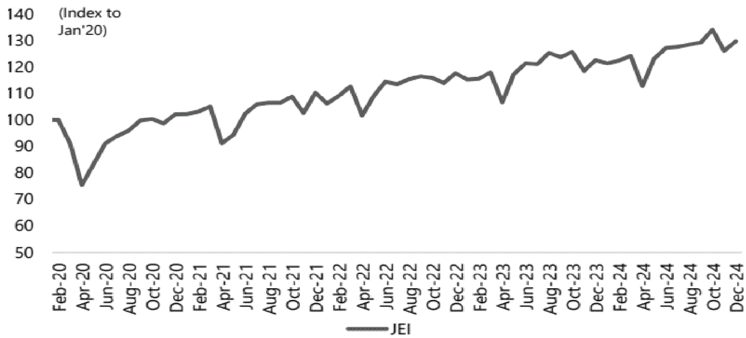
Capital League
PRIVATE WEALTH MANAGEMENT

OUTLOOK

FEBRUARY 2025

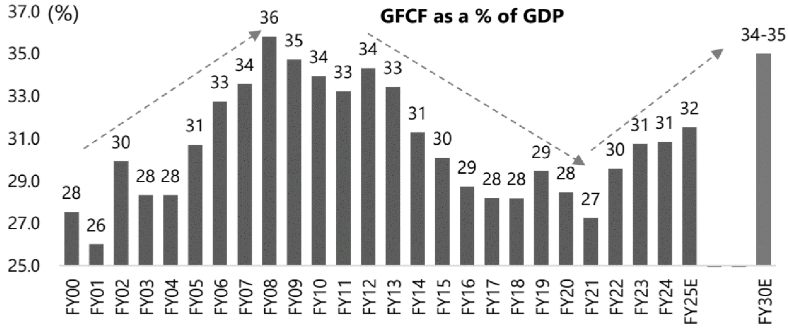
Indian Economy

- Focus of Budget 2025 has been to spur growth through consumption and effective capital allocation within the guard rails of fiscal prudence.
- India's strong growth and the macros are healthy even in an uncertain global environment. Economy is projected to grow at a rate of 6.3% to 6.8% in the next financial year (FY26)
- Economic activity shows growth pick-up sustaining. Capacity utilization is expected to pick up in CY25. Rural demand continues to outpace urban demand.



Source: Jefferies, RBI, I-Sec Research, As per latest available data

- PMI for Manufacturing was at 6-month high of 57.7 in January on demand pickup. Services PMI at 56.5 continues to be in a strong expansionary phase though the pace of growth has slowed down.
- GST collections growth exceeded Nominal GDP growth in Jan'25. E-way bill generation hit new high in Jan'25.
- India is in a Capex upcycle.



Source: CMIE, Jefferies

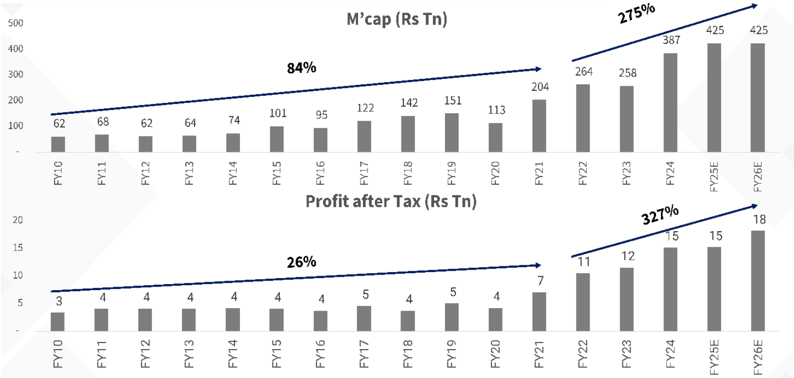
- RBI has reduced interest rates by 0.25%. This will help to support growth by making credit more affordable.
- All India rain fall is at 8% surplus and water reservoir levels are adequate.

Global Economy

- Oil prices remain subdued.
- Globally Manufacturing PMI is still weak and still in contraction phase.
- Gap between US earnings Yield and Bond Yields indicate US equities are overpriced.
- China’s debt burden is higher than that of the US and the Eurozone.
- China’s corporate profits have declined for a third year in a row.

Outlook

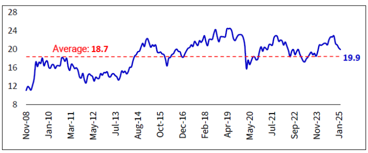
- India continues to be the fastest growing large economy. Corporate India has strong free cash flows and robust balance sheets.
- For Corporate India, both PAT (Profit after Tax) & Market cap have increased at a sharp trajectory. Now the market Cap to GDP is at 132% whereas historical average is 87%.



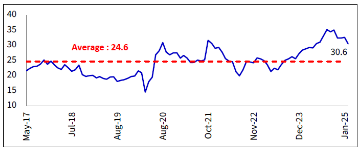
Source: Elara Capital, Bloomberg estimates

- Capex continues to be a major driver of growth. Bank approval for private projects has risen by 20% CAGR since Pre-covid, pointing towards a decent Private Capex pick up.
- Valuations are higher than much higher than historical levels.

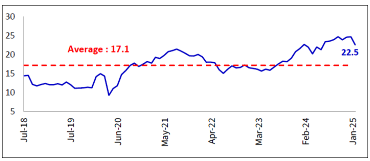
NIFTY P/E (x) - 1 Year Forward



NIFTY Midcap 150 P/E (x) - 1 Year Forward



NIFTY Smallcap 250 P/E (x) - 1 Year Forward



Valuation	
Largecap	6% premium to historical average
Midcap	24% premium to historical average
Smallcap	32% premium to historical average

Source: Motilal Oswal, Bloomberg, As on 31st Jan 2025

- With Donald Trump announcing intention of reciprocal tariffs on US imports, the economic uncertainty is high. Inflationary expectations have gone up in the US and possibility of further rate cuts by Fed in the near future have reduced.
- The Dollar strengthened sharply in the last few weeks and prompting flow of capital back to the US. The Dollar Index has climbed down to 107 levels (from a high of and US 10-yr has settled at 4.55 levels from a high of 4.8%. The FIIs have pulled out nearly 3 lac crores since Oct'24 till date putting pressure on both equity markets in India and INR.
- The ratio of MSCI EM to S&P500 Index is lowest since March'99. This indicates there may be reversal of flow back to EM in the near future.
- Despite these risks, the medium-to-long-term outlook remains positive. Nifty earnings are expected to grow at a compounded annual growth rate (CAGR) in the low-to-mid

teens over the next three years, providing a strong foundation for equity return. Investors should maintain muted expectations of returns from equities in the short term. In the current scenario, caution is warranted and long-term investors should invest in a staggered manner and top-up on dips.

- **Debt:** The retail inflation Index (CPI) in India decreased to 4.31 percent in January from 5.22 percent in December of 2024 coming well within the RBI's comfort zone. In addition to the rate cut, RBI has also infused liquidity in the system.
- Arbitrage Funds are recommended for 3m to 1 year time horizon. Long term debt exposure can be taken through a combination of Corporate Fixed deposits and the tax efficient conservative hybrid funds like the funds in Equity savings category.
- It is a good opportunity to enter duration funds even at current levels. Strong macros – reducing fiscal deficit and controlled inflation and current account deficit will support the case for lower interest rates going forward.