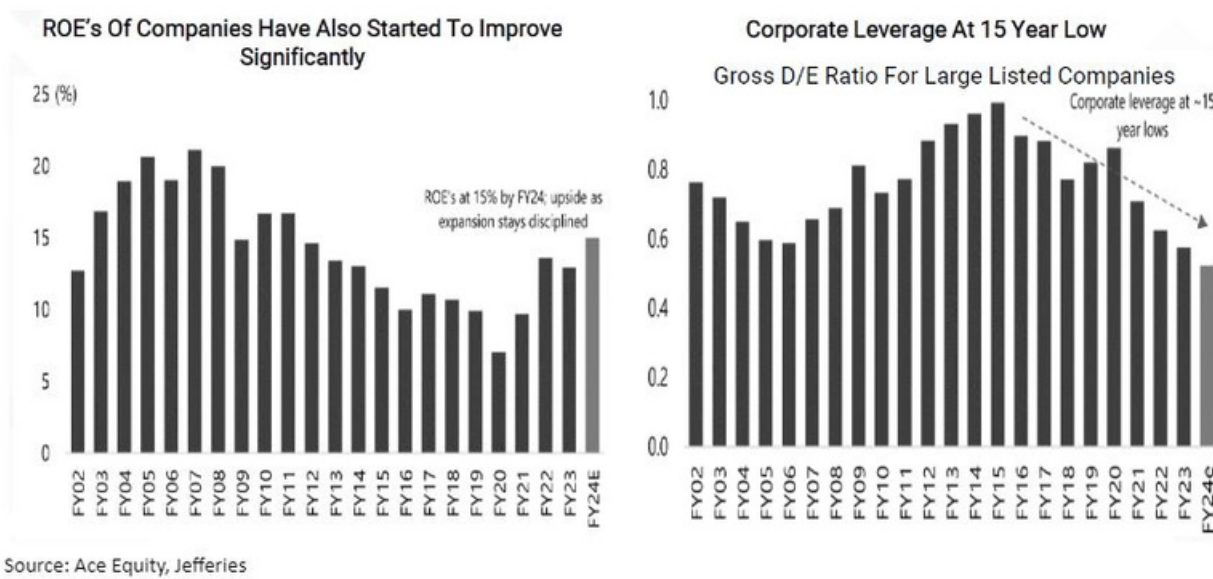


Indian Economy

- Post Lok Sabha elections, the new government at the centre has been sworn in. Importance has been given to ‘continuity’ with major portfolios remaining with the same ministers.
- In the latest Monetary Policy, RBI has kept rates unchanged. Real GDP for FY25 has been projected at 7.2%, up from 7%.
- India’s Q4 GDP grew above expectations at 7.8%. Growth for FY24 has clocked in at 8.2%.
- Standard & Poor has upgraded India’s sovereign rating to ‘positive’.
- There is a marginal slowdown in economic activity. Probably due to extreme heat. The Services PMI has softened to 60.2, a 5-month low, and Manufacturing PMI has softened to 57.8.

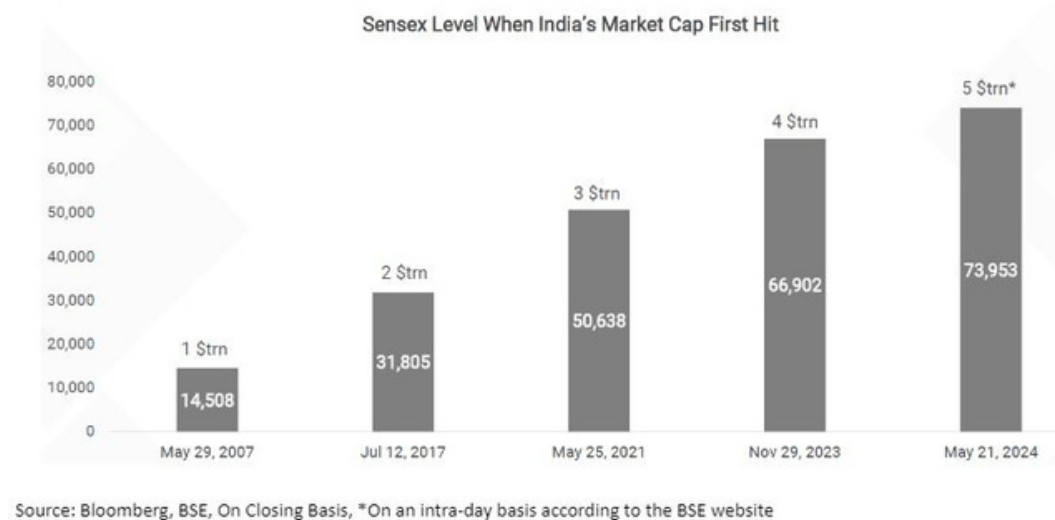


- The May GST numbers are at INR 1.73 lac crore. Up 10% YoY.
- Corporate balance sheets are healthy. Return on Equity is steadily going up and Corporate debt is at a 15-year low. Thus private capex can pick up on improved demand and capacity utilisation.



Global Economy

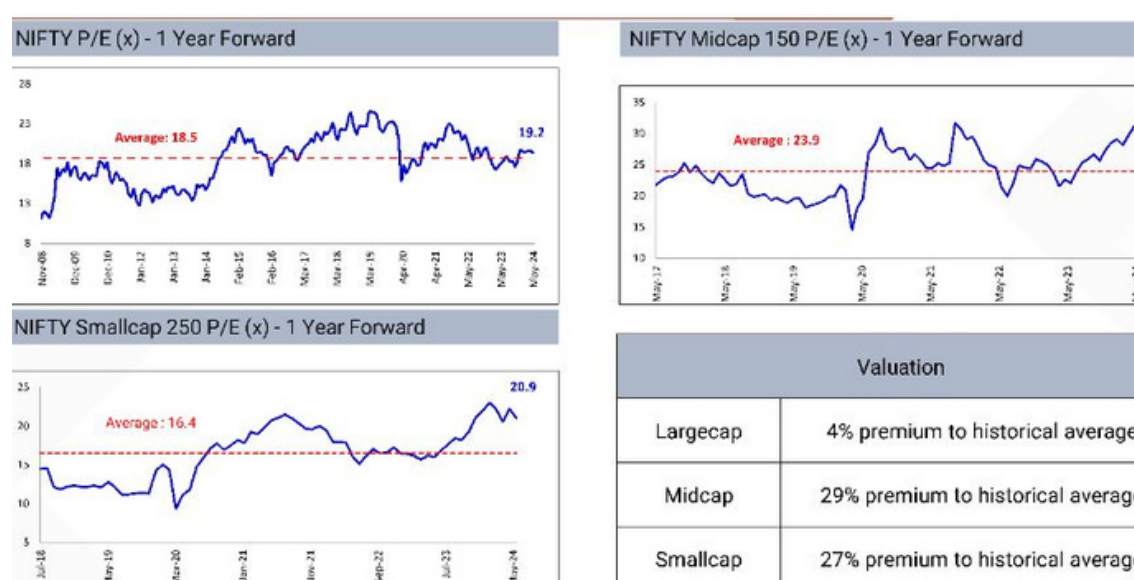
- Globally inflation is easing and a few central bankers (ECB, Canada, Brazil, etc) have started cutting rates. US FED has kept rates unchanged.
- Oil continues to remain below USD 80/ barrel. OPEC’s spare capacity acts as a buffer against price rises.
- China’s factory activity growth has hit a 2 -yr high and IMF has raised the growth forecast to 5%.



Outlook

Equity

- Indian corporate balance sheets are healthy, earnings have been increasing and economic macros are robust. Based on these fundamentals the equity markets have done well. Nifty is trading at a 12-month forward PE of 19 times (approx.) which is higher than long-term average. The Mid & Small cap segments are trading at a much higher premium to long-term averages. In view of high premiums, there appears limited room for these multiples to expand.



- In the current market, we continue to maintain neutral on asset allocation. Within equity, overweight large caps, marginally underweight Mid-caps and underweight small cap. Market cap to GDP ratio is at an all-time high. Thus, going forward any negative news can lead to correction.

Debt

- Inflation is within RBI’s target band, policy rates have been kept unchanged and are not expected to change in immediate future. Yields are expected to be range bound with slight easing bias.
- Surpluses for 3-12 months can be parked in arbitrage funds which continue to generate healthy, tax-efficient returns. Longer-term debt exposure can be taken through conservative hybrid offerings for tax efficiency or corporate deposits.
- Tactical allocation with 18-24 months’ view to long duration and dynamic debt funds can be taken for attractive returns arising from capital gains on any yield correction during this time frame.