Capital League

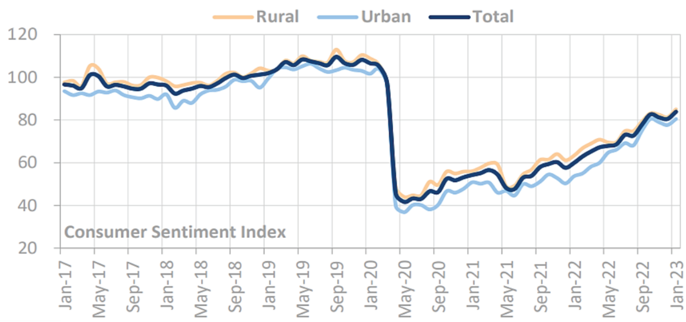
OUTLOOK

APRIL 2023

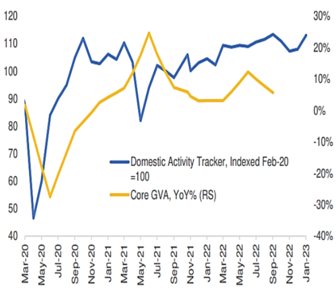
INDIAN ECONOMY

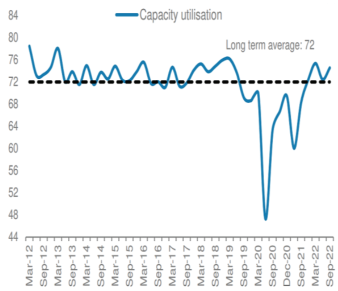
- Factory output as measured by the IIP index growth accelerated to 5.2% YoY in Jan'23 vs a growth of 4.7% YoY in Dec'22.
- India's retail inflation moderated to 5.7% compared to 6.4% in Feb.
- India's overall exports at more than USD 750 Bn in 2022 were the highest ever.
- Indian Railways reported the highest-ever loading in FY23.

  Domestic passenger traffic increased 74% YoY in Feb23 (DGCA)
- Consumer sentiment is improving month on month. FMCG product sales are up 8% and electronic sales are up 25% in FY23.



- Credit growth YoY is reviving to double digits. Non-food credit is growing at about 15%. Credit growth is an early indicator of economic growth.
- Capex continues to grow steadily and this has a major multiplier effect on the economy.
- Manufacturing & Services activity has been in expansionary mode (>50) for 21 months in a row. E-way bills which indicate the movement of goods have also been strong. Overall economic activity is at an all-time high.





- GST collections continue to be above INR 1.5 Tn every month.

GLOBAL ECONOMY

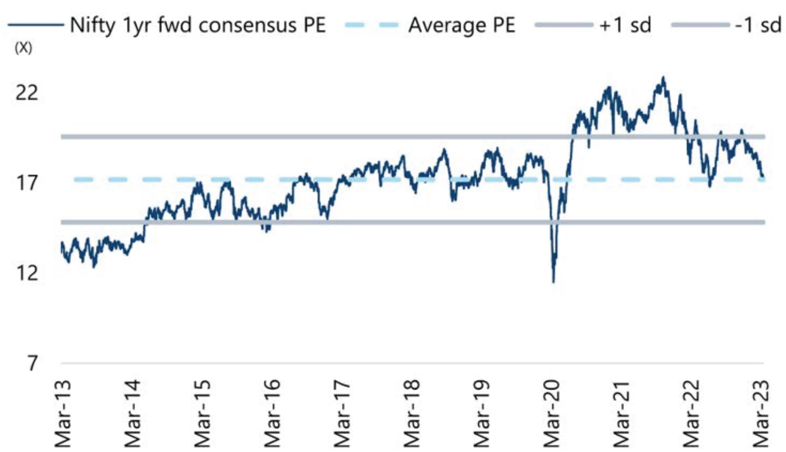
- Inflation in most countries is still above their 10-yr average.
- The US is grappling with higher debt & inflation on one side and slower growth & stress in regional banks on the other.
- The US bond market futures are implying that FED will start reducing interest rates by end of 2023.
- The financial stress in the US is at its highest level post-global financial crisis.
- Going forward key global events that will affect the global economy is the likelihood of the US recession, the Russia-Ukraine war, the Fed interest rate strategy, and oil prices.

OUTLOOK

- Sustained high levels of GST collections, resilient manufacturing, infrastructure & agricultural sector outputs, moderating inflation, and healthy credit growth augur well for the Indian economy.
- In the near term, RBI's interest rate strategy, corporate earnings growth and guidance, and general elections will affect market movement.
- India is projected to be the fastest-growing large economy for the next few years. A favourable combination of a large domestic economy, demographics, digital economy, and government policy and reforms is driving growth.

Equity

- Equity markets have remained flat during the last 18 months. This, along with the almost 25% growth in earnings during that period, has led to the valuations of Indian markets falling to their 10-year mean. NIFTY50 now trades at ~18x FY24 and ~16x FY25 earnings, providing opportunities to generate decent returns.



Debt

- RBI, in its latest policy, paused interest rate hike while maintaining the stance clearly saying that it is a pause and not a pivot. After six consecutive repo-rate hikes, and some moderation in inflation (coming below 6% for March) the interest rates may plateau at current levels. Further rate hikes by the RBI would be data-dependent. Higher yields on fixed-income assets make a strong case for locking in into longer-term Fixed income products.
- We recommend investment in arbitrage funds which are currently offering attractive returns and are taxed like equity, ultra short-term funds, money market funds, and low-duration funds for a short time horizon, as the yields are very attractive at this end from a risk-return perspective.
- With the change in the taxation of debt funds, investors with a long-term view can continue to invest in open-ended actively managed debt funds like medium-term funds, corporate bond funds, and dynamic bond funds. In debt funds, unlike fixed deposits or bonds, there is no tax liability till one redeems hence no interim leakage of returns. Tactically, one can invest in longer-duration debt funds with an 18-month time horizon to benefit from both high yields and the opportunity to capture capital appreciation once interest rates start to soften.
- Corporate Fixed deposit rates continue to be revised upwards with a lag to RBI rate increases and as credit offtake continues to pick up.
- **Overall we recommend maintaining neutral asset allocation.**