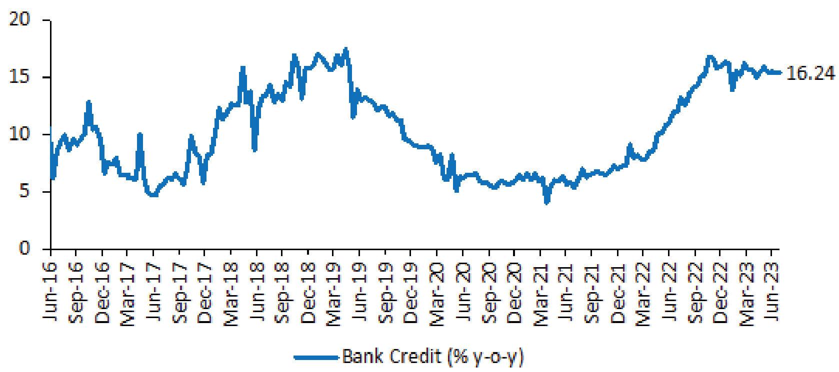
Capital League

OUTLOOK

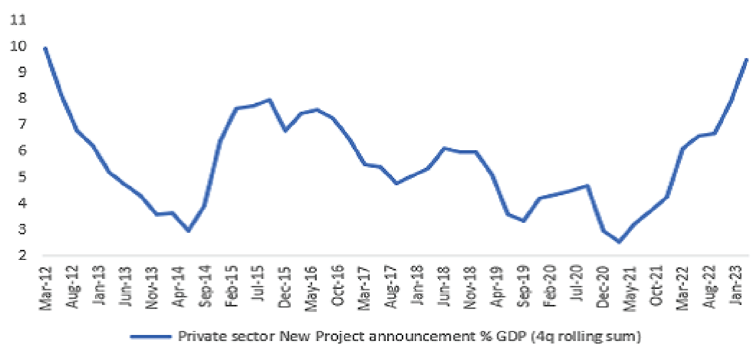
AUGUST 2023

INDIAN ECONOMY

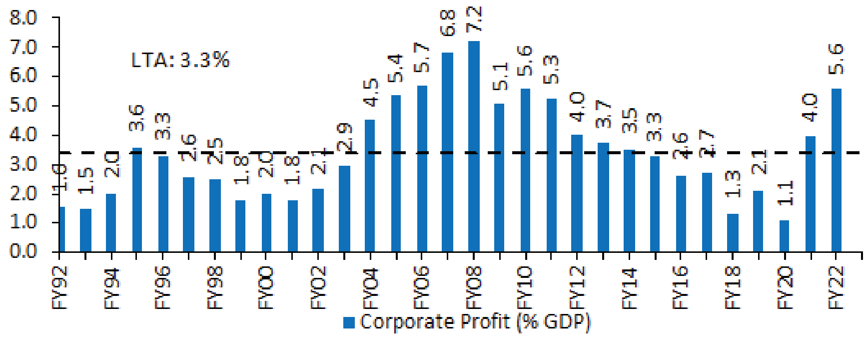
- IMF has raised India's FY'24 GDP growth forecast by 20 bps to 6.1%. And Morgan Stanley has upgraded India's rating to overweight and China's to neutral.
- Purchasing Manager's Index (PMI) Manufacturing was at 57.7 in July 2023 and Services PMI jumped to 62.3 in July, highest since June'10.
- High-frequency indicators like GST (grew 11% YoY), electricity consumption, railway freight, airway bills continue to signal strong growth in economic activity
- Bank credit growth continues to be robust. The credit growth story is being driven by the Services & personal loan sector.



- New project announcements by private sector going up. So far government has been the main driver of Capex. For several years there has been underinvestment in corporate Capex. But with improving balances sheets, growing consumer demand and reducing global concerns there has been an uptick in corporate Capex.



- In recent months, India has been one of the largest recipient countries of Foreign Institutional Investor(FII) inflows among emerging market economies as the recent underperformance of Indian equities relative to peers amid strong earnings delivery turned valuations more reasonable for Indian equities.
- Corporate profits as a % of GDP have recovered from lows of FY17 -FY20 indicating benefits of operating leverage, low debt balance sheets, and robust demand.



FY92-FY22 data is based on a sample of ~30,000 listed unlisted companies in CMIE (includes both financial and non financial companies)

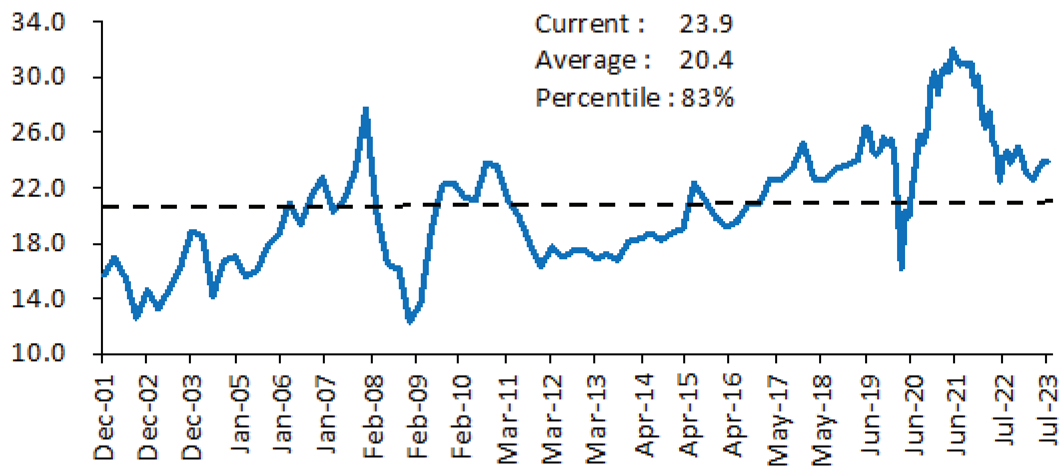
- Market analysts expect 15.1% EPS growth CAGR for the Nifty over FY22-FY25.
- The Monetary Policy Committee decided to keep all rates on hold and retained stance as ‘withdrawal of accommodation’ in its August Policy.
- Headline inflation is expected to surge on the back of incremental pressure from vegetables, cereals, and fruits.. international commodity prices have also been on an upswing lately with increment in oil prices over last few weeks.

GLOBAL ECONOMY

- The US GDP expanded 2.4% (annualized) in 2Q23. FED has hiked rates by another 25bps to 5.25%. The FED policy statement indicates possibility of another rate increase.
- Eurozone economy has grown 0.6% YoY, in 2Q23, slower than previous Qtr. The European central bank has raised rates by 25bps, the 9th consecutive rate hike.
- The UK economy expanded by 0.2% YoY. Optimism has declined and business confidence fallen as the economy slows and interest rates rise.
- Chinese economy is slowing and problems in real estate sector are adding to woes. Exports have fallen by 14.5% YoY, in July due to falling global demand.

OUTLOOK

- **Equity:** Domestic indicators remain steady and structural positives are getting built up. Managing a slowing global growth would be a key challenge for Indian GDP.
- Equity valuations (Sensex trailing PE ratio) are slightly higher than long term averages.



- Since March'23, strong macro-economic data has led to positive market sentiment. And renewed interest from FPIs (Foreign Portfolio Investors) has driven up equity valuations. We continue to maintain 'neutral' stance due to India's healthy macro indicators, growing tax collections, strong government reforms and India's position as a favoured destination for China+1 themes.
- **Debt:** Bond yields have risen reflecting the movement in global bond yields as well as our own recent food inflation dynamics. RBI will closely watch the evolution of food prices with a view to deciding whether the October policy may warrant one last rate hike in this cycle.
- Real policy rates are now adequate versus forecasted average inflation and with the RBI taking measures on liquidity, a longish pause may be in the offing. .Corporate bond spreads have continued to compress, partly reflecting the very heavy net supply of government bonds in the current quarter. For context, the net government bond supply in this quarter is approximately 41% of the full year's net supply.
- We recommend investment in arbitrage funds for a short duration of 3-12 months. Debt funds continue to remain an attractive option due to professional and active management. The 3 to 6-year bond duration segment continues to be most attractive.

Overall we recommend maintaining neutral asset allocation.