Capital League

OUTLOOK

DECEMBER 2022

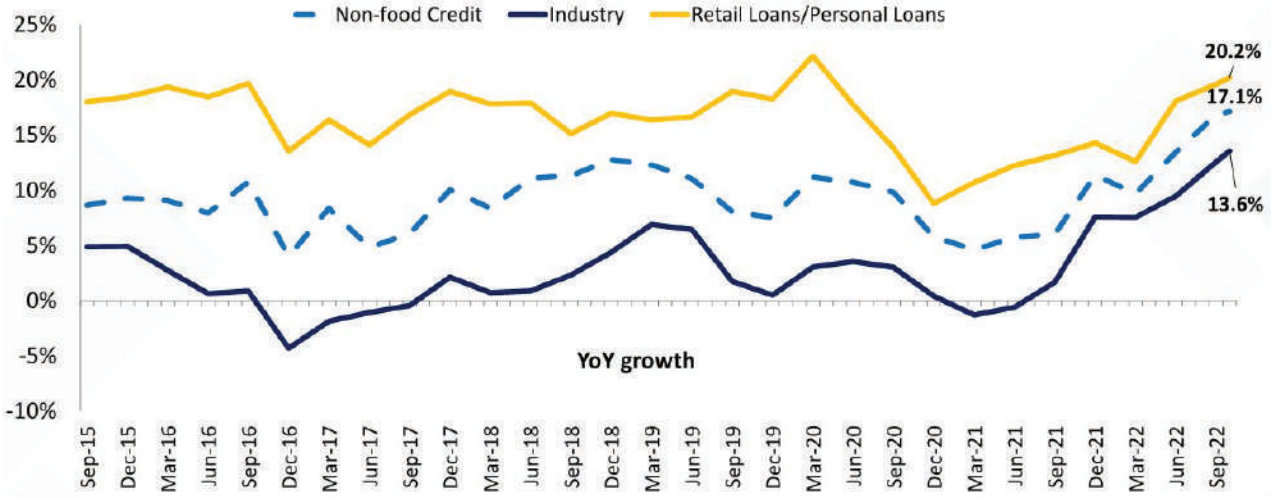
INDIAN ECONOMY

- India's economic growth remains resilient: Most economic activity indicators – retail sales, auto sales, steady GST collections, strong power demand, and growth in freight, etc. point to a healthy pace of economic growth

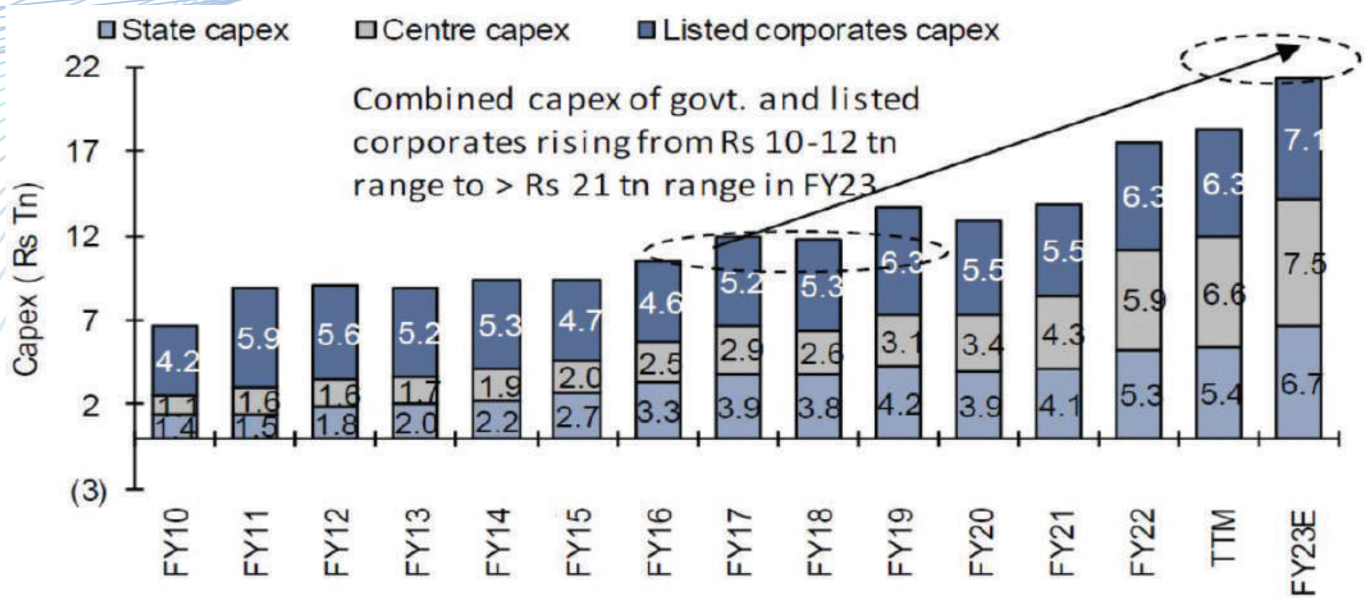
- PMIs (Services & Manufacturing) remain in expansionary mode

- Direct tax collections (April – Nov) at INR 8.7 lac crore are 24% higher than last year and 61% of budget estimates

- Credit growth is increasing by double digits



- India's capacity utilization is at a 17-Qtr high. Conditions for private sector Capex remain conducive given the low corporate leverage, rising capacity utilization, broad-based improvement in profitability, and robust balance sheet of the banking sector.



- Brent crude oil price has fallen to USD 75 levels. A big positive for India. The fall in crude could translate into lower input prices for FMCG, Consumer Durables, and Auto companies.

- Government has increased MSP (Minimum Support Price) the for Rabi crop. Expansion of the area under Rabi crop raises hopes of a bumper crop and a positive for the rural economy.

- The RBI / MPC raised the repo rate by 35 bps to 6.25%, as was widely expected. The inflation both in the US and India seems to be softening with a fall in crude and commodity prices.

GLOBAL ECONOMY

- US FED has increased interest rates far steeper than at any time in history to try to control the unprecedented inflation. Inflation continues to outpace wage growth creating a negative impact on consumption.

- US credit card debt has grown to an all-time high of USD 930 Bn.

- UK inflation is at a 40-year high at 11.1%

- Scarcity & high cost of energy implies a worse outlook for Europe.

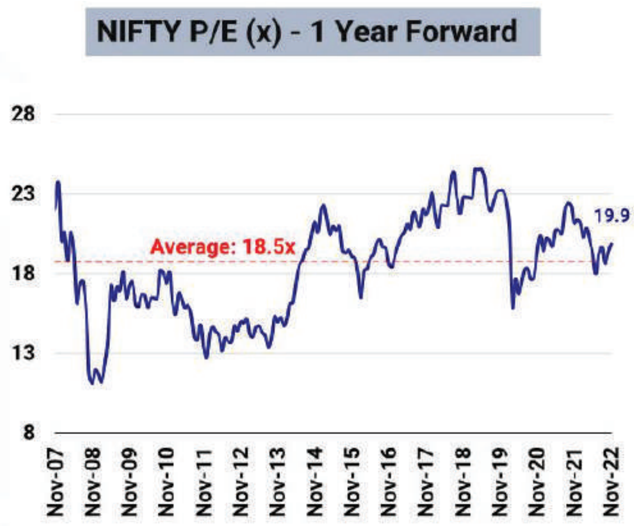
- Amid deteriorating economic indicators, China is shifting from a ‘zero-Covid’ stance to a ‘growth’ stance.

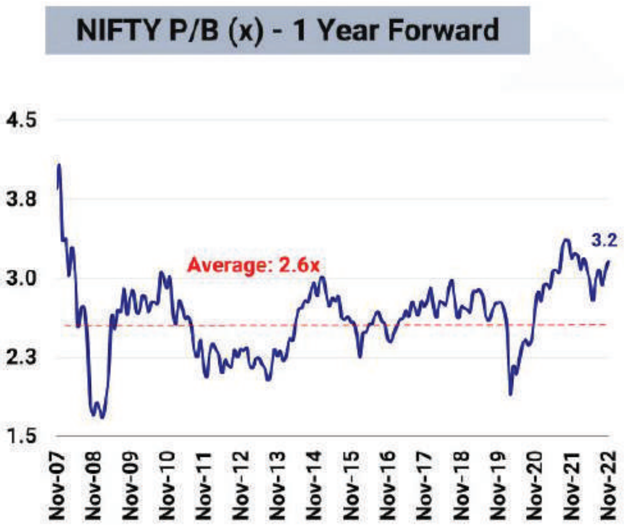
OUTLOOK

- Global growth is likely to continue to moderate in the near term. Advanced economies are facing a synchronised slowdown. Any pick-up in the Chinese economy next year can help cushion the fall of global growth

- There is optimism about India's growth prospects in the near term, supported by normalisation of discretionary services spending, easing supply chains, weakening commodity prices, and supportive fiscal policy. However, higher energy prices and tight monetary conditions could act as headwinds.

- Equity valuations are at a slight premium to historical averages. We continue to maintain 'neutral' stance. Asset allocation to be maintained.





- In the medium term Indian economy is being supported by favourable policy environment, multiplier impact of PLI schemes, opportunities due to a shift in global supply chains, government thrust on infrastructure spending, formalisation of savings and the economy, digitization, etc.

Debt

- The constituents of inflation seem to have shifted from external factors (commodity prices) to internal ones (strength of domestic activity.
- The current focus of Central Banks is more on the pace of disinflation rather than the speed of re-attainment of inflation targets. While this may drive 'how much to tighten', the decision on 'how long to persist' at peak levels before easing policy shall depend upon clear visibility of targets being met.
- In India too, stable inflation and visible signs of softening will define the cycle peak though we seem to be at or close to peak policy rates.
- Given the current yield curve and the spreads between the G-secs and Corporate Bonds, for long-term investment horizon, we continue to favour Targeted Maturity Funds, 3-year-plus FMPs, 3-5 year corporate fixed deposits, and medium-term corporate bond funds as preferred options to lock-in into high yields for longer term. For shorter time investment horizon, both arbitrage and money market to ultra- short term debt funds look extremely attractive.