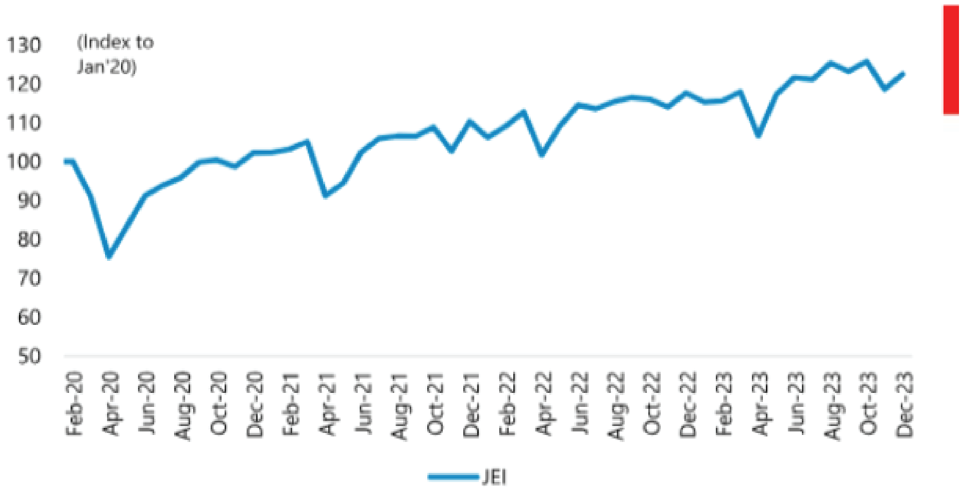
Capital League

OUTLOOK

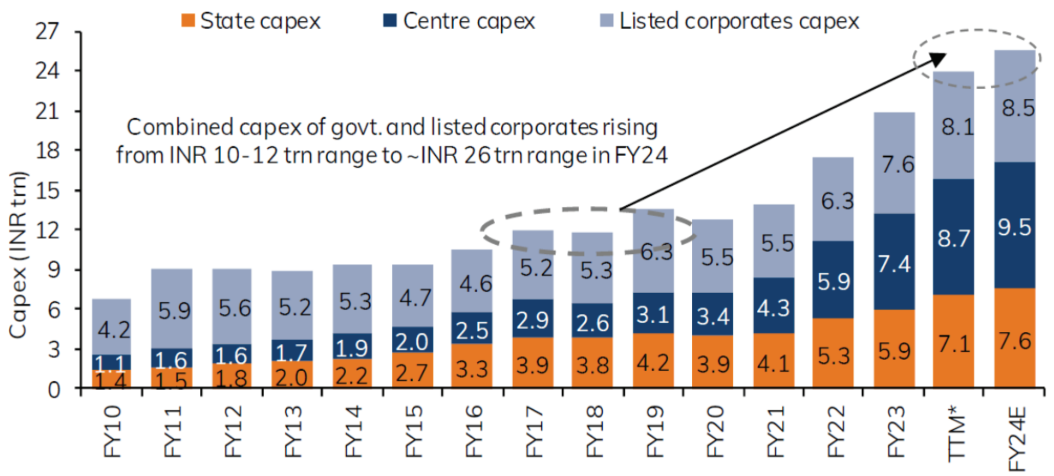
FEBRUARY 2024

INDIAN ECONOMY

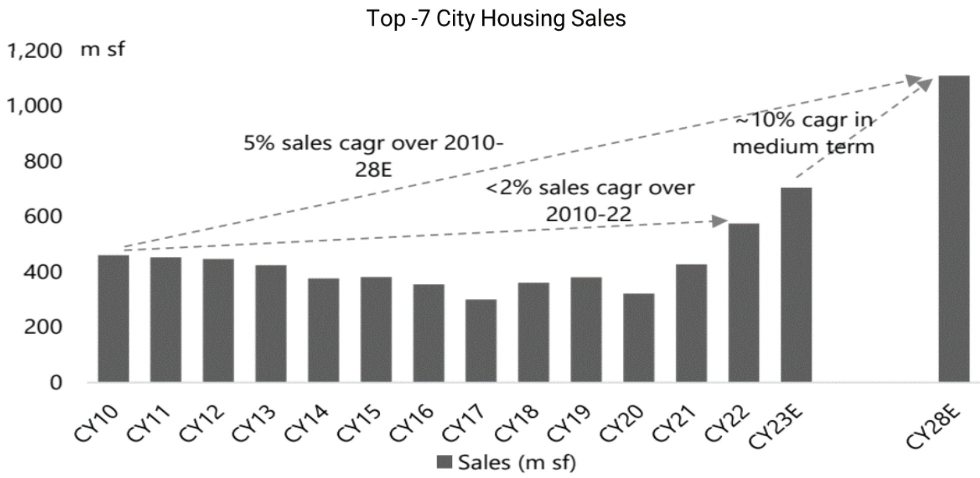
- Manufacturing PMI at 56.5 hits a 4-month high in January and Services PMI at 61.8 has hit a 6-month high.
- Economic activity continues to grow. Factory growth has hit a four-month high on robust demand.



- GST collections at INR 1.72 lac crores in Jan, has touched a new high.
- Capex is a big multiplier for the economy; Central, state, and private Capex are all increasing. Capacity utilisation is above long-term averages, capital is available and this will help to spur private Capex.



- The Real Estate market is at a multi-year high. It is expected to grow at a CAGR of 10% in the medium term. Real Estate contributes significantly to India's GDP. It has a multiplier effect leading to the growth of related sectors like construction, housing finance, sanitary ware, white goods, etc.



- Summer monsoon is expected to be normal with moderating El Nino.
- The government continues with fiscal consolidation. Fiscal deficit is projected to be 5.8% (vs. BE of 5.9%) in FY24 and 5.1% in FY25 as per the interim budget.

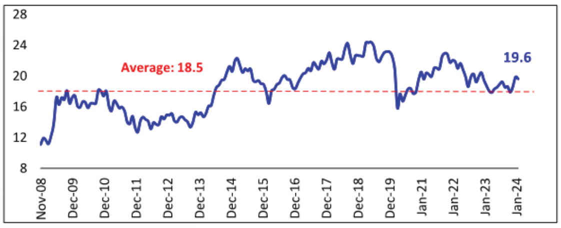
GLOBAL ECONOMY

- Oil has corrected ~9% since Nov'23, despite geopolitical risks.
- US economy has grown more than expected ~ 3.3% in 4Q23.
- China is slowing down. Retail sales have fallen, and unemployment has risen. Headline inflation is negative.
- The Eurozone economy continues to be weak.

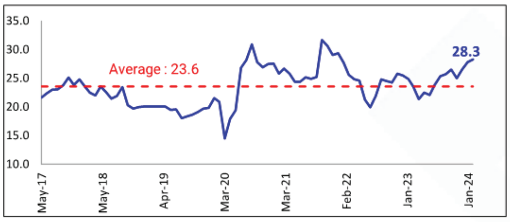
OUTLOOK

- Q3FY24 results were better than expected with 23 of 50 Nifty companies posting PAT in-line or better than expected. Earnings are expected to continue to be robust. Domestic earnings of corporate India are growing faster than overall NIFTY earnings (Domestic + Export oriented)
- Valuations are at a premium to historical averages.

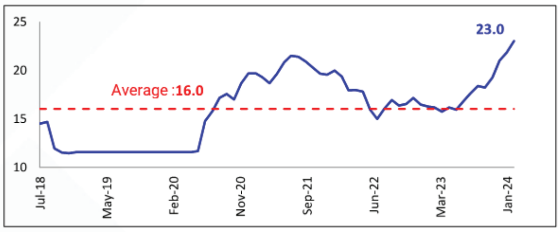
NIFTY P/E (x) - 1 Year Forward



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	20% premium to historical average
Smallcap	44% premium to historical average

- Global macro dynamics continue to be a cause of concern given the unrest in the Middle East. Global economies are expected to slow down meaningfully in the current calendar year in the absence of which interest rates may remain higher for longer. Expectations of a slowdown in major economies like the US and China have kept a cap on oil and commodity prices have softened.
- The medium to long-term outlook for the Indian economy remains strong with multiple structural reforms, a growing middle/mass affluent class, and strong macro fundamentals.
- Since valuations are 10-20% above long-term averages, one can expect reasonable returns in the current year in line with earnings growth or lower as the scope for rerating is limited. We recommend investing in diversified equity schemes with the flexibility to move across market caps/sectors/themes through the systematic investment route with top-ups during corrections. Lumpsum investments can be made in large-cap funds (better risk-return profile compared to mid and small-caps) and hybrid schemes that allocate in a combination of asset classes to navigate volatility.

Debt

- Domestic yields have softened with 10-yr dropping to 7.05/10 levels on the back of better fiscal deficit nos.
- Rise in US yields to 4.10 levels on the back of strong US GDP growth and payroll data has deferred the expectation of rate cuts to May from March 2023.
- Surpluses for 3-12 months can be parked in arbitrage funds which continue to healthy, tax-efficient returns. Longer-term debt exposure can be taken through hybrid offerings for tax efficiency.
- 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.