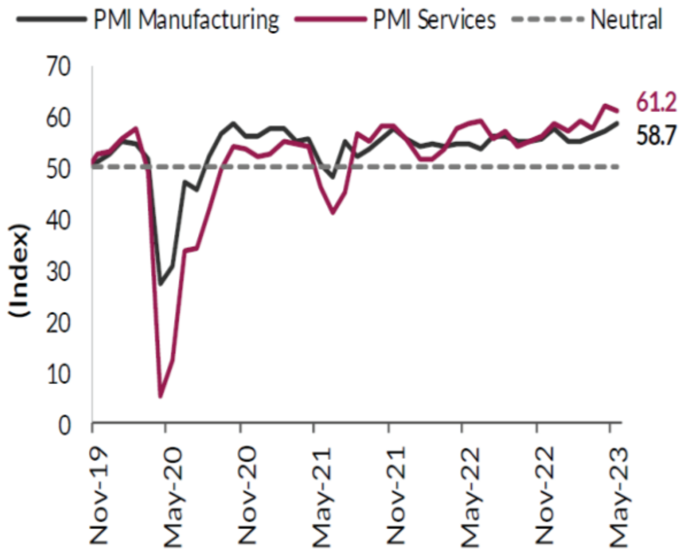
Capital League
OUTLOOK

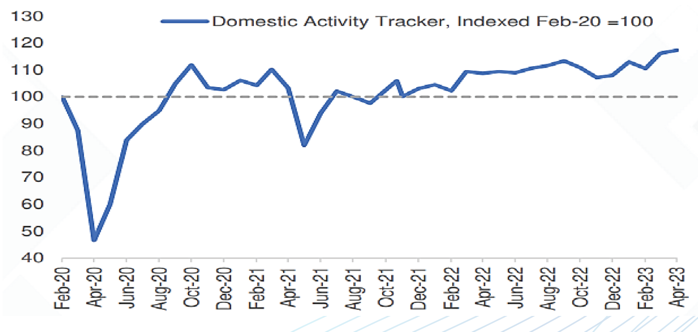
JUNE 2023

INDIAN ECONOMY

- India's Q4FY23 GDP rises to 6.1% with overall FY23 GDP growth at 7.2%, ahead of earlier projections of 7%. The key drivers for growth have been strong supply-side pick-up across sectors and investment-led demand. These domestic growth drivers negated the impact of a weak global economy.
- Fitch retains India rating at 'BBB-' with stable outlook; sees the country as the fastest growing economy in 2024
- India's manufacturing PMI rises to 31-month high of 58.7. Both the Manufacturing and the Services PMI continue to be in an expansionary phase.



- GST collections were INR 1.8 lac Crs in April & INR 1.5 lac Crs in May.
- Economic activity post-recovery in 2021 continues to be at historical highs.



- Real estate has seen a recovery pan India. Both new launches and sales have been picking up since mid-2022.
- Q4 earnings: Earnings were largely in line with expectations. Cyclical sectors Banking, Industrials, and auto numbers were in line with market expectations. IT sector lagged due to a weak global environment.

Number of cos	Sales	EBDITA	PBT	PAT
Above	12	16	17	21
In Line	35	19	21	16
Below	3	15	12	13
Nifty Universe	50	50	50	50

- Monetary Policy: RBI kept interest rates unchanged, citing sluggish global growth, uncertain inflation trajectory & projected weak monsoon.

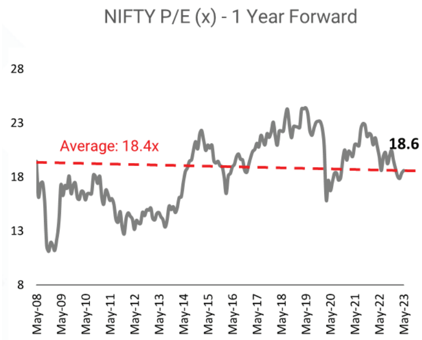
GLOBAL ECONOMY

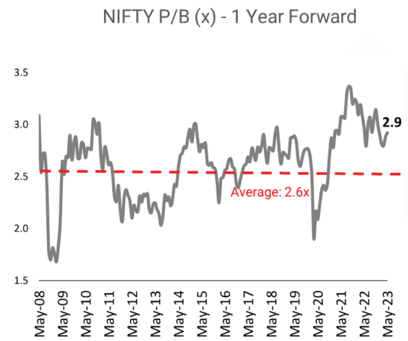
- Crude oil prices have corrected ~43% from peak in Mar'22.
- Global food costs are at a 2-year low, but the decline is taking time to reach consumers as transportation and labour costs remain high.
- World Bank in its latest global outlook has stated that Global growth is projected at 2.1% in 2023 (3.1% in 2022), hobbled by high interest rates, Russia-Ukraine war and lingering effects of coronavirus pandemic.

OUTLOOK

- Domestic demand conditions remain supportive of growth. Urban demand remains resilient, while rural demand is on a revival path. And fixed investment by manufacturing companies expanded in FY23. Consumer and business outlook surveys display continued optimism.
- **Equity:** Equity markets have a positive sentiment after good earnings quarter and better than expected macro-economic data.

- Since Oct'21 Nifty earnings have grown from INR 693/- to INR 941/- (up by 35%) while markets have stayed close to 18,500 levels resulting in a sharp time correction. Markets are at fair value and the medium-term outlook is positive.





- **Debt:** Bond yields have started easing in the last quarter as inflation has eased. The 10-yr G-sec is now at about 7%.
- We recommend investment in arbitrage funds for a short duration of 3-12 months since they are currently offering attractive returns and are taxed like equity.
- Debt funds continue to remain an attractive option due to professional and active management, diversification, easy liquidity, and taxation only on redemption. The 3 to 7-year bond duration segment is most attractive.
- 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. On a post-tax basis, these returns should be able to beat returns from Fixed deposits.
- Debt oriented Hybrid funds with limited equity exposure of 15-25% can also be looked at from a tax-efficiency point of view with an 18-month plus time horizon.
- Corporate Fixed deposit rates seem to have plateaued as both deposit growth and credit offtake are going up hand in hand.

Overall we recommend maintaining neutral asset allocation.