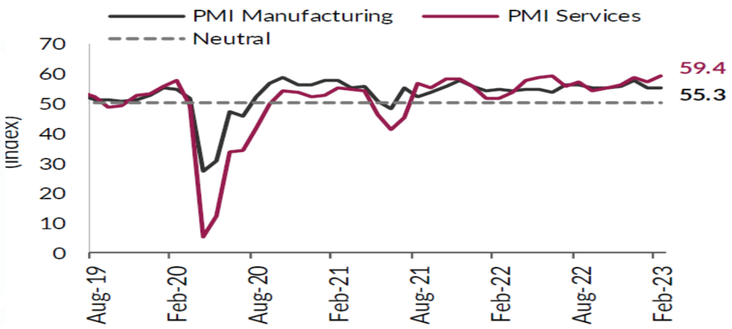
Capital League

OUTLOOK

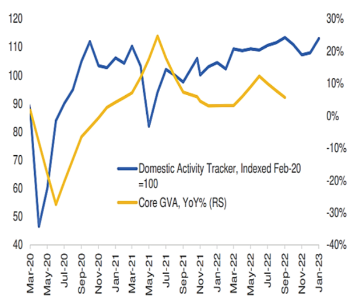
MARCH 2023

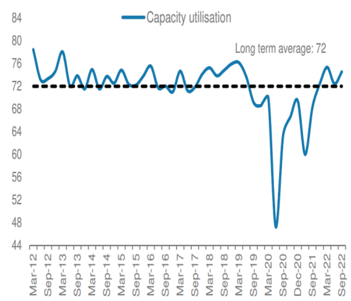
INDIAN ECONOMY

- India is expected to contribute 15% of global GDP growth in2023. (IMF)
- Both PMI Manufacturing & Services in expansion. Services PMI is at 12-year high.



- India has gained approx. 14% of the total Manufacturing that has moved out of China.
- Wheat and rice production are estimated at record-high levels. Agri exports in the first three months of FY23 have hit record highs.
- Monsoon can be less than the long-term average this year due to the expectations of El Nino effect which can have an adverse effect on Agri output and result in food inflation.
- Overall Economic activity is at an all-time high

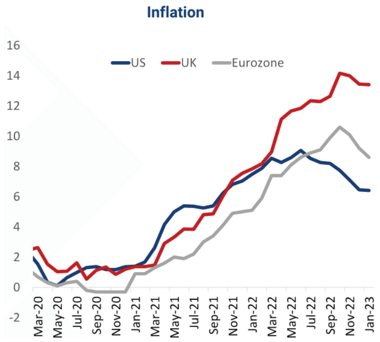


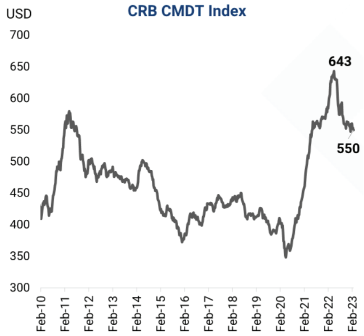


- GST collections continue to be above INR 1.5 lac Crs
- Credit growth is reviving to double digits.
- Budgeted CAPEX is expected to growth by 20.6 % in FY24.
- Inflation is expected to remain below 6% in FY24.

GLOBAL ECONOMY

- Global commodity prices have corrected sharply, but inflation remains elevated.





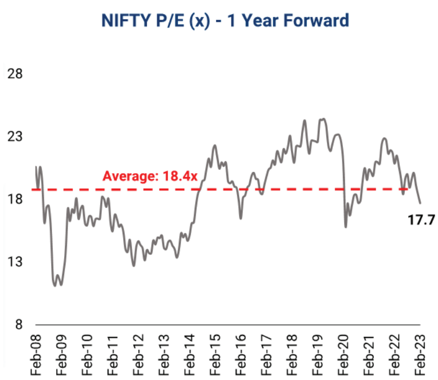
- IMF has upgraded its outlook for the global economy viz. its outlook in Oct'22.
- US has increased interest rates by 4.5% since the beginning of the tightening cycle and is going to increase further to control inflation.
- US S&P 500 Index has had the sharpest decline in earnings since 2Q20.

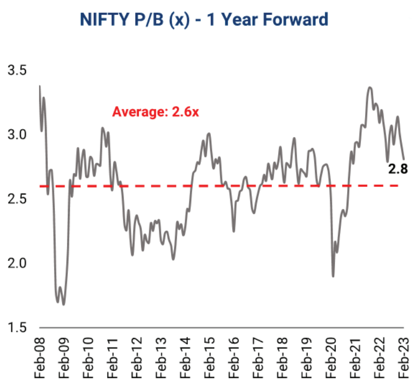
OUTLOOK

- Interest rates are expected to peak in 2023, globally. Global recession risk is high but the US may narrowly miss it.
- Agri growth continues to surprise on the upside and Capex which has a major multiplier effect on the economy is growing steadily & this bodes well for India's growth engine.
- Outlook is good for emerging economies & India is expected to have a positive year of corporate earnings despite global headwinds which could lead to further earnings downgrades.

Equity

- In the last 1.5 years, markets have seen both price and time correction while corporate earnings were growing @ 18% p.a. Valuations are now in fair territory, near to long-term averages.





- We recommend a cautious stance in view of hardening expectations of global interest rates (terminal rate for US benchmark rates expected to be 5.65% from 5.1% a month ago) on the back of stubborn inflation and record-low unemployment despite tech lay-offs. First half of current year is likely to be muted from equity returns perspective.

Debt

- After six consecutive repo-rate hikes by the RBI and inflation starting to moderate, we expect that we are at the last leg of the rising interest rate cycle. Further rate hikes by the RBI would be data-dependent. The increase in yields of fixed-income securities in response to the rate hikes was steeper in the short-duration and high credit-rated (G-sec and AAA) bonds leading to slight inversion of the yield curve. Higher yields on fixed-income assets make a strong case for investing in Fixed income products.
- In mid-March, liquidity is usually tight due to the payment of advance tax. We recommend investment in ultra short-term funds, money market funds, and low-duration funds for short time horizon, as the yields are very attractive at this end from a risk-return perspective. Arbitrage funds also continue to be attractive from a post-tax return perspective being taxed like equity. For more than a 3-year time horizon, March is an ideal time to invest (for an extra year of indexation benefit) in Fixed Maturity Plans (FMPs) and open-ended actively managed debt funds like medium-term funds and corporate bond funds as the 3-5 year segment is quite attractive.
- Corporate Fixed deposit rates continue to be revised upwards with a lag to RBI rate increases and can be looked at subsequently in April.
- **Overall we recommend maintaining neutral asset allocation and fresh allocation should be front-loaded in fixed income and fresh investment in equity should either be in hybrid funds or staggered through the STP route over the next six months to take advantage of a range-bound equity market.**