



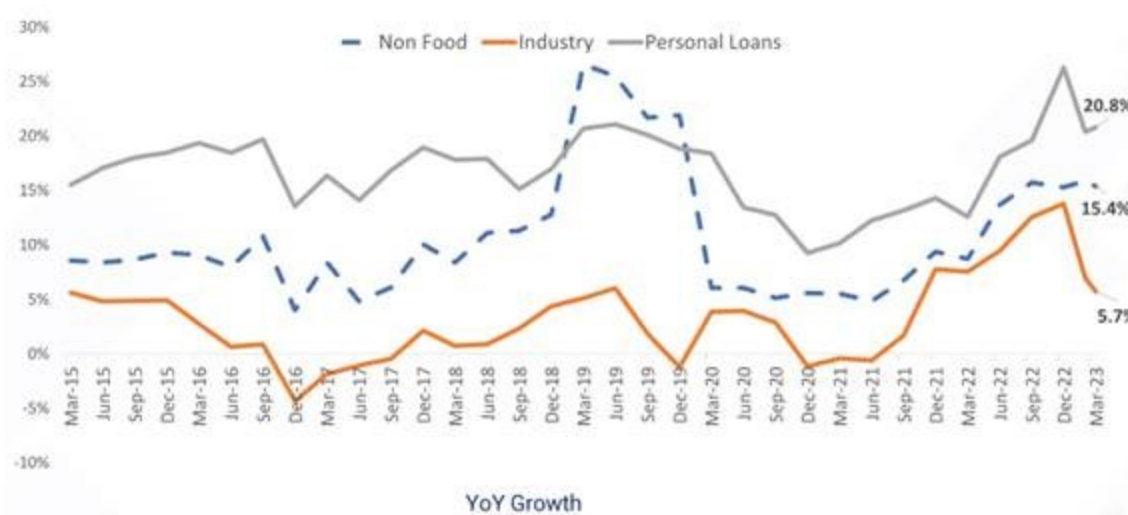
Capital League

OUTLOOK

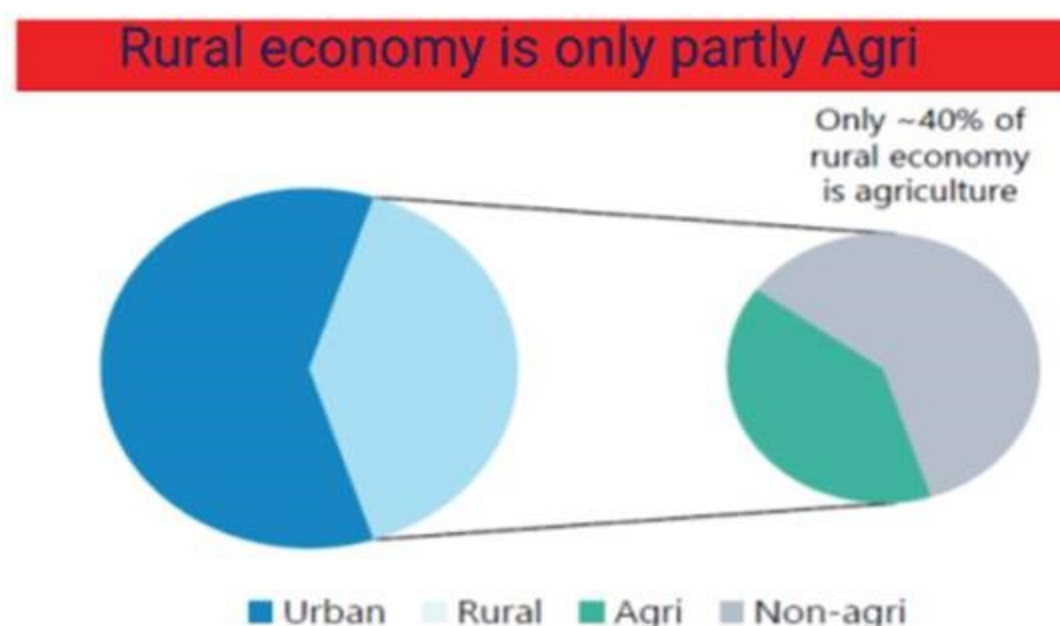
MAY 2023

INDIAN ECONOMY

- India's economic activity nears all time high, consumer sentiment improving, GST collections of INR 1.8 Lac Cr were highest ever.
- Services PMI at 62, is at a 13 year high in April'23. Manufacturing PMI is at a 4-month high.
- India's daily domestic air traffic is at 'all-time high' levels (4.56 Lac/day).
- Credit growth is reviving. This is a lead indicator of economic growth.



- Crude oil prices (Brent - USD 75) have corrected ~38% from peak in March'23. This is a big positive for the Indian economy.
- El Nino is expected to bring monsoon below long-term average. This would have some impact on agriculture. Irrigation levels have been steadily increasing and rural economy is steadily becoming less agriculture dependent.



- Consumption has been picking up since Covid, but it is still below pre pandemic trend.

- Corporate profits for Q4 FY23, are marginally up by 4.17% y-o-y for the 541 companies who have declared their results. The profit after tax is up 9.86% on y-o-y basis. The aggregate performance has been led by BFSI (banks, financial services and insurance) and automobiles while it has been dragged by weaker than expected performance of metals and mining companies.

GLOBAL ECONOMY

- Asia, particularly China and Japan, look poised to show strong economic growth and opportunity.
- FED has increased interest rates by 0.25% and has signaled an end to rate hikes. This is a significant development for both the US and global economy.
- Economic activity in US is expected to deteriorate further. Labour market remains at its tightest level in decades.
- Inflation in US continues to remain above the 2% target of policymakers. And process to get inflation back below 2% has a long way to go.

OUTLOOK

- Equity:** Sustained high levels of GST collections, resilient manufacturing, infrastructure & agricultural sector outputs, moderating inflation, and healthy credit growth augur well for the Indian economy.
- In the near term, corporate earnings growth and guidance, and general elections will affect market sentiment and movement.
- India is projected to be the fastest-growing large economy for the next few years. A favourable combination of a large domestic economy, demographics, digital economy, and government policy and reforms is driving growth.
- Equity valuations are near to long term average



- **Debt:** Signaling by Fed to end rate hikes has resulted in softening of interest rates in India with yield on 10 Yr G-sec coming down from 7.37% to 7.03%
- Current yields on fixed-income assets make a strong case for locking into longer-term Fixed income products.
- We recommend investment in arbitrage funds which are currently offering attractive returns and are taxed like equity, ultra short-term funds, money market funds, and low-duration funds for a short time horizon, as the yields are very attractive at this end from a risk-return perspective.
- With the change in the taxation of debt funds, investors with a long-term view can continue to invest in open-ended actively managed debt funds like medium-term funds, corporate bond funds, and dynamic bond funds. In debt funds, unlike fixed deposits or bonds, there is no tax liability till one redeems hence no interim leakage of returns. 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.
- Corporate Fixed deposit rates continue to be revised upwards marginally as credit offtake continues to pick up.
- **Overall, we recommend maintaining neutral asset allocation**