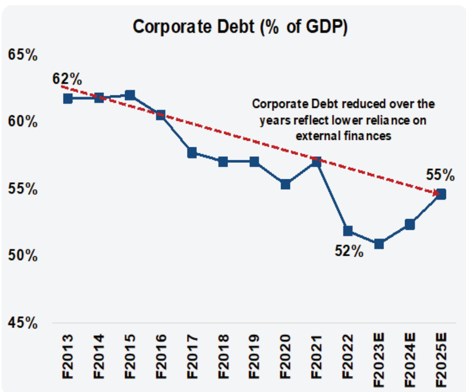
Capital League

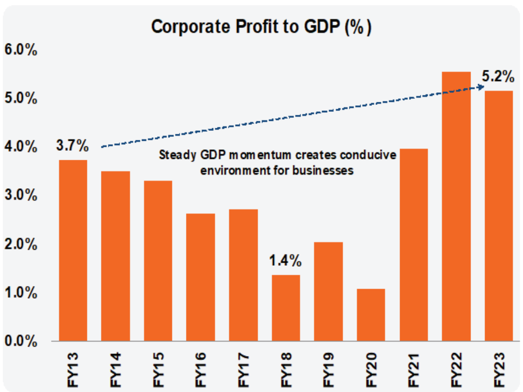
OUTLOOK

NOVEMBER 2023

INDIAN ECONOMY

- Both PMI Manufacturing (55.5) and PMI Services (58.4) slipped in October’23 though they continue to be in expansion mode for 27 straight months.
- GST collections at second highest level - INR 1.72 lac cr and YoY growth at 13%. Average gross monthly GST collection not stands at INR 1.66 lac cr for YTD FY24 compared to less than 1.5 lac cr for FY23.
- Credit growth, an economic multiplier is growing at about 15% YoY, led by personal (~18% YoY) and NBFC lending (~24% YoY).
- Real estate continues to grow and is a big driver of Indian economy. New sales & launches are over 20% YoY.
- Economic growth has driven up corporate profits and reduced the reliance of corporates on large funding. Corporate profit at % of GDP is near historic highs.





- Government led infrastructure growth is supporting investments. Govt. has preponed spending pre-election.
- Rural recovery post Covid is still muted. Train travel is still below pre-Covid levels.
- Rainfall deficit is at ~6% of long-term average and reservoir levels are 8% below 10 yr average.
- Export demand has slowed down as global growth remains muted.

GLOBAL ECONOMY

- US Fed has kept rates unchanged at last meeting, but narrative on interest rates is ‘higher for longer.’
- Oil continues to be around USD 95/barrel despite Middle east unrest.
- IMF forecast for global growth: to slow down from 3.2% in 2022 to 3% in 2023 and 2.9% in 2024 well below historical average of 3.8%.
- Advanced economies to slow down from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024. Emerging economies steady at 4% from 4.1% earlier.
- Global inflation to decline from 8.7% in 2022 to 6.9% in 2023 and 5.85% in 2024 due to tighter monetary policy aided by lower commodity prices. Inflation not expected to return to target till 2025.

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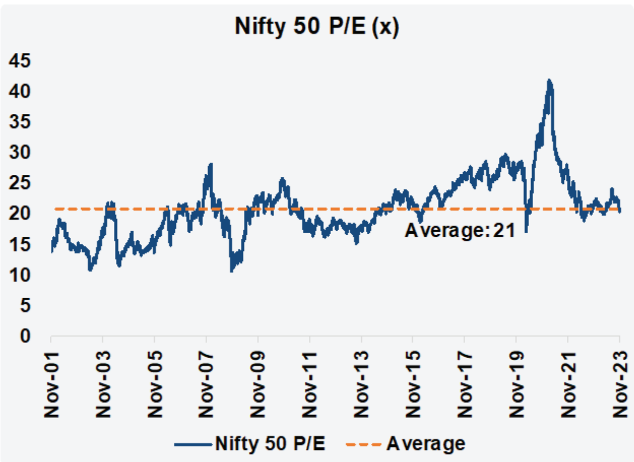
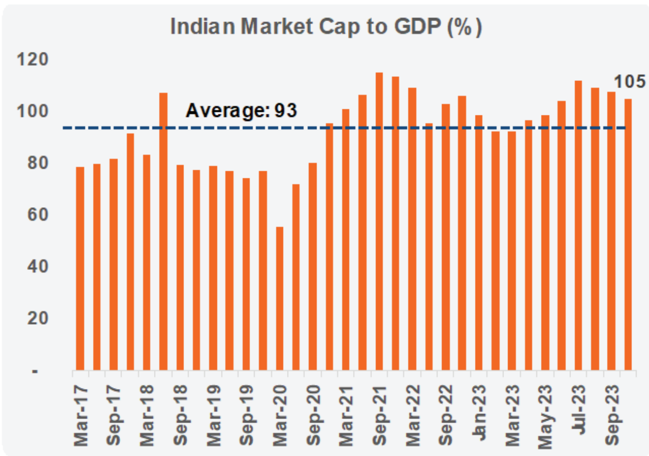
- **Equity** After recent corrections, valuations have moderated and markets are trading close to long term averages

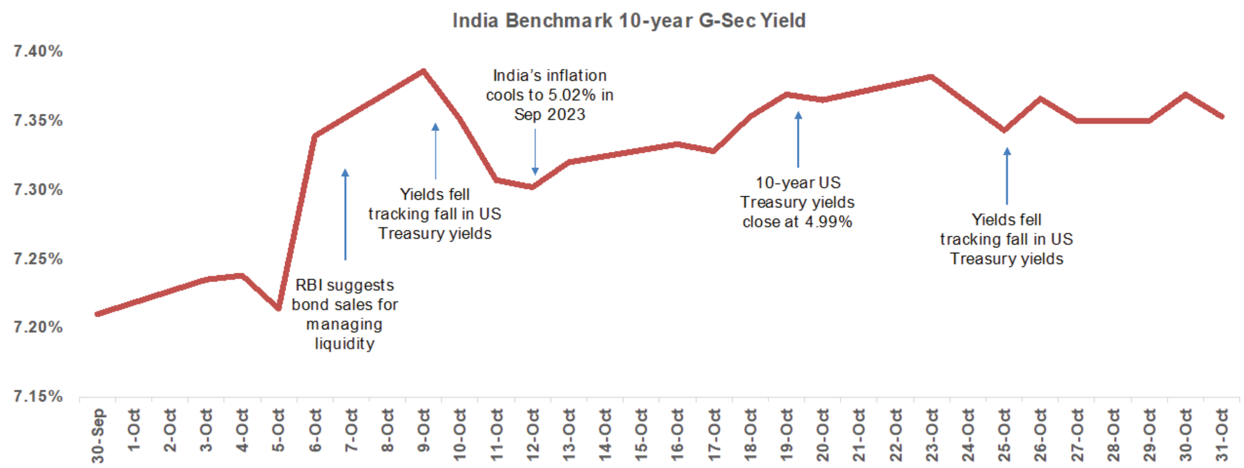




- There is concern on global macro dynamics given uncertainty from unrest in middle east and high interest rates targeted to slow global economies is likely to act as a headwind for domestic growth as well
- Medium to long term outlook for Indian economy remains strong with multiple structural reforms, growing middle/mass affluent class and sound macro fundamentals
- Positive FII flows from March to August resulted in upbeat sentiment and strong performance across the broad equity market. However, FIIs have pulled out ~75,000 crs in the last 3 months on the back of rising interest rates in the US and a strong Dollar (Dollar Index at ~107 levels). This has resulted into 3-5% correction in the markets.

- We recommend investing in diversified equity schemes with flexibility to move across market caps/sectors/themes through the systematic investment route with top-ups during corrections. Lumpsum investments can be made in hybrid schemes that allocate in a combination of asset classes to navigate volatility.

- **Debt** Domestic yields hardened in October tracking US 10-treasury bond yield which touched a high of 5% on 23 Oct'23 before rebounding lower to 4.6% level.
- Rise in US yields on the back of strong US GDP growth for 3Q at 4.9% and a hawkish FED signalling higher rates for longer remain a considerable source of headwind for domestic debt markets.



- Geo political headwinds from Middle East have put upward pressure on oil prices but weak economic data from Europe kept crude stable giving some relief.
- Surpluses for 3-12 months can be parked in arbitrage funds which are currently giving very healthy and tax efficient returns.
- Some new tax efficient solutions for debt investment can also be looked at and some debt exposure can be taken through hybrid offerings.
- Tactical allocation with 18-24 months view to longer-duration and dynamic debt funds can be staggered over next 3 months for capital gains on any yield correction during this time frame.