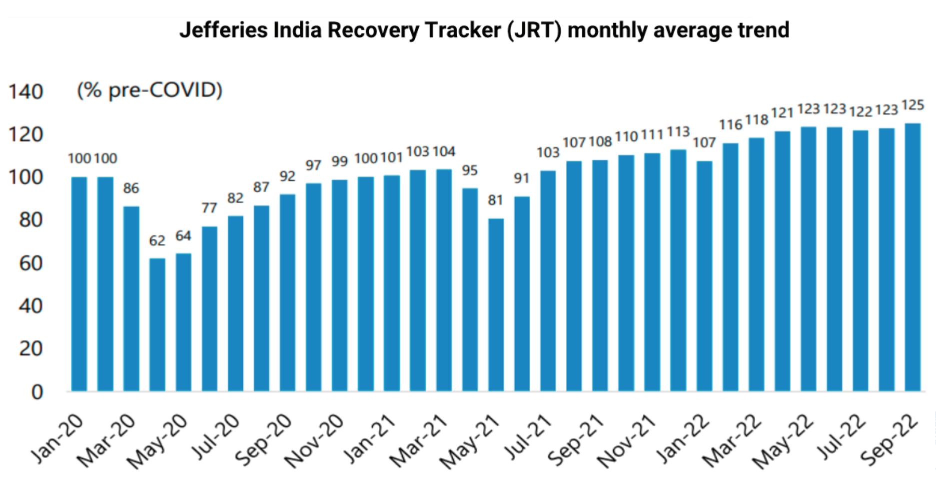
Capital League

OUTLOOK

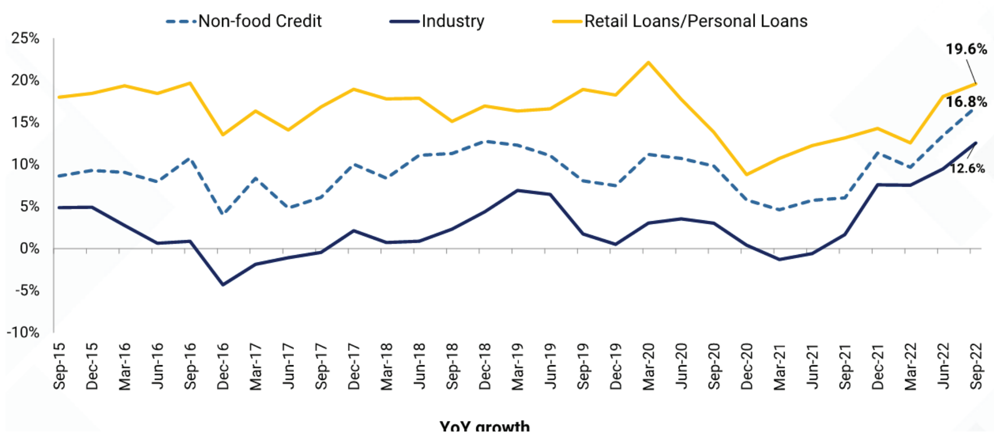
NOVEMBER 2022

INDIAN ECONOMY

- As per IMF's growth forecast for 2023, India is the fastest-growing major economy.
- GST Collections in Oct'22 are at a record INR 1.5 Tn. Gross tax revenue has overshot budgetary estimates by INR 3 Tn.
- Index of consumer sentiments rose by 7.1% to a 30-month high in September (CMIE)
- Manufacturing PMI was at 55.3 in October, indicating expansion. Hiring is at a 33-month high.
- High-frequency indicators for Oct'22, continue to show broad-based growth. Metrics like GST collections, registration of 2W and passenger vehicles, and bank credit are encouraging. In addition, petrol & diesel consumption, power consumption, railway freight traffic, and port traffic remain at high levels indicating that the economic activity is strong
- Economic activities are at an all-time high level, much above pre-COVID levels.



- India's capacity utilisation is at a 17-quarter high
- Indian trade deficit is a challenge. Exports are growing at a slower pace due to the slowing global economy and imports are increasing due to higher oil prices & higher imports of Capital goods for infrastructure investments.
- Credit growth is reviving to double digits



- India's share in MSCI Emerging Market index has risen from 7.7% in Mar'20 to 16.2% in Sept'22. A reflection of India's growth prospects as assessed by investors

GLOBAL ECONOMY

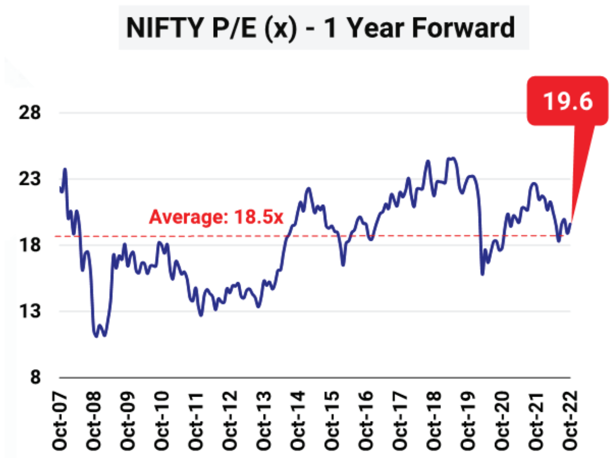
- Inflation continues to be a big issue in the US, leading to an unprecedented pace of rate hikes. This has led to significant asset price corrections in the US and globally.
- US mortgage rates have risen to the highest in a decade and demand for home loans/ mortgages is falling sharply. Interest rates are likely to continue to remain high till FED is able to rein in inflation.
- INR has been one of the most stable currencies in 2022, depreciating by only about 9% against the USD compared to most major currencies where depreciation has been from 12% to 20%.
- Global Manufacturing PMI is contracting indicating a slowing global economy.

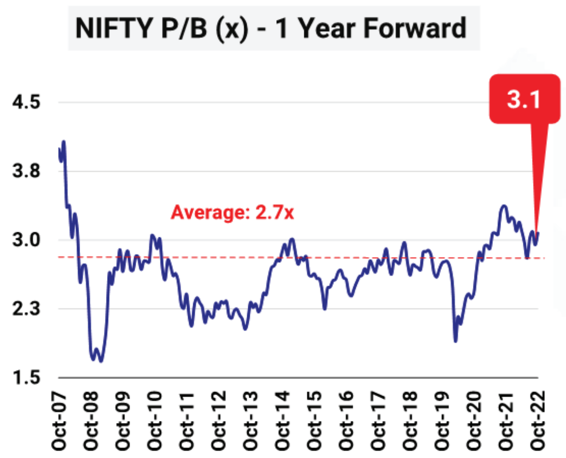
- China’s GDP is growing at a much slower pace than earlier projected. Also, China has stopped sharing data on a number of economic indicators, making the government-shared data less reliable.

OUTLOOK

Equity

- Going forward Indian equities are expected to track underlying corporate earnings growth in the short to medium term, given that current valuations are slightly higher than the long-term average.





- Global economy and specifically advanced economies are slowing down. This is likely to lead to some earnings downgrades for Indian corporates as well.

- Commodity prices have come off from the highs of Mar’22. This would provide relief to corporate input costs.

- Monsoons have been near historical levels and the rural economy is expected to show better growth in the second half of the financial year.

- We maintain a neutral stance on asset allocation. Fresh surpluses for equity allocation are to be added in a staggered manner over the next few months in view of the uncertain global environment.

Debt

- The yield on the Indian 10-year government bond fell to 7.3% in November, the lowest in over six weeks, tracking the external sentiment amid lower US Treasury yields and a weaker dollar. The spending by the central government should also be less than the amount budgeted this financial year for the first time since FY20, underscoring the government's aim to rein in fiscal deficit and reduce credit risk for Indian debt.

- On the monetary policy front, markets expect the RBI to continue raising interest rates in its December meeting as inflation remains well above its upper target of 6%. Retail prices rose by 7.4% year-on-year in September, surpassing expectations of 7.3% and notching the 9th consecutive month of inflation above the central bank's upper target.

- We continue to look at Targeted Maturity Funds, 3-year-plus FMPs, 3-5 year corporate fixed deposits, and medium-term corporate bond funds as preferred options to lock-in into high yield for longer term.