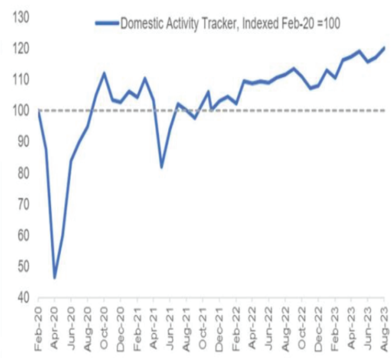
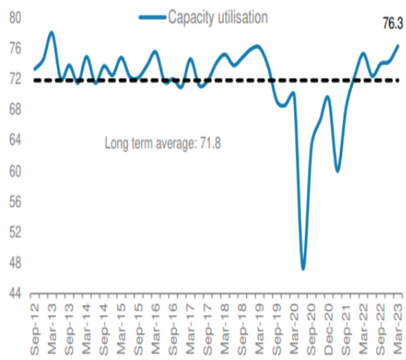
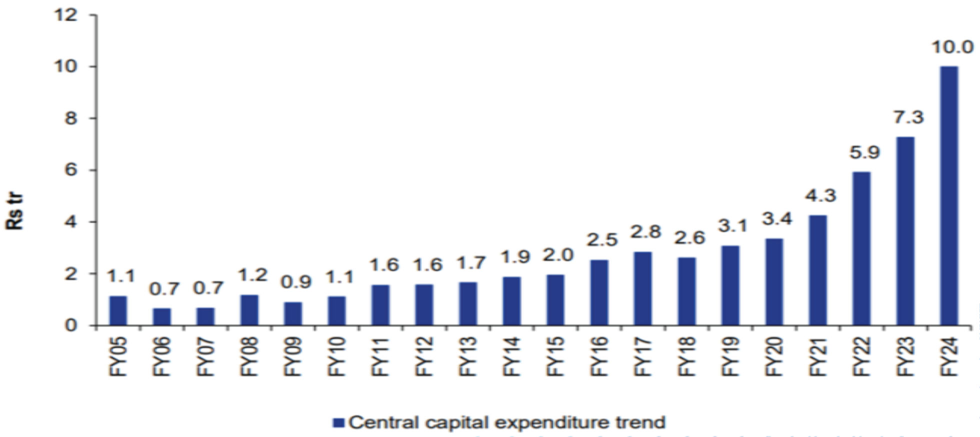
INDIAN ECONOMY

- World Bank retains India's FY24 growth forecast at 6.3%
- In Q2, Advance Tax receipts have jumped 24% YoY. Direct tax collections so far, are up 23.5% YoY.
- Domestic passenger air traffic is up 22.8% YoY as of Aug'23.
- Manufacturing PMI at 57.5 and Services PMI at 60.1 are both in expansionary mode. Services PMI has now seen expansion for 25 consecutive months.
- Economic activity is booming and this has pushed capacity utilisation above long term average.





- Increased consumer spending (pent-up demand) has led to Net Household Financial Savings fall to multi-decadal low of 5.1% of GDP in FY'23.
- Government continues to increase Capital expenditure. Also, listed companies YoY Capex growth has surpassed YoY GDP growth in recent years.



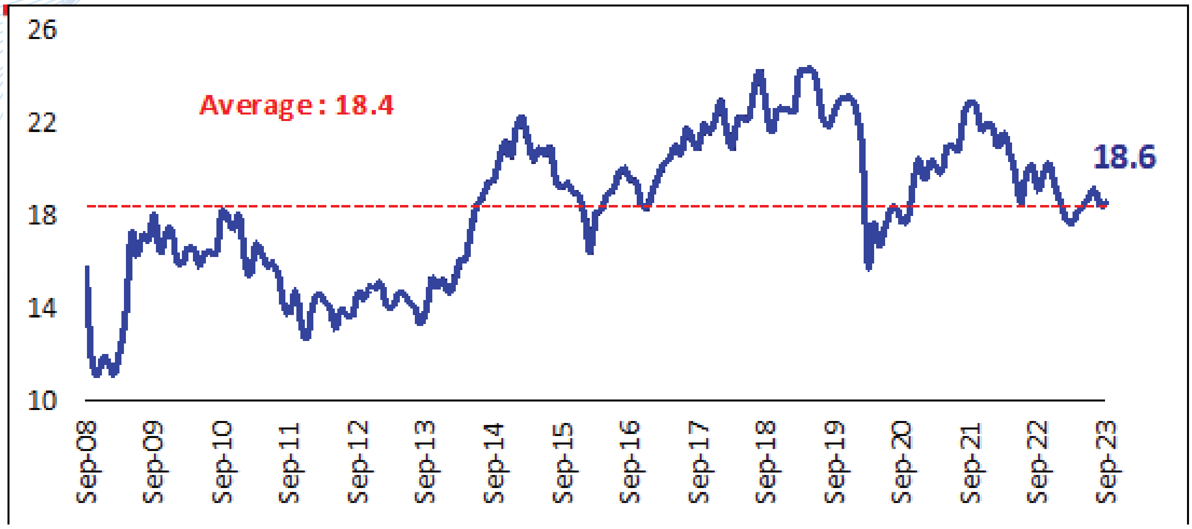
- Uneven distribution of monsoon is likely to impact the Kharif crop.
- **Monetary Policy:** The RBI MPC retained its status quo on benchmark rates and stance with Repo rate kept unchanged at 6.5% and 'withdrawal of accommodation' maintained. It kept headline CPI projection and GDP forecast for FY24 unchanged at 5.4% and 6.5% respectively.
- J P Morgan made the much-awaited announcement that India will be included in its Emerging Market Global Index starting 28th June 2024. India's weight in the index will rise to 10% by 31st March 2025

GLOBAL ECONOMY

- Global interest rates are at multi-year highs. US 10-year Treasury bonds are at 4.88% for the first time in 15 years after the Global Financial Crisis
- Inflation is easing globally on the back of expected slowdown in China.
- Oil has risen more than 33% in last 3 months. If this sustains it will impact global growth adversely.
- Global trade is declining at fastest pace since the Pandemic.
- China's growth is slowing. Q2 GDP growth has been much below expectation and export growth is at a 3-year low.

OUTLOOK

- **Equity** Going forward US Fed's stance on interest rates, Indian General Elections in 2024, high energy prices and impact of uneven monsoon will all add to volatility in markets.
- Softening of interest rates, lower oil prices, favourable Indian macros and market expected election results can all drive up the NIFTY to cross 21,000 levels. On the other hand, sustained high interest rates, indications of global recession, risks to corporate earnings trajectory and surge in IPOs can pull down NIFTY to below 18,000 levels.
- At present, Valuations are just marginally above fair value. Market Cap to GDP at 107% is clearly above the long-term average of 80% leaving no margin of safety.



- **Debt** RBI in its recent Monetary policy reiterated the 4% target for inflation instead of its comfort with 2-6% band. It also mentioned option of OMO bonds sales to suck out liquidity signalling that yields will keep higher for longer.
- On J P Morgan's inclusion of India in its Bond Index, market expects USD 25-30 Bn of flows into the local bond market over the next 18 months. This should contribute to softening interest rates, improved liquidity, lowering cost of funds for corporates and a more resilient currency in the medium term.
- Meanwhile, bond yields in India have risen reflecting both the RBI signalling and the upward movement in global bond yields. The 10-yr G-Sec has touched 7.38% from the low of 7.10% last month.
- Tactical allocation with 18-24 months view to longer-duration and dynamic debt funds can be staggered over next 3 months.
- Short term surpluses can be parked in arbitrage funds which are currently giving very healthy post tax returns.
- Some new tax efficient solutions for debt investment can also be looked at.