Capital League

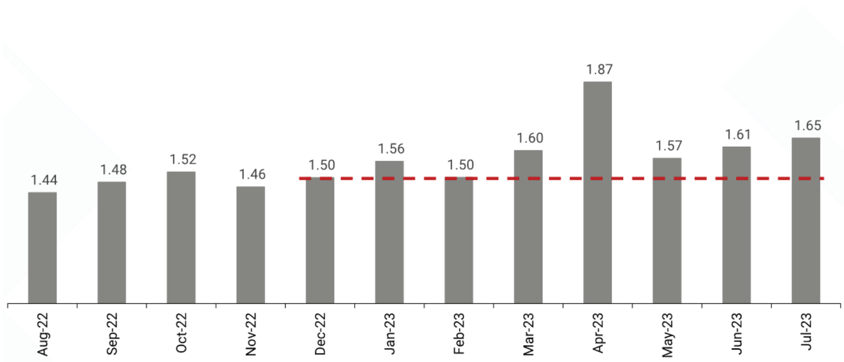
OUTLOOK

SEPTEMBER 2023

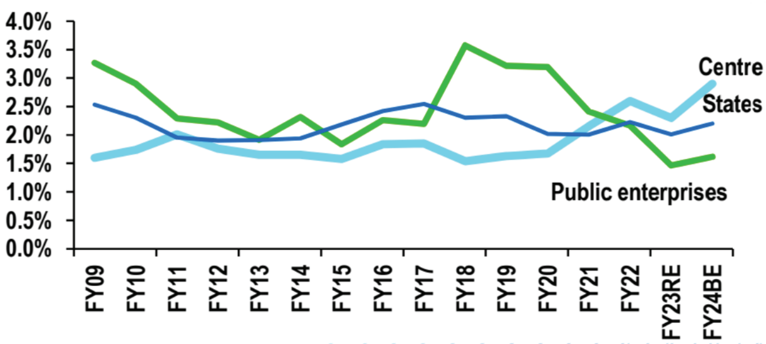
INDIAN ECONOMY

- High frequency indicators suggest continued demand momentum in India.
- Q1FY24 GDP came in at 7.8% vs 6.1% in previous quarter. IMF has raised India's FY24 GDP growth forecast to 6.1%
- Morgan Stanley has upgraded India to 'overweight' and China to equal weight from overweight.
- GST collection continues to stay above INR 1.5 Tn. High GST collections indicate both a growing economy and increasing formalization of the economy.

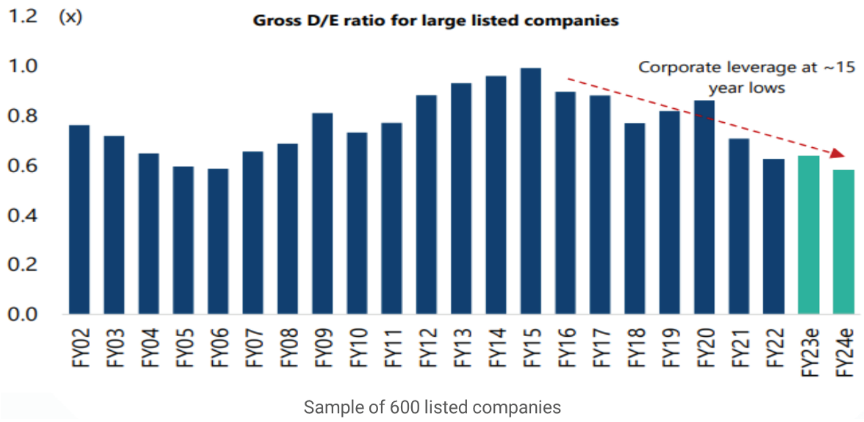
GST Collections (Rs. Lakh Cr)



- India has become fifth largest I-phone market for Apple in the 2QCY23 (April-June) for the first time, overtaking France & Germany.
- Services PMI came in at 62.3, highest since 2010. Manufacturing PMI came in at 57.7. Both indicating strong expansion.
- Government continues to increase Capex. This will have a positive multiplier effect on the economy.



- Corporate leverage is at a 15-year low. With low Debt, corporates are in a position to borrow for capacity expansion. Announcements of private Capex have been steadily increasing.

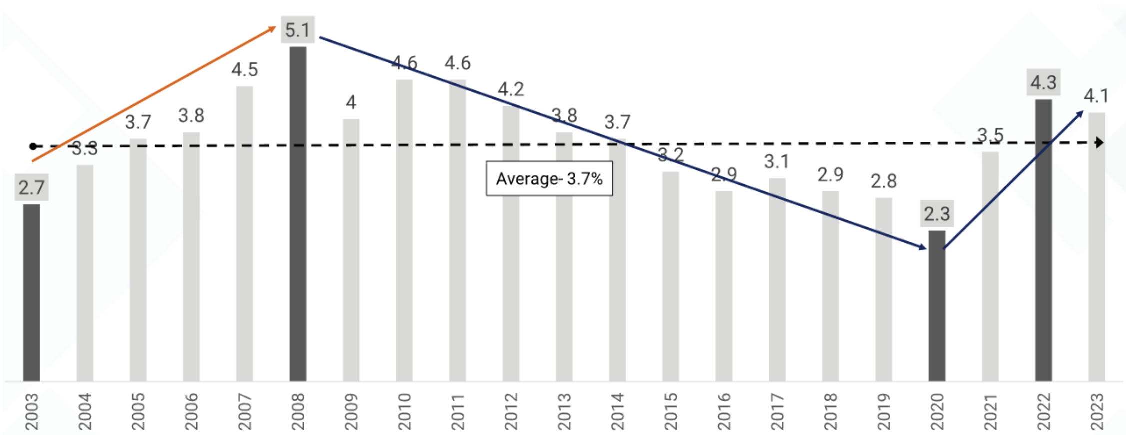


GLOBAL ECONOMY

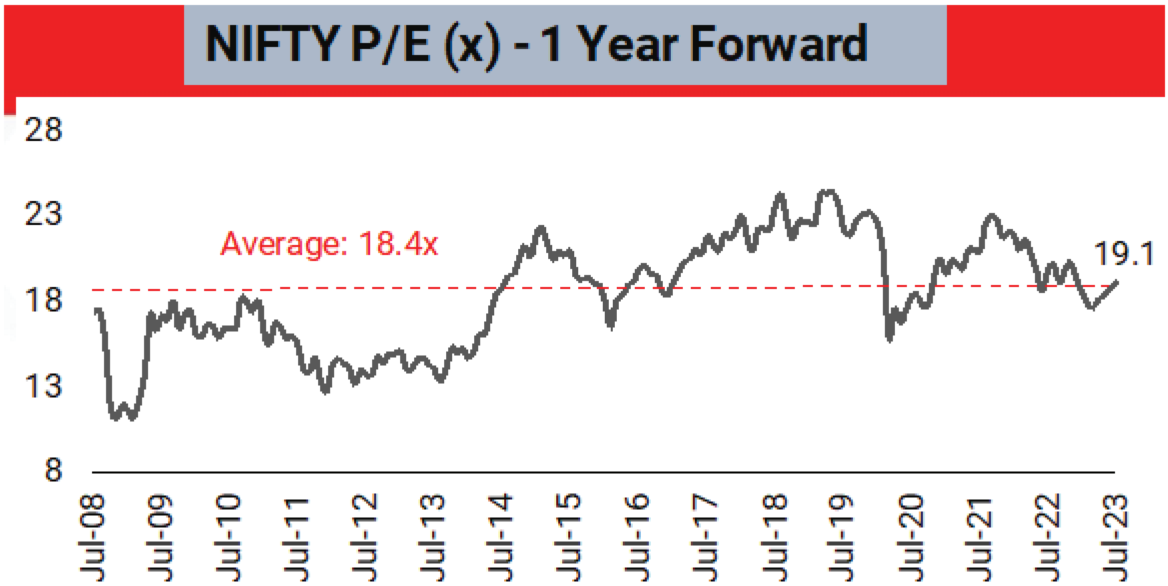
- Interest rates have been increasing globally as inflation is easing. Growth as well as global trade is slowing down rapidly.
- US economic activity has surprised on the upside, while Eurozone and China have been below expectation.
- FED guidance is pointing towards one more rate hike this year.

OUTLOOK

- Corporate profits are growing at a faster rate than GDP. Corporate profit to GDP is at historically high levels, indicating the increased profitability of corporates. FPIs (Foreign Portfolio Investors) have turned aggressive buyers over the last few months.



- Valuations are a little over long term averages. Market Cap to GDP ratio has declined from the highs of 2022.



- In coming months, markets will be affected by uncertain global macros, liquidity tightening and uncertainty regarding upcoming elections. Strong Indian macros, softening interest rates, multiplier effect of capex and job creation, spending before elections and upcoming festive season shall contribute to positive sentiment. We maintain neutral allocation and buy on dips recommendation for Indian equity.
- **Debt** Bond yields have risen reflecting the movement in global bond yields as well as our own recent food inflation dynamics. RBI will closely watch the evolution of food prices with a view to deciding whether the October policy may warrant one last rate hike in this cycle.
- Short term surpluses can be parked in arbitrage funds which are currently giving very healthy post tax returns. Long-term tactical allocation can be made to longer-duration and dynamic debt funds. On a post-tax basis, these returns should be able to beat returns from Fixed deposits.
- Debt oriented Hybrid funds (Equity Savings category) with limited equity exposure of 10-25% will provide debt plus returns with equity taxation.
- Locking in select Corporate Fixed deposits for 5 years plus is an attractive option versus bank fixed deposits which offer maximum rates for 18-24 months only.