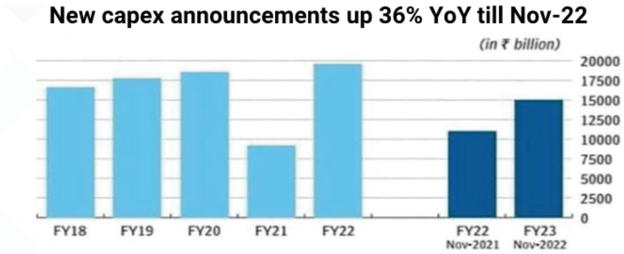
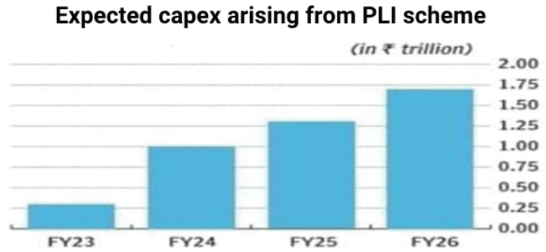
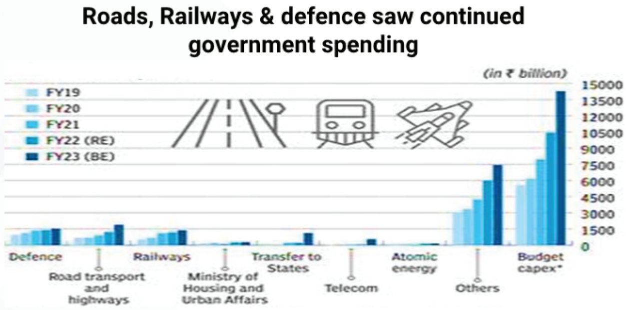
Capital League
OUTLOOK
FEBRUARY 2023

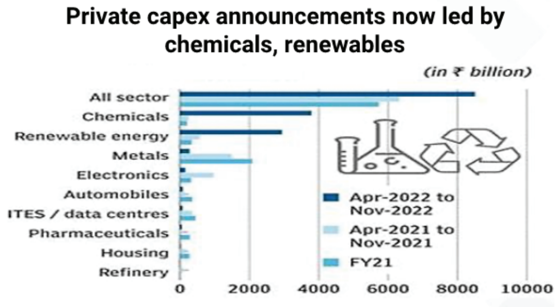
INDIAN ECONOMY

- India's projected real GDP growth of 6-7%, inflation of about 5.5%, and fiscal deficit of 6.4% present a strong macro story in a turbulent world economy.
- The Budget is growth-oriented, fiscally prudent, and targeted towards employment generation. Capital expenditure outlay for FY24 at 3.3% of GDP has been increased by 33% to INR 10 Lac Crs will have a significant multiplier effect.









- RBI increased the repo rate by 25 bps in line with expectations.
- CPI inflation in Jan has come in at 6.5% YoY, much above 5.7% in Dec'22.
- Credit growth is reviving to double digits.
- New personal income tax structure is expected to leave INR 35,000 Crs in the hands of taxpayers. This will help to boost consumption and investment.
- Direct tax collections are up 33% YoY.
- Fast Tag collections hit INR 50,000 Crs in 2022, up 46% YoY.
- High interest costs have resulted in the deacceleration of home demand.
- India is expected to manufacture every second iPhone in 2027.

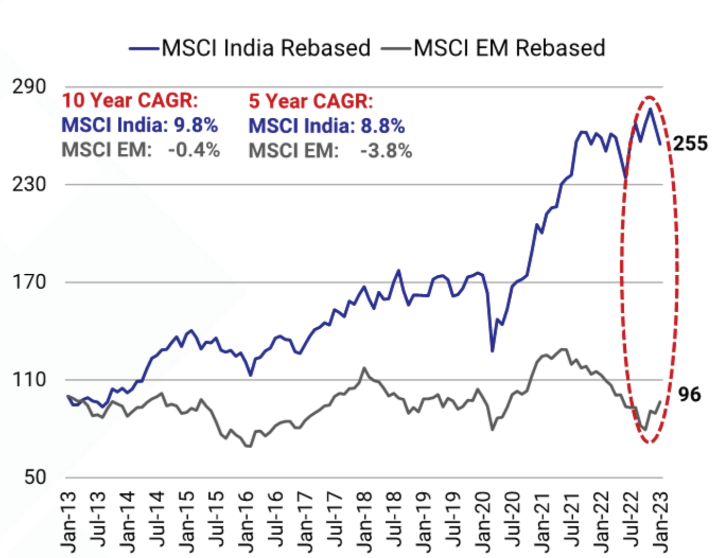
GLOBAL ECONOMY

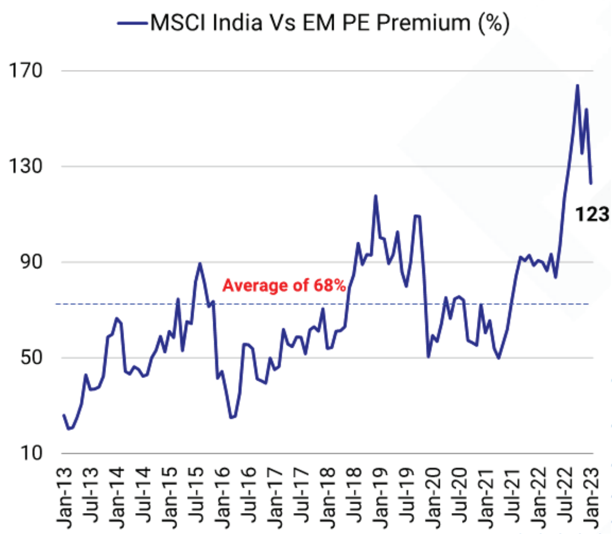
- Global commodity prices like Steel, Aluminium though lower than all-time highs, have inched up again on China's opening up.
- Globally inflation is declining though unemployment in the US is at a 57-year low leading to concern that wage inflation may remain sticky.
- Strong growth in China (5.5% in 2023) is a positive for global growth
- Globally investors are overweight bonds and underweight equity due to high interest rates.
- UD debt at USD 31Tn is creating interest payment stress. The US paid USD 853Bn in interest in 2022, more than the entire Defence budget of 2023.

OUTLOOK

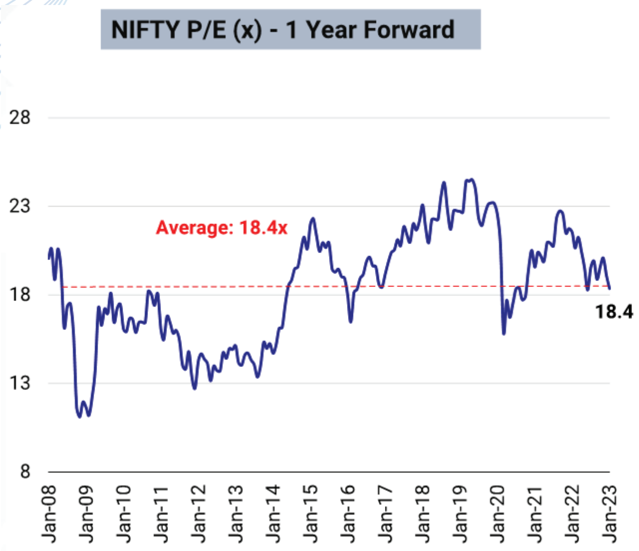
Equity

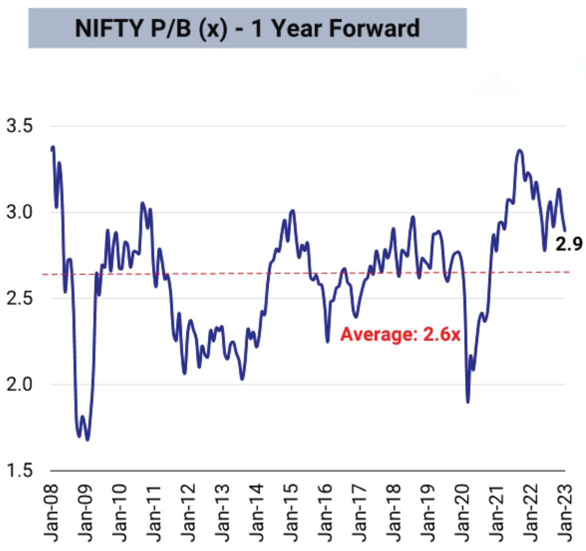
- India has been trading at a huge premium to MSCI Emerging Market Index. This has started correcting with Chinese markets up by more than 30% from the lows (50% fall from peak). In near future, the trade is short India and long China





- Indian equity valuations are at a marginal premium to fair value.





- India is the only large market that is trading at a significant premium to the last 10-Year multiples, any scope of further valuation rerating is limited
- 1-Year Forward Expected Earnings growth is also the highest among emerging markets, **thus earnings delivery is critical to driving returns over the next year.**

Debt

- Expectation of the terminal policy rates in US has gone up from 5% to 5.25% after the much higher than expected employment data last week.
- IMF now sees far fewer countries facing recession this year and no longer anticipates a global downturn. Hence for Fed, the primary driver for interest rate trajectory shall be material shifts in inflation and not the continuation of a growth slowdown.
- With inflation rearing its head again, it looks likely that RBI will have to increase interest rates again in their March meeting (Repo rates have been increased from 4% to 6.5% since May22) which is reflected in the slight hardening of rates.
- Both G-secs and corporate bonds are looking attractive with increase in spreads. Also there is an opportunity in the 3 to 7-year maturity segment given the flat yield curve. Hence, for a long-term investment horizon, we continue to favour 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 yields for a longer term. Dynamic Bond funds can also be considered selectively as we are near the peak rates. For a shorter investment horizon, both arbitrage and money market to ultra- short term debt funds look attractive.