

Indian Economy

- The government rolled out E-way bill system for all inter-state movement of Goods on 1st Apr'18. This is expected to improve compliance. The government is also trying to simplify filing of GST returns.
- The government has brought the rural housing subsidy program under Direct Benefit Transfer (DBT) mechanism. The number of schemes under DBT has gone up to 434 schemes from 50 schemes, two years ago.
- Indian Metrological Department has predicted normal monsoon this year at 97% of the long-period average (LPA). Good monsoon will augur well for agriculture and allied sectors and should support rural demand.
- Rural economy appears to have strengthened with some of the indicators like sales of Two-wheelers, FMCG goods, Tractors and Fertilizers showing an increase.
- RBI kept the interest rates unchanged in its last monetary policy. It has lowered its projection for CPI inflation from 5.1-5.6% to 4.7-5.1% for H1FY19.
- Domestic flows into equity markets have increased sharply in last two years. The growth in inflow by Domestic Institutional Investors (DII) will help to reduce the vulnerability of Indian equity market to external developments.

	FII Flows (INR Crs)	DII Flows (only MFs) (INR Crs)
Jan – Apr 2017	42,011	20,700
Jan – Dec 2017	51,335	1,18,056
Jan – Apr 2018	9,662	37,269

- Recent surges in commodity prices due to global cues may affect the operating margins of Indian companies in the forthcoming quarters.

Global Economy

- Rising consumer spending, robust business borrowing and tight labour markets indicate the US economy remains on track for continued growth.
- China has imposed tariffs on nearly 128 US products in retaliation of higher import/anti-dumping duties on host of items imposed by US.

- The Japanese economy which grew 1.7% in CY17 is likely to slowdown to a range of 1% to 1.5% this year with decrease in production and exports.
- Brent crude oil prices have reached a 3-year high of around USD 73 – 74 per barrel due to the resurfacing of cartelization (lead by Saudi Arabia) and strong growth in global demand in Q1CY18.

Outlook

- Valuations, despite recent corrections continue to run high. Sensex at 19X 1 year forward earnings is higher than historical averages. Revival in corporate earnings is absolutely critical to sustain market valuations.
- Tightening of global monetary policy, rise in crude oil prices and events in the run-up to the 2019 elections would keep markets volatile in the next one year.
- Investors are recommended to maintain/rebalance their asset allocation. Equity investments should be done in staggered manner.
- In a scenario of CPI being in the range of 4 – 5%, India's 10-year bond yield is likely to remain in the range of 7-7.5%, with a real yield of around 150-250 basis points.
- Investor should look to invest in accrual funds and short duration funds for better yields in fixed income allocation.