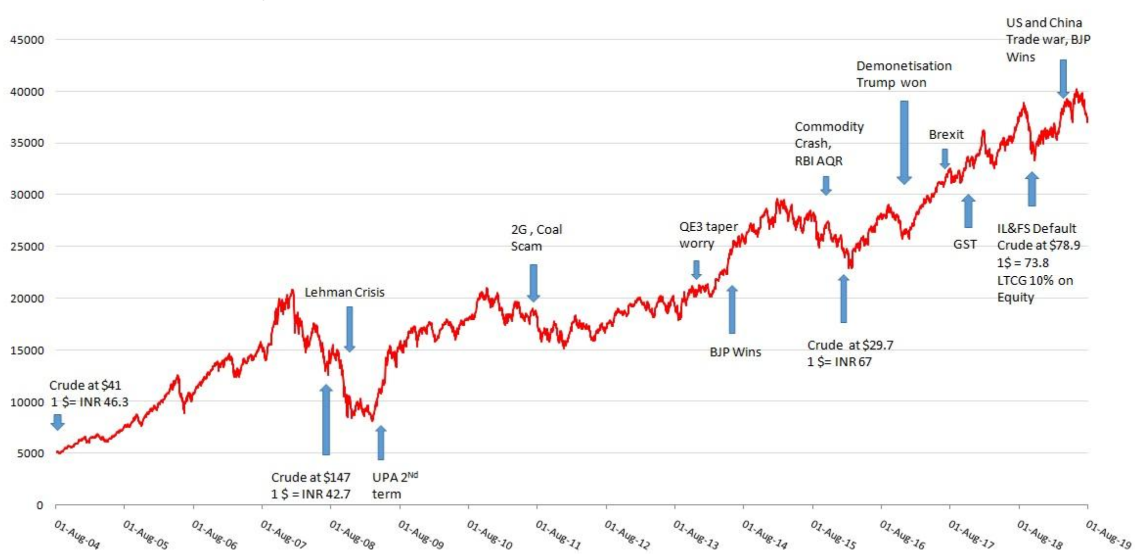
Capital League outlook

Aug, 2019

Indian Economy

- The various strength factors for the economy are - Macroeconomic parameters remain stable, bold policy actions by government (such as IBC, GST, RERA, MPC set-up, DBT) showing long term constructive effect on economy, US-China trade war favoring India's exports, low penetration and rising aspirations of the youth for growing consumption, low inflation and low interest rates can set the base for uptick in consumption.
- Corporate Earnings growth took a hit in Q1FY20 signaling continuation of economic slowdown. Banks, FMCG and IT posted a better performance, while Consumer Discretionary, Automobiles, Materials, showed declining trend in profit growth. Forthcoming festive season is expected to boost consumer spending and lift the demand growth in some of the sectors.
- The combined net profit for Q1FY20 for 2060 companies grew by 5.9% and net sales grew by 7.1% on y-o-y basis. Low volume growth and increase in interest liability have been major reasons for the drop in margins.
- Indian equity market corrected sharply in July'19 after touching new highs in early June. The fall was sharper in the broad markets due to lack of any material and immediate fiscal support towards growth and reduced visibility on FY20 growth outlook.
- In the last 15 years the Sensex has grown from sub 6,000 to over 37,000 at a CAGR of 14% with dependence on FIIs reduced significantly due to steady domestic inflows. This growth has been witnessed despite various events which at the time seemed catastrophic.



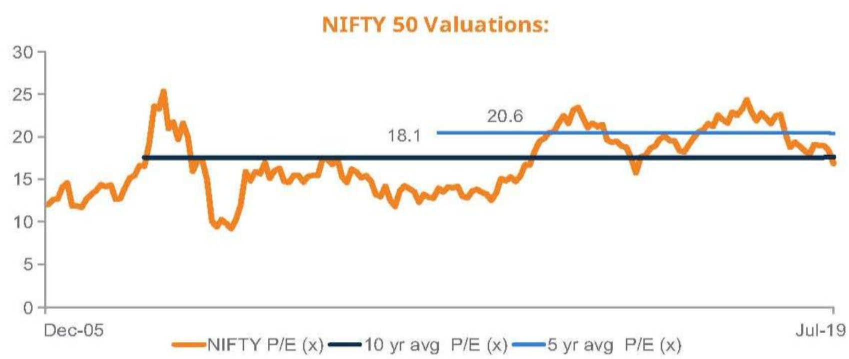
- RBI reduced the Repo rate by 35bps from 5.75% to 5.40% this month and maintained its stance at 'accommodative'. The RBI lowered its GDP growth projection for FY20 to 6.9% from earlier 7.0%. With inflation remaining benign and focus of monetary policy returning to economic growth more rate cuts are expected in the current financial year.
- RBI enhanced the provision for banks lending to NBFCs. The bank's exposure limit to a single NBFC is raised to 20% from 15% earlier of the Tier-1 capital of the bank.
- RBI also indicated that it will maintain adequate liquidity, which is likely to result in better transmission of rate cuts.

Global Economy

- Global growth projection by IMF has been lowered to 3.2% for 2019 and 3.5% for 2020, both down 0.1% from their earlier projection.
- US Fed cut rates (25bps) for the first time in a decade citing implications of global developments for the economic outlook as well as muted inflation pressures.
- UK announced its next Prime Minister, as the country struggles to close the Brexit deal with the EU.
- Amid escalating trade tensions with US, the Chinese economy expanded by 6.2% in second quarter, at slowest pace in 27 years.

Outlook

- Equity Markets are facing turbulent times with low investor sentiment. However, government is taking feedback from various sections of economy and is expected to make policy announcements to tackle slowdown.
- NIFTY is trading at 19.1X its one year forward P/E which is below its long-term averages on both 5–year and 10–year basis.



Source: Bloomberg, as on 31st July, 2019.

- We recommend existing clients to maintain their asset allocation and to continue with their STPs/SIPs to take advantage of cost averaging.
- The higher magnitude of rate cut by RBI and a shift in the banking system's liquidity to surplus should likely help to speed up monetary transmissions and bring some relief to borrowing costs.
- On the fixed income side, investment in short term funds, tax free bonds and fixed deposits are recommended based on the tax slab of the investor.