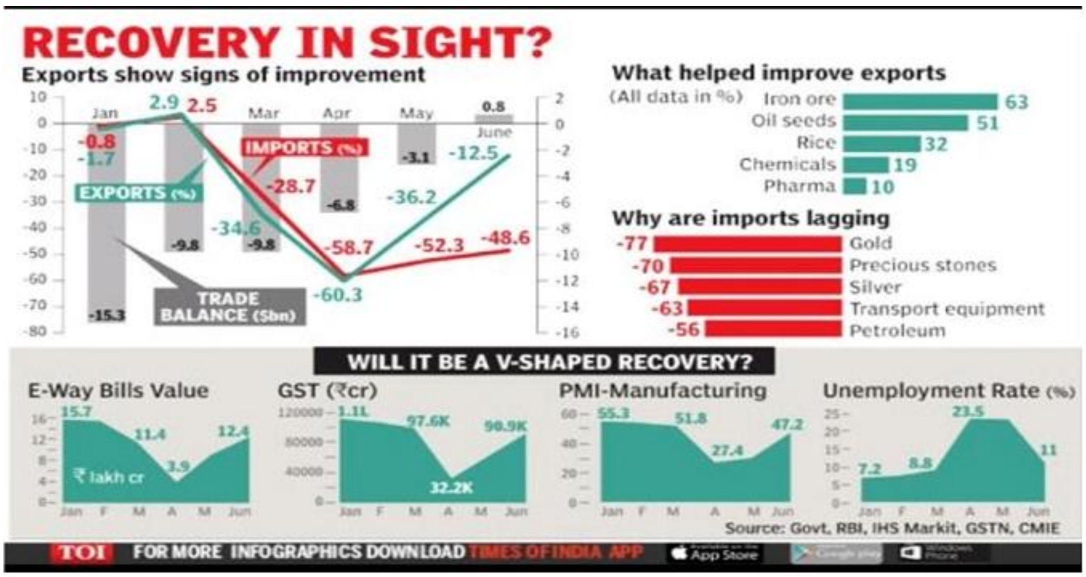
Capital League outlook

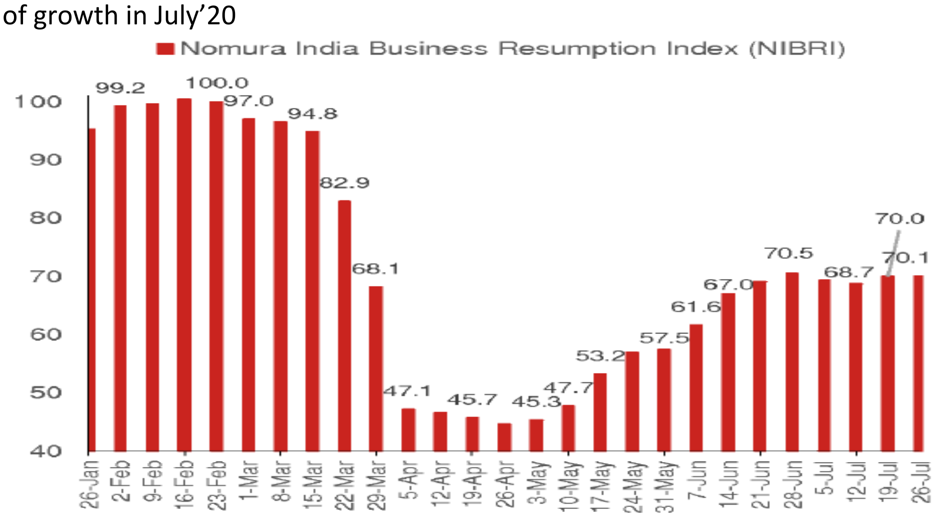
August, 2020

Indian Economy

- Indian economy continues to recover gradually with increase in various economic activities.



- **Manufacturing**: July’s manufacturing PMI fell to 46.0 in July'20 from 47.2 in June'20. While new export orders bounced back (suggesting improving global demand) aggregate new orders declined suggesting weak domestic demand.
- **Services**: July’s Services PMI inched up to 34.2 from 33.7 in June. It, however, remained weak as compared to pre-COVID levels.
- The Nomura ‘**Business Resumption Index’** shows Steep recovery since April but flattening of growth in July’20



- Power consumption has reached 100% of last year’s levels.
- The Auto industry showed a sequential improvement in the month of July'20, with demand for both passenger vehicles and two-wheelers being noticeably higher.

- Monsoon season rainfall is at normal level. A major positive for Rural economy.
- **Indian equity markets** continued to rise in July'20 amidst largely buoyant global markets driven by optimism around progress of vaccine development, signs of stabilisation in economic activities in India as well as major countries and near zero yields on fixed income.

As on 14 Aug 20	1 month (%)	6 month (%)	1 Year (%)
NIFTY 50	5.38	-7.72	1.35
US - Dow Jones	4.84	-4.99	9.62
Japan - Nikkei 225	3.11	-1.68	12.75
UK - FTSE 100 Index	-1.45	-17.80	-14.80
France - CAC 40	-0.89	-18.23	-5.49
H K - Hang Seng	-1.16	-9.46	-0.47

- CPI Inflation Rate rose to 6.93% in the month of July'20 mainly on account of higher food prices. However more favorable food inflation outlook may emerge from bumper Rabi harvest, supported by expanded market sales and public distribution offtake following high procurement. On the flip side, elevated fuel prices may add to cost push pressures. Overall, CPI is expected to remain elevated in Q2 FY21.
- **Monetary Policy** - RBI kept the interest rate unchanged at 4.0%. It also maintained an accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within target.
- With the end of moratorium on loans on 31 Aug'20, the RBI announced that it will provide a debt resolution window to enable lenders to implement a resolution plan in respect of eligible corporate exposures as well as personal loans, keeping the ownership unchanged, and without classifying them as non-performing loans.
- RBI announced various other measures for revival of economic activity - (a) restructuring of MSMEs loans, (b) increasing the permissible Loan-to-value ratio for loans against pledge of gold ornaments and jewellery for non-agricultural purposes from 75% to 90% and (c) broaden the scope of Priority Sector lending (PSL).

Global Economy

- Europe is witnessing economic recovery with the Eurozone composite PMI, at 54.8 in July'20 which is the best since mid-2018.
- China's production activity has mostly normalized, total June'20 industrial profits showed a second month of growth at 11.5% over the prior year, following a 6.0% gain in May'20.
- **Commodities:** Crude prices have improved with increase in demand following easing of lockdown restrictions in several countries along with extension of production cuts by the OPEC. Weakening dollar, low/negative interest rates and strong demand from global central banks has boosted Gold prices.

	Market Price (USD)*	1 month (%)	6 Month (%)	1 year (%)
Brent Crude (per barrel)	44.8	4.43	-21.84	-24.68
Gold (per ounce)	1,945	7.50	22.79	28.28
Silver (per ounce)	26.45	37.62	49.07	53.61

*Market prices as on Aug 14, 2020

Outlook

- Due to the lockdowns, India’s GDP growth is expected to fall by 5-10% in FY21 from 4.2% growth in FY20.
- Macro factors such as low oil prices, stable currency, high forex reserves, and strong FDI and FPI flows are currently in India’s favour.
- Policy, fiscal and monetary measures announced by the Government and the RBI should also support economic revival. Going forward, FY22 is likely to witness strong rebound in growth driven by low base, pent up demand and full year of normal activity.
- The narrative on valuations globally has change from looking at PE ratios which are currently elevated in view of the depressed earnings, to looking at equity risk premiums in the context of negative to near zero yields; thus justifying the sharp recovery in markets.
- Countries all around the globe will be required to announce further stimulus measures to recover from the slump; USD is expected to continue to weaken resulting in continuing robust outlook on gold in the short to medium term.
- It is recommended to maintain Debt / Equity asset allocation in line with individual risk profile. We are now ‘neutral’ equity. Any fresh allocation is to be added in staggered manner.