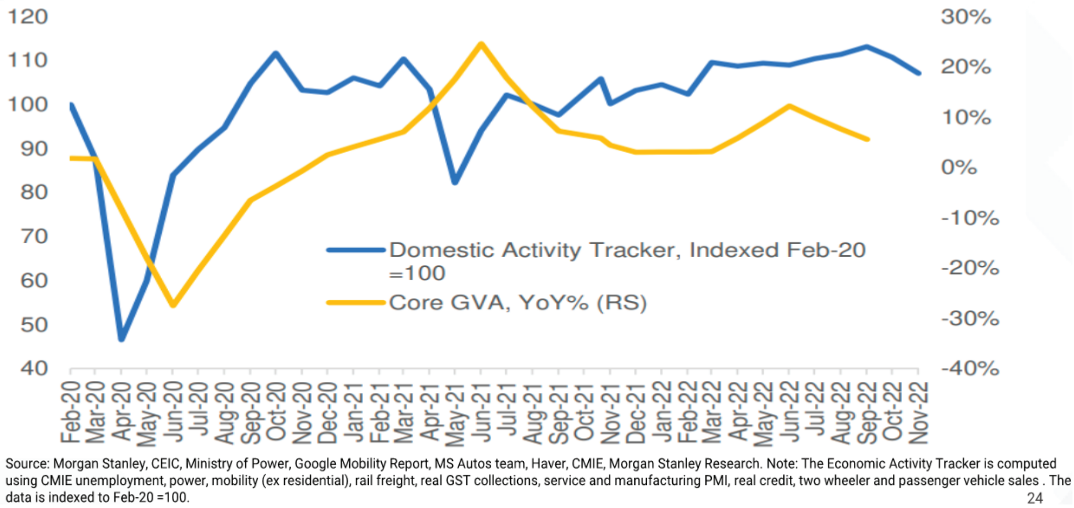
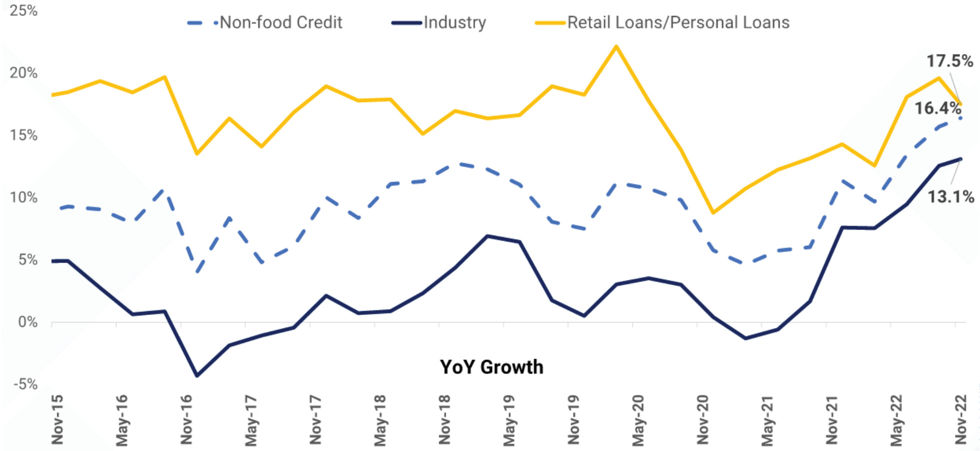
Capital League
OUTLOOK
JANUARY 2023

INDIAN ECONOMY

- Indian economic indicators are indicating ‘good health’. Services PMI at 59.2 shows record high expansion in Service activity. Manufacturing PMI at 57.8 is also at a two-year high.
- The eight core industries (Coal, Crude oil, Natural gas, Refinery products, Fertilisers, Steel, Cement & Electricity) have registered 5.4% growth in Nov’22.
- Economic activity is at an all- time high and high



- GST collections are at an all-time high of INR 1.6 Lac crores.
- Housing sales hit an all-time high in 2022 due to robust demand.
- Car makers notched best-ever sales of 3.8m units in 2022.
- Credit growth has picked up and is expected to sustain at mid-teen levels.



- Gross NPAs of banks are now at a 7-year low.
- Private Sector project announcements are at decade high. Significant deleveraging, higher capacity utilisation and under investment in past several years implies increasing Capex going forward.

  Mobile phone exports are at an all-time high of USD 3Bn.

GLOBAL ECONOMY

- Crude Oil prices have corrected by ~ 33% from Mar'22 highs.

  Global Food prices have fallen from highs of Mar'22 but are still at elevated levels.
- Japan's inflation at 40-year high.
- Central banks are in a tight situation trying to balance inflation reduction against growth contraction.
- Global era of negative yields has ended.
- Europe and US are headed for recession in 2023. Only question is of the degree.
- China is on a road to bumpy recovery as it comes out of zero-covid policy after 2 years of depressed growth

OUTLOOK

Equity

- India's growth opportunity over the medium term is well diversified across Consumption, Manufacturing, Infrastructure, and Services sector.
- Weak external demand (due to the slowing of the US & Europe) and tighter global financial markets are likely to bring down India's FY24 GDP growth to~5% (vs~7% in FY23).
- Despite a downgrade in growth projections, India will still remain one of the fastest-growing large economies. This could be boosted due to falling commodity prices and China+1 playing out.
- Indian equities have been the best performer amongst Emerging and Developed markets in the last 3 years, driven by higher earnings growth. Valuations are at slightly elevated levels compared to our historical average and delivery of earnings will be a key driver for markets.
- Historically recession in the US has resulted in a 12-30% earnings cut. This would be a key challenge of 2023. Other major global risks to consider are 1) the Ukraine-Russia war, 2) the China-Covid situation, and 3) Europe's energy crisis.

Debt

- Globally, the terminal policy rates should be achieved in the next few months, post which the attention will shift from 'how far' to 'how long'. The primary driver for expectation changes will be material shifts in inflation and not the continuation of a growth slowdown.
- Financial conditions may remain tight driven by high nominal policy rates and continued central bank balance sheet shrinkage leading to pain in economic growth. Rebound in China is likely to provide a counterbalance for the rest of the global economy.
- In India, while we are near the peak repo rate, it may also have to be held at that level for some time. The current account should become more manageable whereas the path to lower inflation should become clearer.
- We continue with our preference for government bonds in the 3 to 5-year maturity segment given the spreads between the G-secs and Corporate Bonds. For longer-duration bonds to rally sustainably, the market will need visibility on rate cuts. 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. For a shorter investment horizon, both arbitrage and money market to ultra- short term debt funds look extremely attractive.