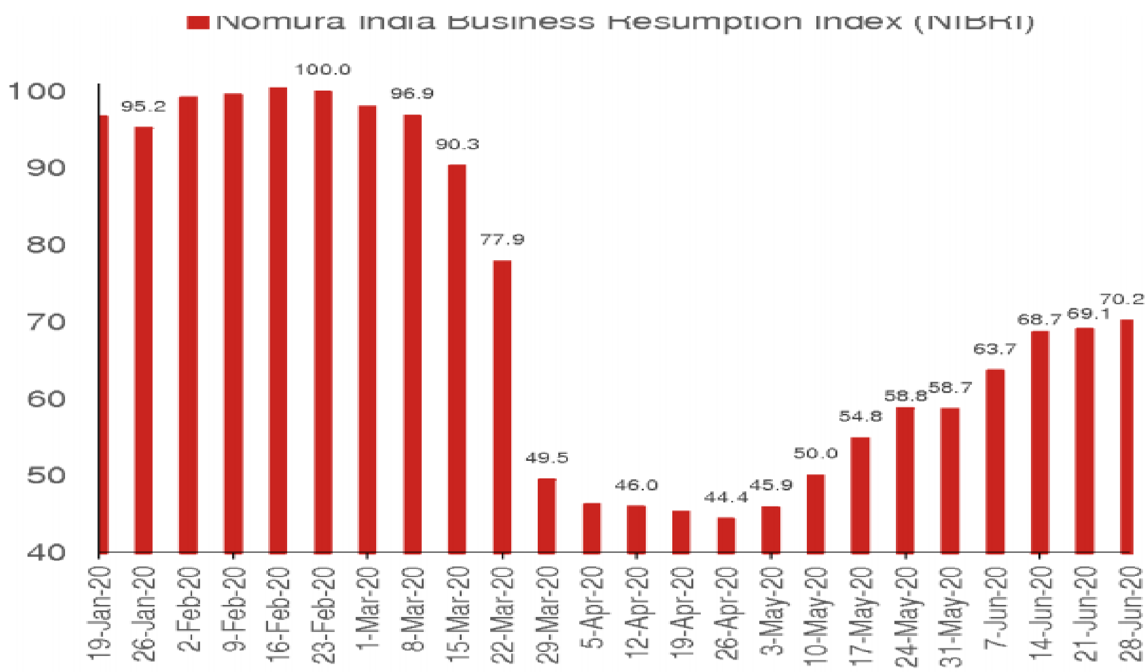
Capital League outlook

July, 2020

Indian Economy

- As the economy is gradually reopening and restrictions are relaxed, Indian economy is witnessing early signs of pickup in economic activity. Few activity indicators like power demand, goods transported by railway, sale of fuel, number of e-bill generated and GST collections are showing improvement.
- Employment situation has improved aided by resumption of economic activity and MGNREGA work in rural India. The unemployment rate moderated to 11% in June’20 vs. 23.5% in May’20.
- The Nomura Business Resumption Index is showing pick-up in economic activity.



The NIBRI is composed of Google mobility indices, driving mobility from Apple, power demand and the labour force participation rate.

- India’s current account balance turned to a surplus (after more than a decade) of 0.1% of GDP (or USD 0.6 Bn) for Q4 FY20, compared to a current account deficit of 0.7% of GDP (or USD 4.6 Bn) in the year ago period.
- Foreign Exchange reserves are at an all time high at USD 507 Bn in June’20. This along with the current account surplus should support the Rupee.
- Indian Equities driven by optimism around pickup in economic activity, higher FPI inflows have given double digit returns from the bottoms seen in March 2020. While most major sectors ended the month in positive, Banking, Auto, Oil & Gas and Power were best performing sectors.

% Change in Indices	FY 2020	June-20	01 Apr to 30 Jun'20
S&P BSE SENSEX	(23.8)	7.7	18.5
NIFTY 50	(26.0)	7.5	19.8
NIFTY Midcap 100	(35.9)	10.8	25.6
NIFTY Smallcap	(46.1)	15.3	28.4

As on 30th June'20

- As on 30 June'20, NIFTY 50 was trading at P/E of 23.2x FY21E and 16.8x FY22E. Also the market cap to GDP ratio stood at approx. 64% of GDP (based on 2021 GDP), as against average of 77% over the past 10 years.
- After a gap of three months, the government has published monthly inflation numbers for June'20 along with the Apr and May'20 figures. Retail inflation measured by CPI rose to 7.23% in Apr'20 due to supply issues during countrywide lockdown, declined to 6.3% in May'20 on improvement in food supplies. CPI further moderated to 6.09% in June'20 mainly due to increased transportation costs and its cascading effect on other items. The CPI remains just above the Monetary Policy Committee's tolerance band of 4 (+/-2)%.

Global Economy

- The US unemployment rate dropped to 11.1% in Jun'20 from 13.3% in May'20.
- Major equity markets rose in June'20 on hopes of report of progress in developing a Covid-19 vaccine and encouraging US jobs data.
- Chinese data indicates economic improvement since Mar'20 after collapsing in Jan and Feb'20. Purchasing Manager Indices (PMIs) from manufacturing business has improved and stood at 50.9 in June'20.
- Commodities: Metal prices have recovered since April'20, but are still much lower than a year back. Gold continues to rise given its status as safe -haven.

% Change	Market Price (USD)*	FY 2020 (y-o-y)	June-20 (m-o-m)	FYTD 2021^
Brent Crude (per barrel)	41	(66.7)	16.5	81.0
Gold (per ounce)	1,784	23.6	3.1	11.6
Steel (per tonne)	3,773	(12.6)	3.1	11.0
Zinc (per tonne)	2,057	(37.8)	4.3	10.1
Copper (per tonne)	6,038	(26.0)	13.2	25.9
Aluminium (per tonne)	1,602	(21.2)	4.9	7.3
Lead (per tonne)	1,789	(15.3)	10.7	4.5

*Market prices as on June 30, 2020; ^change in prices since end-March 20, Y-o-Y - year on year

Outlook

- Overall GDP growth for current fiscal is pegged around zero or negative for India. As we go ahead in the year with this number the interest rates may further fall.
- Q4 FY20 earnings have been extremely weak, with Nifty earnings down 24% and BSE-500 earnings down 28% y-o-y. Consensus FY21 earnings estimates have been downgraded 28% since start of April, now implying near zero earnings growth in FY21.

- Significant rise in spread of COVID-19, adverse global events, sharp rise in crude oil prices, moderation in equity inflows, higher than expected NPAs post the moratorium, escalation of tension between India & China etc. are KEY risks in the near term.
- While the near term economic impact of Covid is negative, once the situation stabilises, India stands to benefit in the medium term. Amongst the EMs (emerging markets), India is better placed as most major EM economies have high dependence on global trade and /or are net oil exporters. Thus fall in global trade and fall in oil prices will impact these economies. India being a net importer, stands to gain from fall in oil prices. Thus once situation stabilises, India could see relatively stronger recovery.
- It is recommended to maintain Debt / Equity asset allocation in line with individual risk profile. Any fresh allocation is to be added in staggered manner.
- In Debt funds we continue to favour Short term, corporate bond and PSU & Banking funds of high credit quality.