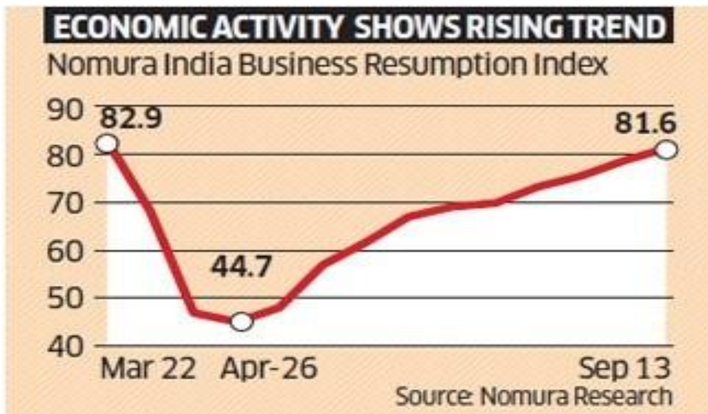
Capital League outlook

September, 2020

Indian Economy

- With easing of restrictions and unlocking underway, most economic indicators continued to improve in Aug'20 and are significantly up from the lows seen in April'20. The pace of improvement has moderated, to a certain extent driven by local lockdown imposed by many states.



- Consensus expects India's GDP to recover sharply over the next 3 Quarters after contracting 24% In Q1 FY21. GDP contraction was largely driven by fall in both private consumption and investment spending but was cushioned to some extent by healthy growth in government spending and imports falling more than the exports.
- Improvement is seen in unemployment levels, labour participation rate, auto registration volumes especially tractors and passenger vehicles, port activity, etc.
- India IHS Markit manufacturing Purchasing Managers' Index (PMI) stood at 52 in Aug'20, up from 46 in Jul'20, while the services PMI rose to 41.8 in Aug'20 compared to 34.2 in Jul'20.
- The monsoon has been progressing well in FY21 with 33 out of 36 subdivisions receiving normal to excess rainfall till 1 Sep'20 resulting in a healthy reservoir level and an all-time high of overall Kharif sowing.
- INR has appreciated significantly from the lows seen during Mar-Apr'20 driven by comfortable outlook on external sector, weak oil prices, liquidity and strong capital flows over the past few months.
- CPI Inflation Rate came at 6.69% in Aug'20 as compared to 6.73% in July'20. Food inflation remained high with continuing supply distortions amidst localised lockdowns and heavy rainfall in some regions.
- RBI has announced various measures to support bond markets: (a) special open market operations (b) Long-term repo operations (LTROs) (c) HTM limit relaxation to banks to help absorb excess supply of government securities.
- FII inflows into India continue to be high as compared to other emerging markets

Country	FII flows (USD Mn)	
	MTD	YTD
India	6096	4807
Brazil	-58	-18183
Philippines	-261	-1711
Malaysia	-356	-4747
Indonesia	-581	-1884
Thailand	-887	-8010
South Africa	-1302	-5453
South Korea	-2295	-23250

Source: Axis Capital, Bloomberg; As on Aug 31, 2020

- Indian equities continue to deliver positive returns, supported by rally in global markets, high global liquidity, sequential improvement in economic activities across major countries and better than expected Q1FY21 results.
- Indian equity Valuations have reached long term historical average levels.

Global Economy

- USD has depreciated vis-a-vis other currencies globally since Apr'20 due to large quantitative easing done by US Fed, sharp rise in fiscal deficit, expectations that Fed rate is likely to remain low for longer and improvement in sentiments.
- Commodity prices continue to rise. Most major commodity prices increased during Aug'20 driven by positive data from China & US and economic activity stabilising globally, especially in advanced economies.

	Market Price (USD)*	Change in price	
		Aug'20 (%)	FYTD 21 (%)
Brent Crude (per barrel)	45.3	4.6	99.1
Gold (per ounce)	1,968	-0.4	24.8
Steel (per tonne)	3,992	2.0	17.4
Copper (per tonne)	6,728	4.4	40.3

Source: Bloomberg; *Market prices as on Aug 31, 2020

Outlook

- We expect the economic activity to recover sequentially driven by phase wise unlocking of economy. On a full year basis, the economy is likely to contract in FY21 but should be followed by strong rebound in FY22 because of low base effect, full year of normal operation and pent up demand.

- Gradual recovery in growth is expected due to gradual normalization in economic activity as suggested by high frequency data, resilience in rural economy (supported by a buoyant monsoon season and government measures), higher government spending and an accommodative monetary policy environment.
- The narrative on valuations globally has changed 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.
- As on 31 Aug'20, NIFTY 50 was trading near 25.1x FY21E and 18.6x FY22E price to earnings ratio. Various valuation parameters are indicating it is time to be ‘neutral’ on equity.
- 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 a staggered manner.