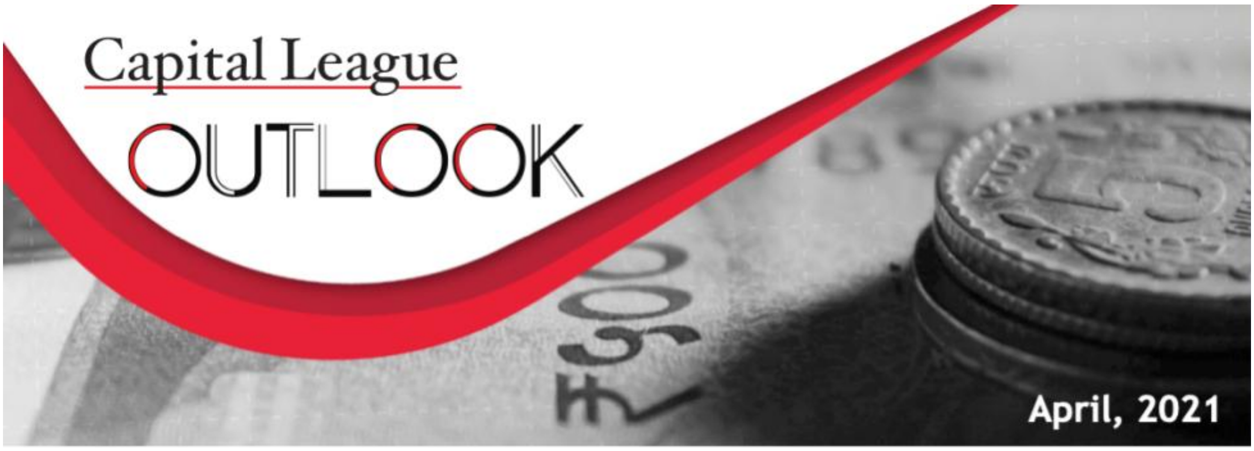

Indian Economy

- India is now witnessing the second wave of COVID-19 infections with daily cases crossing peak of first wave. However, vaccination drive across the world and India has led to a belief that the pandemic and resulting economic risks are manageable.
- Vaccination drive has picked up in March. About 4.16% of Indian population vaccinated so far.
- Economic activity momentum remained largely unaffected in Mar'21 with 7 out of 8 indicators showing growth over Feb'21.

Indicators	Units	Dec-20	Jan-21	Feb-21	Mar-21
E-way Bills	% y-o-y	15.9	10.3	11.6	61.2
GST collections	% y-o-y	11.6	8.1	7.4	27.0
Merchandise exports	% y-o-y	0.3	6.6	0.7	58.0
Merchandise Imports	% y-o-y	8.2	1.9	7.0	53.0
PMI-Manufacturing	Index Value	56.4	57.7	57.5	55.4
Power Generation	% y-o-y	5.1	4.8	4.1	22.3
Rail Freight	% y-o-y	8.7	8.7	5.5	24.3
Vehicle Registrations	Million (no.)	1.8	1.6	1.5	1.6

- India's purchasing managers' index (PMI) for services fell from 55.3 in Feb'21 to 54.6 in Mar'21. No respite for services providers going ahead in the backdrop of the second wave of infections,
- GST collections have seen an increasing trend over the last 6 months with the month of Mar'21 witnessing the highest collections at INR 1.24 Lac Crs since the introduction of the GST regime. Economic recovery and the impact of anti-evasion measures taken so far are reflective in this trend.
- RBI kept the policy Repo Rate and Reverse Repo Rate unchanged at 4.0% and 3.35% respectively. It is in favour of maintaining an accommodative stance as long as necessary to sustain growth on a durable basis.
- As per RBI's assessment, GDP growth seems to be gaining ground with momentum of economic activity witnessed in Q3FY21 showing signs of continuity into Q4FY21.
- RBI announced setting up of secondary market G-sec acquisition programme under which RBI will commit upfront to a specific amount of open market

purchases of Government securities. This has resulted in supporting longer end rates and flattening of yield curve.

- The Consumer Price Index (CPI) or Retail Inflation, rose further to 5.52% in Mar'21 on the back of higher food prices along with high fuel and transportation cost.
- The current account balance recorded a deficit of USD 1.7 Bn (0.2 % of GDP) in the Q3 FY21 after a surplus in first two quarters of FY21. India's exports jumped 58% to hit all-time high of USD 34 Bn in Mar'21 and imports also grew 53% Y-o-Y in Mar'21.
- FIIs remained net buyer of Indian equities post COVID-19. India recorded the highest ever FII inflows of USD 37.6 Bn in FY21, greater than the cumulative inflows of the last six years.

12 months FPI flow and (Apr'20 to mar'21)

Global Economy

- US has announced a USD 2 Tn infrastructure and economic recovery package to revitalize U.S. transportation infrastructure, water systems, broadband and manufacturing. To fund the package an increase in the corporate tax rate to 28% and measures designed to prevent offshoring of profits has been planned.
- US bond yields rose by 34 bps in Mar'21 vs Feb'21 on increased expectations of a strong domestic economic recovery.
- European bond yields declined on increased concerns over economic situation given the lockdown imposed in certain regions amid rising COVID-19 cases.
- Crude oil prices inched up to USD 70 per barrel in early Mar'21 on hopes of increasing demand due to lower restrictions and accelerated vaccine administration programs around the world. Key oil-producing countries maintained production cuts imposed early in FY21 to keep crude oil prices elevated with Saudi Arabia even cutting crude oil production further to boost crude oil prices. However, with fresh Covid outbreaks in several parts of the world, the oil prices have remained around USD 63-64 per barrel on muted demand.

Outlook

- While the second wave continues to be a cause of worry, it has not led to any major curb in activity so far as lockdowns have been localized.
- At the current vaccination pace, it would take 3-months to provide the first dose of vaccine to the entire population of >45 years age group and another five months to cover the 25-44 years age group population. **Vaccination and rising immunity could put an upper limit to the second wave**.
- Equity Valuations are at the higher end of the fair value with Nifty trading at 20.7x FY22E price to earnings ratio.
- RBI remained optimistic on growth outlook with roll out of vaccine, improvement in capacity utilisation (66.6% in Q3FY21 from 62.3% in Q2FY21), higher capital spending in union budget, increased coverage of production linked incentive schemes to include more sectors etc
- Government's higher borrowing program to meet increased expenditure expectedly had negative impact on Indian bond prices and interest rates are expected to harden over the next few months.
- **Equity Outlook:** The domestic stock market is expected to be volatile in the near term with short-term movement in prices driven by increase in Covid cases, levels of localised lockdowns and forward guidance given by bellwether companies while they announce their March end Financials. We recommend investors to maintain asset allocation and rebalance if required.
- **Debt Outlook:** As sporadic lockdowns have come back and RBI and Fed have made clear that interest rates will be maintained at current levels in the medium term till economic recovery is more deep rooted, yields across the board have softened by 20-25 bps. We recommend investors to make fresh investments in debt mutual funds running short term roll-down strategies to weather volatility in interest rates and take advantage of redeployment at better yields after 12-18 months within the same scheme.