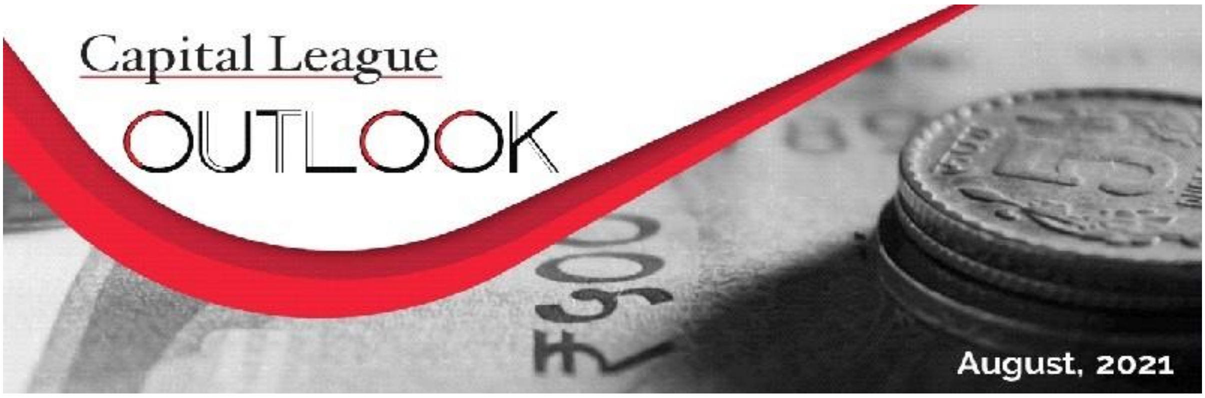
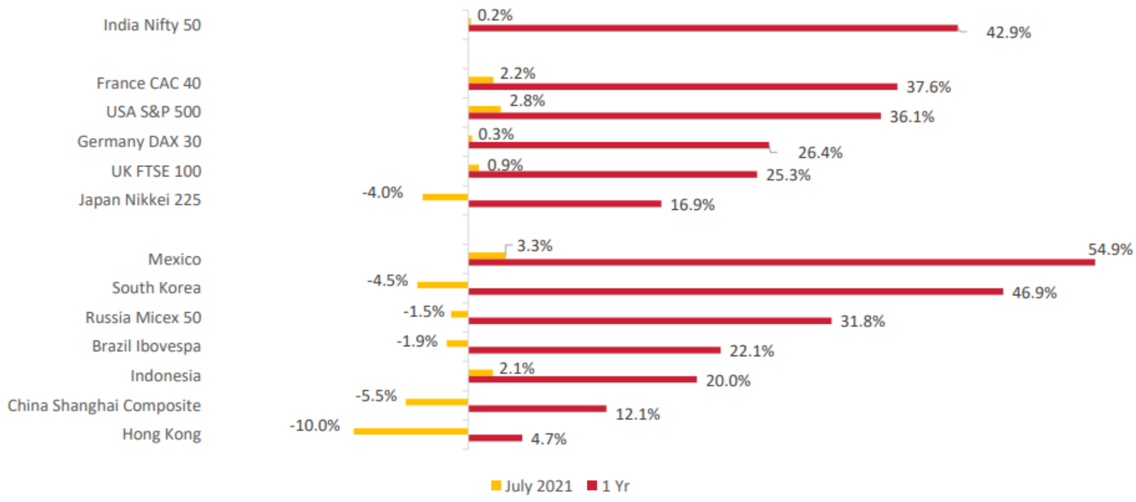



# Indian Economy

- **Covid:** Average daily vaccination has picked up to approx. 51 Lac doses with improvement in vaccine supply. Accelerated vaccination pace will reduce hospitalization, mortality rate and boost consumer and business confidence.
- Economic activity improved by 15-16% in Jun'21 from the trough seen in May'21 but moderated a bit in second half of Jul'21
- India's Manufacturing PMI rises to 3-month high 55.3 in Jul'21 as demand improves and Covid restrictions ease.
- Unemployment rate falls to 4-month low of 6.95% in Jul'21
- India exports hit a record USD 35.2 Bn in July'21.
- GST Collections recover to INR 1.16 Lac Cr in Jul'21 pointing at rapid economic recovery after the second wave that raged in the months of April and May'21,
- Corporate earnings for Q1 FY22 surged on Y-o-Y basis on low base but dropped on Q-o-Q basis due to Covid second wave. High raw material costs and lower sales volume have hit margins.


For a sample of 490 companies (excluding banks and finance; Source: Capitaline

- Indian Equity markets are at an all-time high. Market movement has become broad-based with Small-and-Midcaps outperforming large caps over past 1 year.




Global Equity Markets Performance (USD)

Source: Bloomberg, ABSLAMC Research

- RBI kept the policy Repo Rate and Reverse Repo Rate unchanged at 4.0% and 3.35% respectively and also decided to maintain an accommodative stance.
- The central fiscal deficit during Q1 FY22 at 18.2% of Budgeted Estimates (BE) compares favourably against the trend of 60- 80% in earlier years. This has been aided by a robust tax collection along with a contained expenditure. The central government has already realized 30.2 % of its yearly budgeted revenue receipts during Q1FY22.
- CPI inflation in June still remains elevated at 6.2% vs 6.3% in May'21 due to rising input cost prices, higher crude oil prices and elevated food prices. The CPI is above the RBI's tolerance threshold.

## Global Economy

- Yields are on a downtrend with US Fed reiterating that it is no hurry to taper or raise rates. Inflation/Bond tantrum is seen as the biggest tail risk currently for markets.
- While GDP growth in both the US and Eurozone are expected to remain well above-trend in 2022, upward revisions to GDP have been stalled amidst withdrawal of fiscal stimulus in China and concerns regarding impact of Covid's Delta variant.
- US senate has passed USD 1 trillion Infrastructure bill. Funds will be used for rebuilding roads, broadband internet, water pipes and the public works systems that underpin much of American life. This will give good stimulus to US economy.
- Global average daily new COVID-19 cases have increased by over 50% in the last 5 weeks raising concerns over economic recovery.
- Crude oil fell below USD 70 per barrel on the back of a rising US dollar and concerns of slowing global recovery in fuel demand with new coronavirus-related restrictions.

## Outlook

- Economic recovery robust given favourable macro environment, govt. policies, various stimulus measures by Global central banks & resilient domestic economic indicators.
- Headline valuations seem elevated currently due to depressed earnings. However, from a medium-term perspective valuations seem fair as the economy and earnings are expected to normalize going ahead with Nifty earnings growth projected at ~15% in FY23.
- FII flows moderated in Jul'21 given strong USD and concerns about Delta variant in Emerging Markets. However, given high global liquidity and with second wave having peaked out in India, we can expect FII inflows to continue. Strong domestic flows and increased retail participation should also support markets.
- In the near term, some equity market correction cannot be ruled out owing to over-optimism in market sentiments. We continue to see any near-term correction as welcome opportunity to add to pro-economy sectors driven and broader market oriented funds. If overweight equities, one can rebalance portfolios to maintain asset allocation.
- **Debt:** RBI continues to maintain excessive surplus liquidity at the short end and is taking measures to keep interest rates soft to facilitate huge borrowing program of the government.
- With low yields and threat of rising inflation and interest rates, fixed income is not a very rewarding asset class right now but the importance of maintaining asset allocation to debt for the purpose of reducing portfolio volatility, preservation of capital and provision of liquidity needs to be kept in mind.
- We continue to recommend short term fixed corporate fixed deposits, low duration strategies, Arbitrage funds, Target Maturity fixed income strategies to insulate the portfolio from interest rate volatility and flexibility to reinvest at higher rates at a later date.