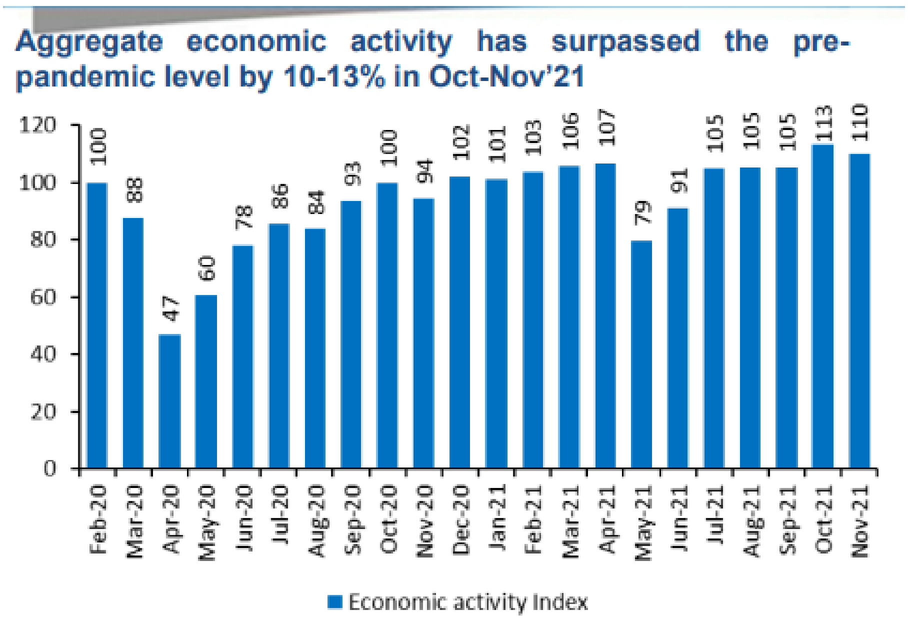
Indian Economy

- India's **COVID-19** situation appears to be under control. Average daily COVID-19 cases have fallen to 8K in Nov'21 vs. 13K as of Oct'21 end, 42K as of Aug'21 end and 414K at peak on 7th May'21.
- India has inoculated 79% of the adult population (55% of the total population) with the first dose and 46% of the adult population (32% of total) with both doses. Vaccine registrations have begun for Children.
- **Q2FY22 GDP** grew by 8.4% y-o-y and 0.2% on a 2yr CAGR basis. Higher exports and restocking activities were the mainstay of demand.



- Exports have largely been benefitted from higher commodity-related shipments (viz. Agri, iron, steel and other metals), pharma, telecom instruments, auto and services exports.
- Overall mobility is 9%-10% above pre- Covid levels. Air and rail traffic is on an improving trend (though still below pre-Covid)
- PMI (Purchasing Managers Index) rose from 55.9 in Oct'21 to 57.6 in Nov'21.
- Government revenue expenditure and household consumption remain weak
- Q2FY22 earnings (Nifty Companies) came in marginally above market expectations, led by commodities (viz. metals and Oil/gas). Two trends were

predominant – a) improving demand environment amid reopening and rising pace of vaccinations; b) impact of higher input costs on margins. Specialty chemicals, Auto, Cement & Consumer staples saw a contraction in operating margins.

- Q2FY22 sales growth was rapid (driven by Oil/gas and IT). PAT growth was almost equally contributed by IT, Metals & Oil/Gas.

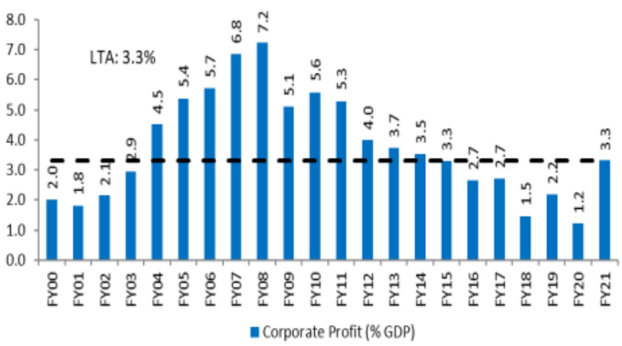
Global Economy

- Global Covid-19 cases have entered the fourth wave, though cases are lower than those seen in the first 3 peaks. Average daily new cases have risen by 50% in Nov'21 vs. Oct'21 due to a sharp uptick in Western Europe and the US.
- Higher than expected inflation and commencement of tapering by the US Fed in Nov. have pushed up short-term treasury yields.
- Commodity prices declined in Nov'21, but still remain elevated. Markets expect energy prices to remain elevated (due to higher demand amid cold winter) and expect the agriculture sector to continue seeing upward pressure on food prices.
- Supply shortages/ logistics issues (shipping/ containers) have delayed production activity, pushed up the prices for key inputs and have pressurised companies' margins across the globe.

Outlook

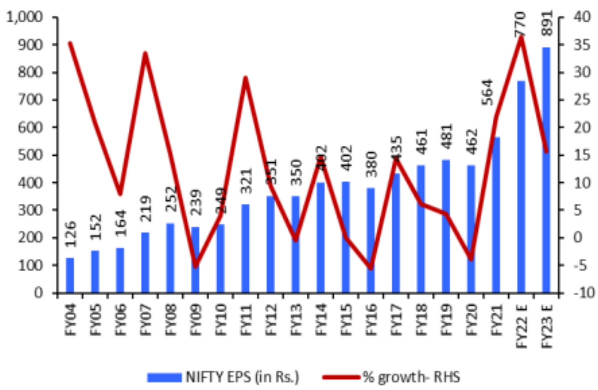
- Real GDP is likely to grow by 10% in FY22 (vs. -7.3% in FY21).
- Nominal GDP may likely grow at 17% for FY22 vs. (-)3% in FY21.
- Easy liquidity and financial conditions, Government's push to infrastructure, continued global demand for Indian goods and services and bottoming out of adverse job situations bodes well for continued growth recovery in India.
- Low corporate profits to GDP, makes a case for mean reversion. Outlook for earnings growth is optimistic in FY22.

Extremely low corporate profits to GDP makes a strong case for mean reversion



FY00-FY20 data is based on a sample of ~30,000 and FY21 data is for 7,792 listed unlisted companies in CMIE (includes both financial and non financial companies)

Earnings recovery likely to be healthy in FY22



- Concerns about the US FEDs accelerated tapering of bond-buying programme, the possibility of advancing rate hikes from 2023 to second half 2022 and the detection of new vaccine-resistant Covid strains will continue to keep markets volatile.
- Sensex has corrected by nearly 8.8% from the peak level and equity markets offer a good entry/top-up opportunity for long-term investors.
- The knee-jerk reaction of several countries to the spread of Omicron can lead to continued supply shortages which can sustain inflation at higher levels. Since exuberant stimulus packages in the US and other developed countries have put money in the hands of consumers, soaring demand for all kinds of goods and services is met with huge supply shortfall resulting in long waiting lists for goods as diverse as luxury cars to Chinese manufactured toys and rise in input costs which are being passed on to the end consumer. The result is high global inflation which can force the Fed to increase interest rates sooner than expected to rein in higher demand.

@CharlieBilello	Global 10-Year Yields (%)		
Country	10-year Yield (Today)	CPI (YoY)	Real Yield
GERMANY	-0.38%	4.5%	-4.88%
SWITZERLAND	-0.29%	1.2%	-1.49%
NETHERLANDS	-0.24%	3.4%	-3.64%
AUSTRIA	-0.13%	3.7%	-3.83%
FINLAND	-0.11%	3.2%	-3.31%
DENMARK	-0.08%	3.0%	-3.08%
BELGIUM	-0.03%	4.2%	-4.19%
FRANCE	-0.02%	2.6%	-2.62%
JAPAN	0.06%	0.1%	-0.05%
IRELAND	0.07%	5.1%	-5.03%
SWEDEN	0.10%	2.8%	-2.70%
PORTUGAL	0.30%	1.8%	-1.50%
SPAIN	0.37%	5.4%	-5.03%
UK	0.81%	4.2%	-3.40%
ITALY	0.95%	3.0%	-2.05%
HONG KONG	1.43%	1.7%	-0.27%
US	1.43%	6.2%	-4.77%
CANADA	1.51%	4.7%	-3.19%
AUSTRALIA	1.65%	3.0%	-1.35%
SINGAPORE	1.68%	3.2%	-1.52%
SOUTH KOREA	2.19%	3.2%	-1.01%
NEW ZEALAND	2.38%	4.9%	-2.52%
CHINA	2.91%	1.5%	1.41%
POLAND	3.28%	6.8%	-3.52%
PHILIPPINES	5.04%	4.6%	0.44%
INDIA	6.35%	4.5%	1.87%
INDONESIA	6.45%	1.7%	4.79%
MEXICO	7.75%	6.2%	1.51%
RUSSIA	8.40%	8.1%	0.27%
SOUTH AFRICA	9.67%	5.0%	4.67%
BRAZIL	11.41%	10.7%	0.74%
TURKEY	21.26%	19.9%	1.37%

- In India, inflation is mostly led by higher input costs and supply-side constraints whereas demand is still very fragile. It will be a while before economic recovery gets on to a path of sustainable momentum and RBI has kept interest rates status quo and continued with an accommodative stance in the December MPC meeting.
- The central government had reduced the excise duty on petrol and diesel which will give some comfort on upside pressure on inflation but the risk of imported inflation will remain there.
- We continue to recommend target maturity funds, Index funds and short and medium-term funds for the debt allocations depending on suitable time horizons. Arbitrage funds being tax-efficient are a good option for parking 3 month to 1-year surpluses.