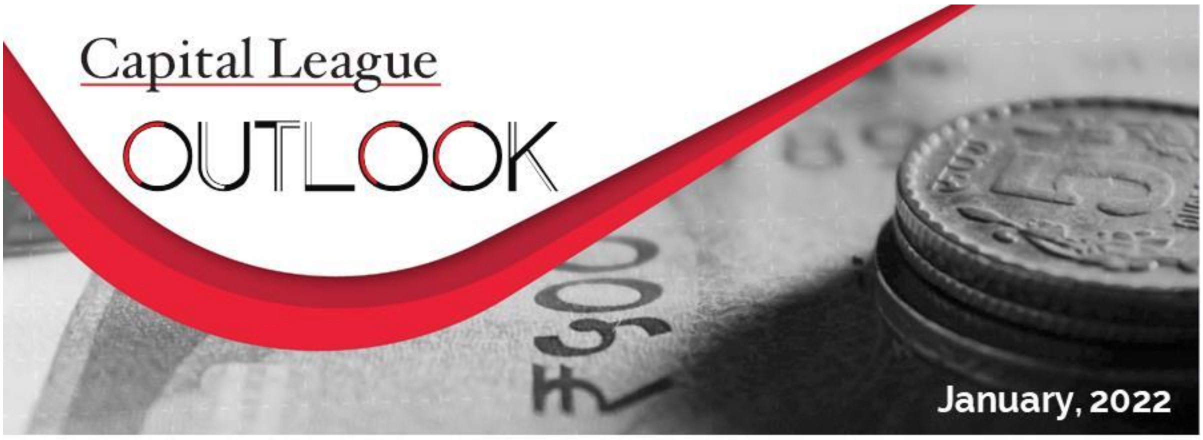
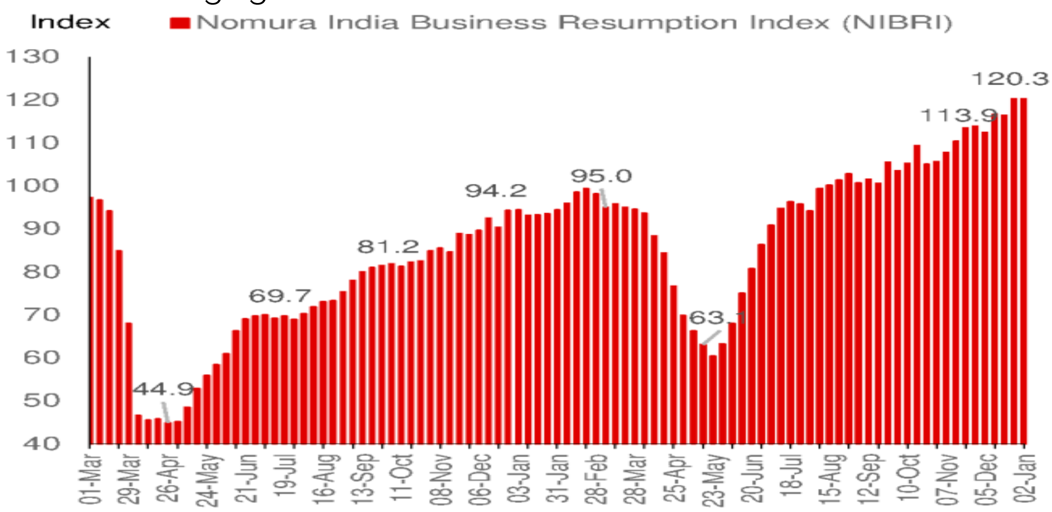
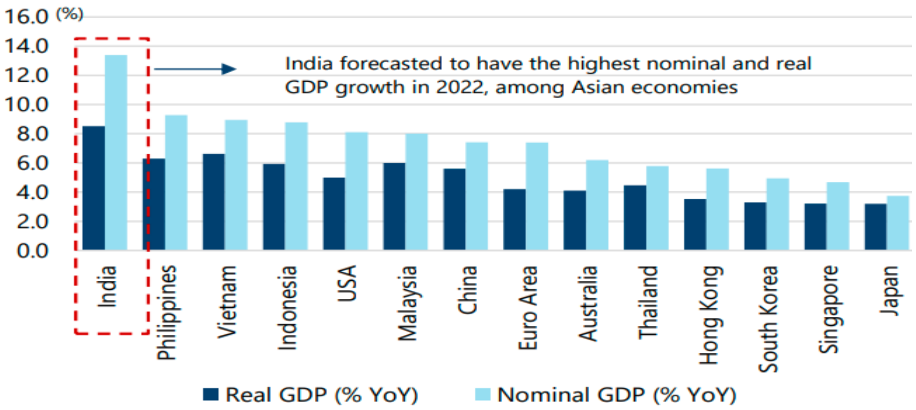


Indian Economy

- Vaccination: India has administered 154 Cr vaccine doses. Nearly 75% of the adult population has been fully vaccinated close to the first anniversary of the vaccination drive.
- The Business Resumption Index, starts 2022 at a new high but drops by 10 points in the last one week as local lockdowns are again put in place to prevent the surging covid cases.



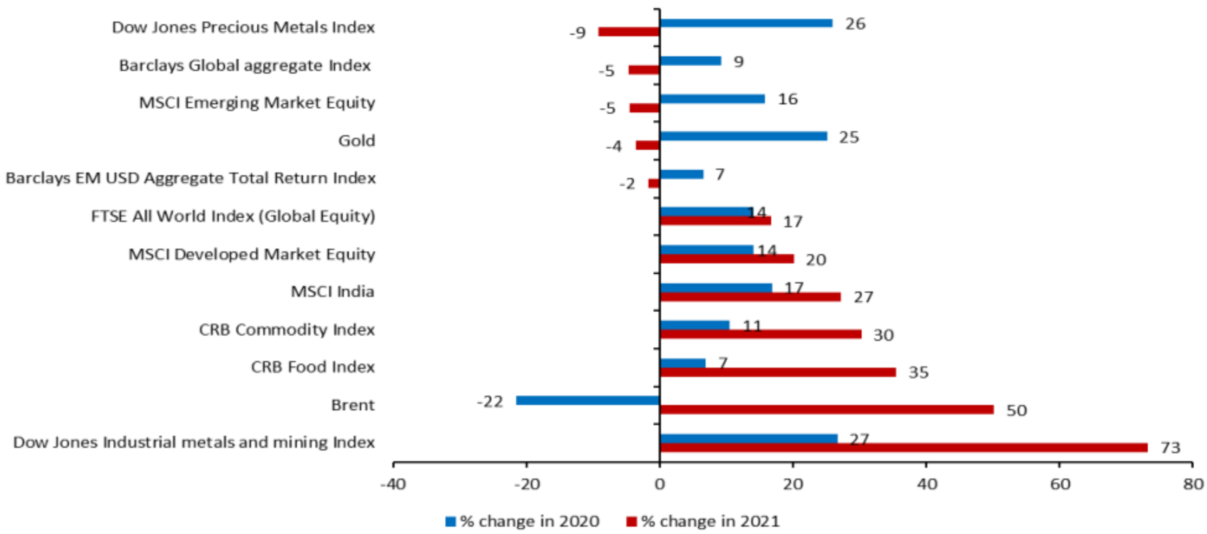
- Covid third wave is expected to dent Q4 growth by 30 bps.
- GST collections remain above INR 1 Lac Cr for the 6th month in a row.
- Net direct tax collection jumps 61% to INR 9.5 Tn in FY22 so far. Advance tax collections grow 90% in Q3 of FY22. Buoyancy in tax collections is indicative of the health of the economy.
- Services Sector PMI slowed in Dec'21 to 55.5, a 3-month low.
- Manufacturing sector PMI reduced to 55.5 in Dec'21 from 57.6 in Nov'21. As per report released "manufacturing is showing robust improvement in overall operating conditions – with new work growth and production remaining good".
- Cabinet has approved INR 76,000 Cr boost for semiconductor manufacturing.
- India's IT export bill has surpassed the Oil import bill.
- India likely to be fastest growing major economy in 2022.



- **Investment Themes:**
  - Big getting bigger – Larger companies are leveraging their strengths
  - Revival of Industrial manufacturing & private capex- Government Capex has picked up substantially & PLI (Production linked Incentive) scheme is giving boost to Private Capex. Capacity utilization has also crossed 75-80% for most sectors creating room for further capex in the next 1-2 years.
  - Exports Opportunity – India is a dominant player in Knowledge-based outsourcing. And China+1 policy helping to boost India's chemical exports.
  - Real Estate – Sales & new launches have increased. Residential houses inventory has decreased.
  - Digitization – Indian IT revenues growing as every sector is trying to leverage technology.
  - Financialisation- In Indian household savings, the share of financial assets is going up and physical assets coming down.

Global Economy

- Central Banks' money printing has led to the highest level of global debt in 50 years. The debt/GDP ratio is more than 300% for 28 countries in 2021 compared to NIL in 1998.
- S&P 500 earnings have hit a record high in Q3 2021. In terms of market value, 35% of the S&P 500's YTD return has come from just 5 stocks.



Source: Bloomberg

- Global corporate Capex is set to surge.
- Globally inflation is surging. Many Emerging economies have already increased interest rates. Developed economies are starting to raise rates.

Outlook

Equity

- Corporate profitability is critical for equity markets to sustain and grow

	FY20	FY21	FY22E	FY23E
GDP Growth	4.0%	-7.3%	9.5%	8.5%
Nifty 50 Companies Profit Growth (%)	-2.9	22.7	36.6	16.6
Nifty EPS (INR)	472	542	744	872
Nifty PE Ratio (x)	18.2	27.1	23.7	20.2
Factors Driving Profit Growth		Cost Cut, Tax Cut, Interest rate reduction, Debt reduction & tighter working capital		Operating leverage

- Valuations are above historical averages. Keeping in mind the low cost of capital, valuations only little above fair value.
- Inflation remained broadly persistent due to supply disruptions, input shortages, stronger commodities, recovering demand due to fiscal measures, and improvement in labour markets leading to interest rate hikes and reducing global liquidity as the FED stops bond purchases. This puts equity valuations to risk.
- Looking ahead, Omicron stays the key monitorable in the near term. Early trends suggest that while the wave is much sharper, the severity could be lower making Covid a far less lethal disease than in the past. While this may still mean short-term pain, it could make the medium-term outlook brighter not just on growth but also on inflation as free movement of goods and people ease supply constraints
- The imbalance in vaccination availability as well as coverage globally, remains a key risk for economic prospects globally. Geopolitical developments could be another source of risk.

Debt

- Global Central banks espoused the transitory inflation narrative for the most part of 2021. They have dropped the transitory narrative on inflation as it remains well entrenched, pandemic era QE programs are expected to unwind by March’22 both in the US and to some extent in the EU.
- RBI so far has resolutely tied monetary policy actions to the prospects of durable economic growth. It has started taking small steps to initiate a process of “overnight rates normalisation”

- Based on current trends, accrual at the shorter end of the money markets is expected to improve. We continue to recommend shorter duration debt funds for shorter-term deployment along with Target Maturity products for the staggered deployment of long-term surplus. Floating rate products can be considered for benefit from the reversal of easy monetary policy cycle.