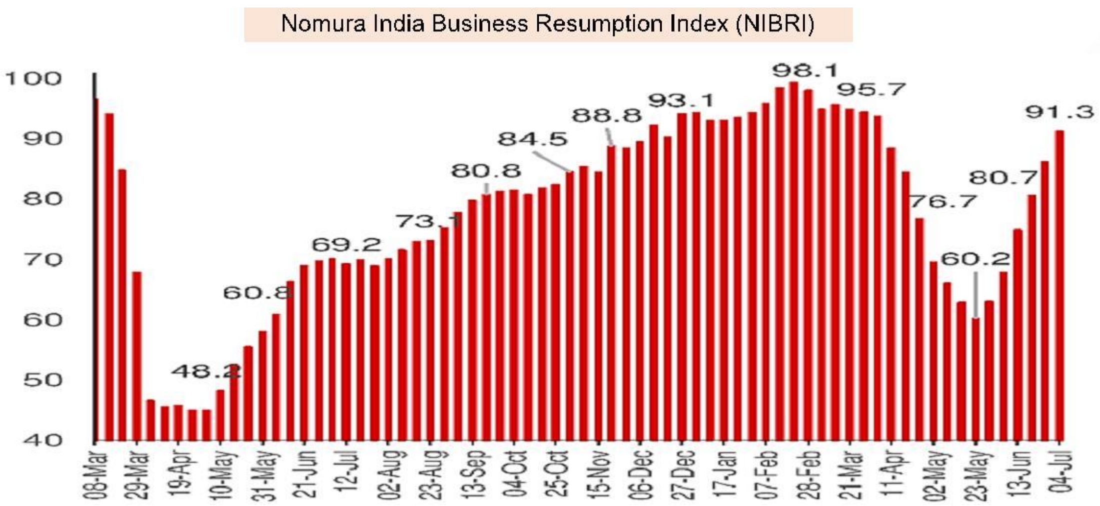
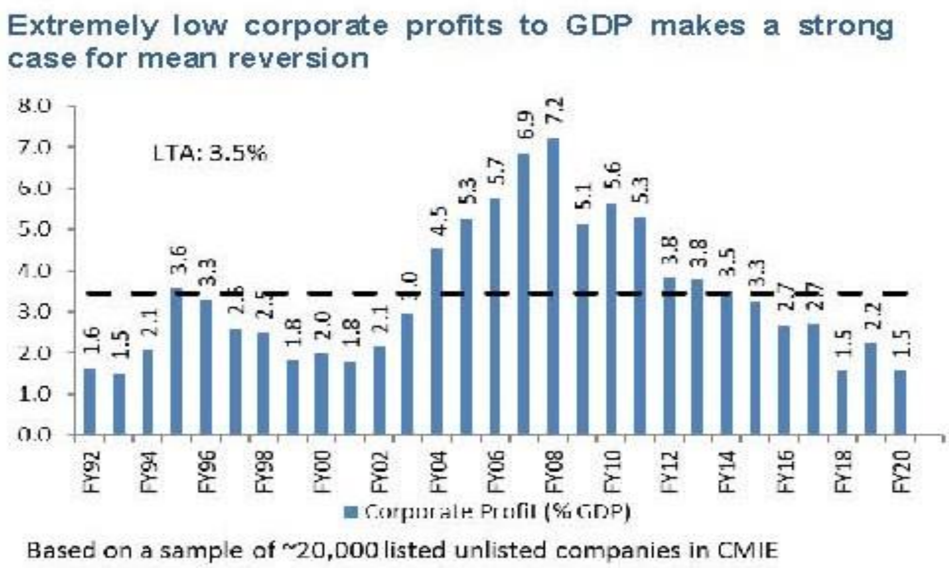
Indian Economy

- **Covid:** Daily active cases are now 10% of the peak of second wave. 21% of population now vaccinated with first dose and 4.7% with second dose.
- Government has approved an INR 23,000 Cr package for Covid19, emergency response and preparedness.
- Indian economy is showing signs of recovery from second wave, helped by targeted fiscal relief, monetary policy measures and rapid vaccination drive.
- Consumer demand in both rural and urban areas took a hit. Economy got a relatively higher support through government spending and external demand.
- Forex reserves jump to USD 608 Bn, highest ever.
- Traffic on National highways is back to April levels as per CRISIL data.
- Nomura Business Resumption Index is showing strong pick up in June – July.



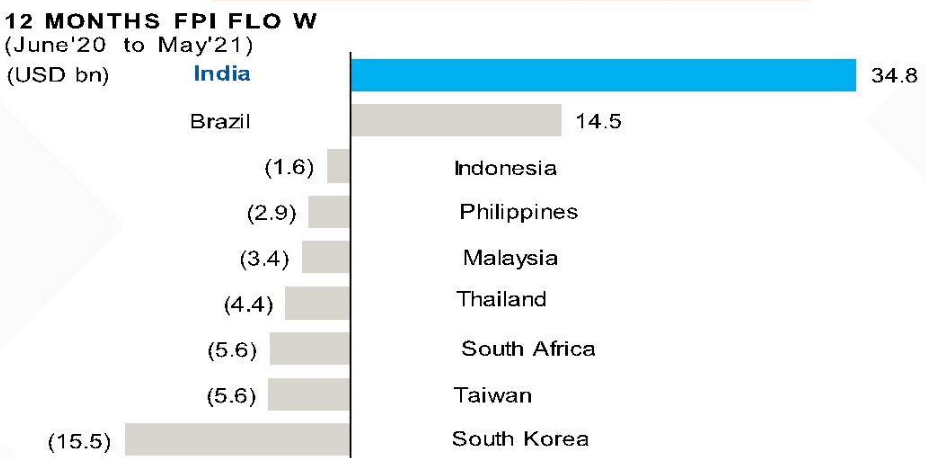
- E-way Bills and new vehicle registrations are both showing up-tick in economy.
- Infrastructure orders are seeing momentum, driven by central government capex orders.
- In June, both GST collections and manufacturing PMI fell due to lockdowns.

- Monsoon is expected to be normal, raising good prospects for Kharif sowing and output.
- Fiscal measures announced post second wave (higher fertiliser subsidy, increase in cereals procurement, re-implementation of food distribution programme), rising global agricultural goods prices and rising agricultural exports portends a positive outlook for Agri-sectors.
- Corporate India continues to surprise positively. EPS (Earnings per Share) estimates have been revised upwards number of times since August'20. Strong cost controls, digitisation and leverage of technology, operating leverage with pent up demand and better capacity utilisation, low interest rates, focussed government policy have led to significant improvement in Operating profit margins of companies.
- 4QFY21 results: Both sales and profits grew. NIFTY 50 companies' sales grew by 16% y-o-y after 6 quarters of de-growth. EBITDA grew by 31% y-o-y. PAT grew significantly by 81% y-o-y.
- Corporate profits are projected to grow by about 50% in 2021 to 2023. Profits as a percentage of GDP are near historical lows and make a case for mean reversion.



- Global investors are showing confidence in India's growth prospects through historically high investments.

12 months FPI flow and (July'20 to June'21)



Global Economy

- Globally growth is seen rebounding after increased vaccinations and opening up. US continues to be major driver of global growth.
- Corporate earnings in US surprise positively with 2Q21 projected at 14.6% increase.
- US inflation sees highest levels since 2008.
- Commodity prices continue to remain at elevated levels. Since uptick is mainly due to crude oil.

Outlook

- Growth in corporate earnings has been remarkable in a year when the economy contracted by (-)7.3% on a real basis and (-)3% in nominal terms. Significant expansion in margins driven by cost efficiencies drove corporate profits higher.
- Cost pressures may arise as operations resume in full swing and raw material prices continue to see upward pressure. But, as growth normalizes, operating leverage benefits should kick in further and support margins.
- While inflation numbers have started to rise across the globe policy makers are currently prioritizing Growth and hence the lower interest/liquidity support is likely to continue. From equity market perspective the initial increase in inflation can lead to better top-line growth and in combination with lower rates can lead to reasonable earnings recovery.
- Aggressive fiscal expansion in addition to super accommodative monetary policy in the West, most notably the US, should augur well for a reflation in the global economy. For India, stronger balance sheets for Banks, healthier corporate balance sheets, leaner cost structures and reforms around formalization of the economy, Corporate taxes, PLIs, GST, rebound in Real Estate augur well.
- It appears we are in early stages of a new earnings cycle.
- In the near term, some equity market corrections cannot be ruled out owing to over-optimism in market sentiments. We continue to see any tactical corrections as welcome opportunities to buy into pro-economy assets and sectors. 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 measure 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 Low duration strategies, Arbitrage funds and Target Maturity fixed income strategies to insulate the portfolio from interest rate volatility and flexibility to reinvest at higher rates at a later date.