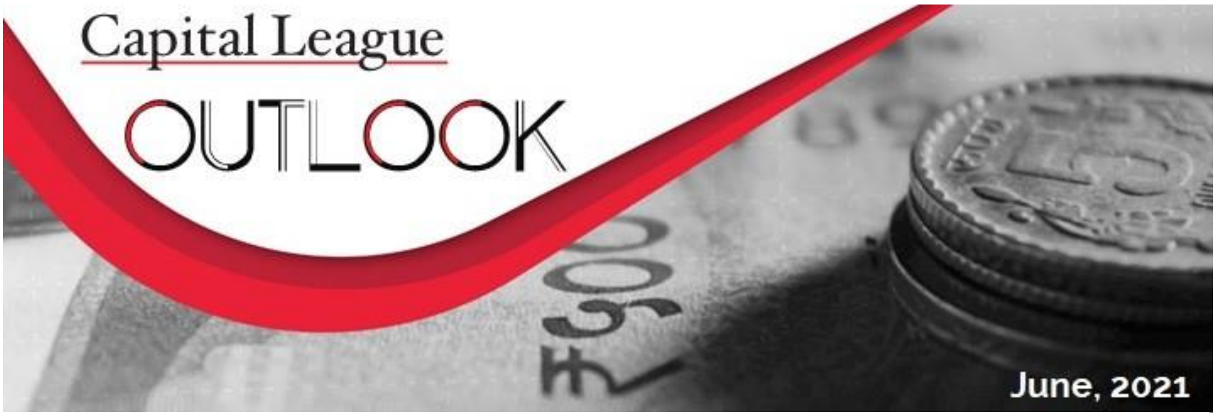
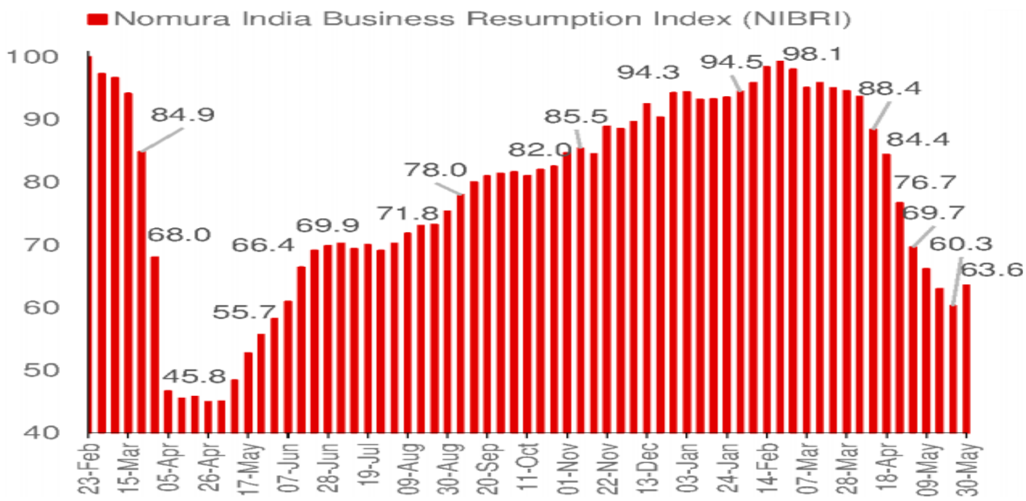
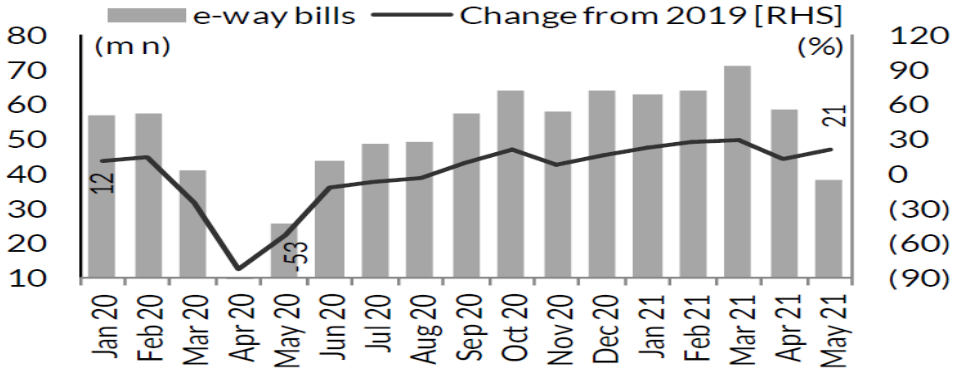


Indian Economy

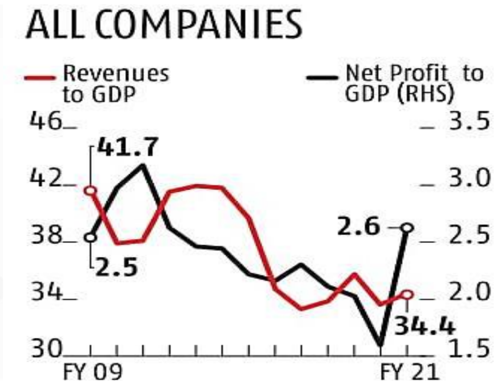
- RBI cuts India's GDP forecast by 1% to 9.5% for FY22.
- RBI leaves all rates unchanged in latest monetary policy review.
- India's Forex reserves at an all-time high of close to USD 600 Bn.
- RBI expects inflation for FY22 to be at 5%.
- India attracted highest ever FDI inflow of USD 81.7Bn during FY21.
- Indian railways FY21 freight loading at record 1.23 Bn tonnes.
- Impacts of lockdowns due to second Covid visible in economic indicators.
- Manufacturing PMI drops to 10-month low in May'21.
- MSME sector badly affected. Airlines & hotels worst affected.
- Services PMI for May'21 increased to 64 over April's reading of 62.
- Business resumption index shows pick up in last week of May'21.



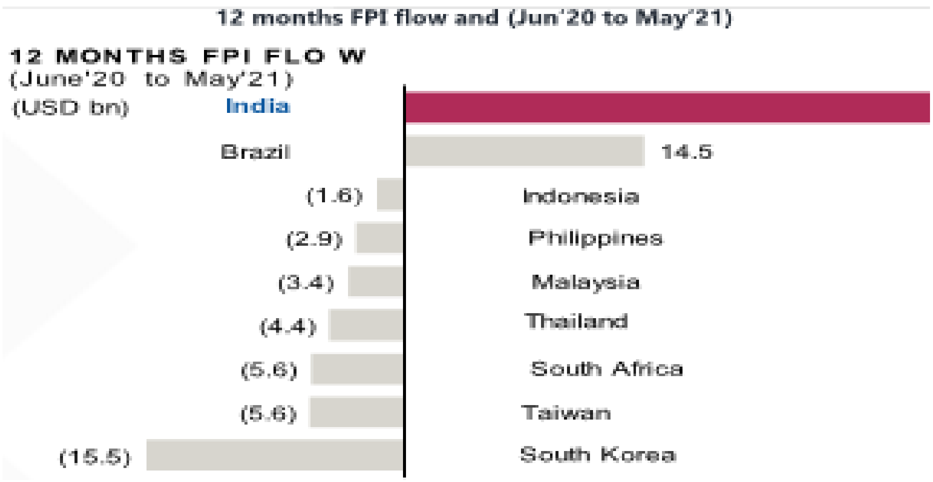
- GST collections at INR 1.03 lac Crs for May'21, above INR 1 lac Cr for 8th consecutive month.
- GST E-way bill generation data shows impact of second wave.



- Vaccination expected to normalize economic activity from Sept'21.
- Corporate profitability continues to rise. Corporate profits as % of GDP at 10-year high with (a) gain in market share of large organized players on account of shift from unorganized to organized (b) corporates with deep pockets able to secure supply chains, build inventory and retain staff (c) improvement in operating margins with operating leverage kicking in.



- Foreign investors continue to have a positive outlook on India's growth.



- Grain output to touch 305 MT in FY 21. Monsoon forecasted to be normal this year.

Global Economy

- Globally Covid new cases are 47% down from peak of April'21.

- 18.59% of global population have received vaccination as of 28th May'21 (37.3% of DM population and 16.24% of EM population)
- Global debt is at an all-time high and interest rate burden is at an all-time low.
- Operating profit margins of S&P500 companies is at an all-time high (~13%).
- Global manufacturing sector expanded at a robust pace in May'21 aided mostly by the developed nations. Strong expansion in US, Eurozone and UK.
- Subdued growth in PMI in China (although still expansionary)
- CRB Commodities index has appreciated by 50% in last one year.

Outlook

- Indian economy is projected to grow at 9.5% in FY22. There are a number of factors supporting growth: accommodative monetary conditions – both domestically & globally, fiscal support in form of Capex thrust, vaccination drive, localized & less restrictive lockdowns, supportive global growth cycle and better adaptability by businesses to deal with Covid.
- Key risks to growth are the impact of second wave on Rural India, protracted period of loss in employment, greater loss to MSMEs.
- Indian equity Markets are being supported by decline in Covid infections, upward trending corporate earnings, moderation in global yields and weakening dollar (favourable for EM equities).
- 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 and support margins.
- 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, real estate, etc. augur well.
- We believe we are in early stages of new earnings cycle.
- We remain 'neutral' on equities. In near term, market correction cannot be ruled out as market is at a new high. Any correction should be seen as an opportunity to buy to maintain asset allocation.
- **Debt:** Uncertainties surrounding potential impact of the COVID-19 second wave on government finances and a likely fiscal relief to mitigate the economic and social impact of the pandemic may make it challenging for the RBI to hold the line on bond yields in the absence of robust natural demand.
- The continuation of excessive surplus liquidity and ongoing RBI intervention, remain important to support the existing market levels or credit spreads.
- 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 cannot be over-emphasised at this point of time.

- We continue to recommend low duration funds like Ultra Short term funds, Floating rate funds, Short term funds, corporate Bond funds and Banking and PSU Funds to insulate the portfolio from interest rate volatility and flexibility to reinvest at higher rates at a later date.