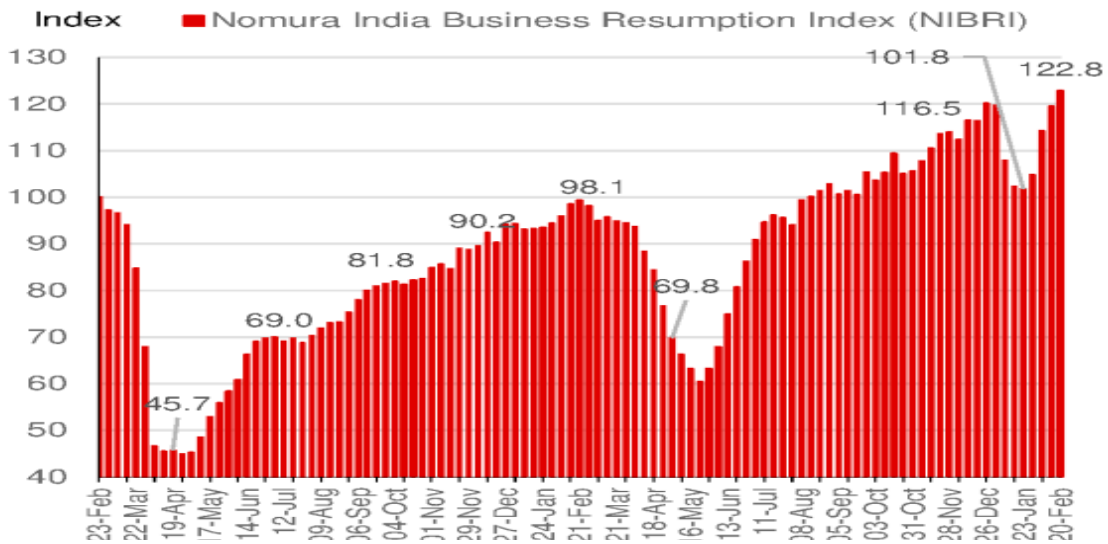
Capital League

OUTLOOK

March, 2022

Indian Economy

- GST collections exceed INR 1.3 Lac Cr in Feb'22, Cess collection crosses INR 10,000 Cr for the first time.
- India's Manufacturing PMI index rises in Feb'22 to 54.9.
- Rate of issuance of E-way bills has been highest in Feb'22
- Nomura Business Resumption Index crosses 122 in Feb, for the first time



- Q3 GDP slowed to 5.4% vs market expectation of 5.9%. But growth is still faster than most other Emerging markets.
- Agriculture growth continues to be strong. Agri ministry has projected record output of grains at 316 Mn Tonnes
- **Oil** – India imports 85% of its oil and thus is vulnerable to any price increase. A 10% increase in oil price over extended period of few months can dent GDP by 20bps.
- Capex cycle is on upturn. Expected to remain strong even in rising rate environment.
- Corporate earnings revival, strong agri growth are reflected in GDP growth projections.

	FY20	FY21	FY22E	FY23E
GDP Growth	4.0%	-7.3%	9.1%	6.3%
Nifty 50 Companies Profit Growth (%)	-2.7	22.7	36.0	19.3
Nifty EPS (INR)	472	542	736	877
Nifty PE Ratio (x)	18.2	27.1	22.6	18.9
Factors Driving Profit Growth		Cost Cut, Tax Cut, Interest rate reduction, Debt reduction & tighter working capital		Operating leverage

Source: Kotak institutional, Motilal Oswal

- Geo-political uncertainty and FED rate hike has led to FII selling. Selling has been done in a calibrated manner and Domestic institutions and retail investors have been buying regularly since last few months, displaying confidence in India growth story. Thus Indian equity has fallen much lesser in 2022 vs 2020 Covid-Lockdown event despite a much larger volume of selling.

Period	FII Equity (Rs. Cr)	Nifty % (Drawdown from Peak)
Mar 20 – Apr 20	-68,856	-38.4%
Oct 21 – Feb 22	-107,416	-12.1%

Global Economy

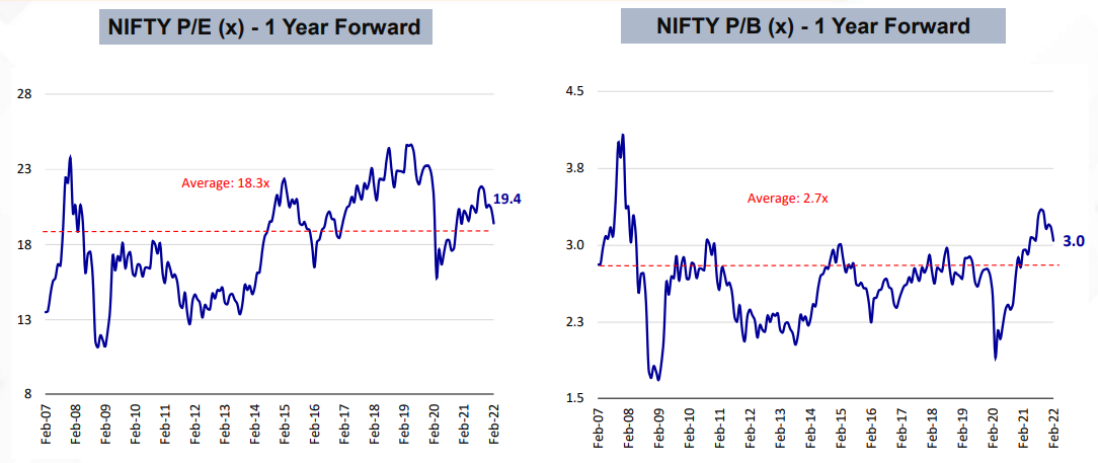
- Russia Ukraine Crisis has been a major trigger which has disturbed global equilibrium on several fronts which may have long lasting repercussions in years to come.
- Russia and Ukraine are 2% of overall global trade, but they are major suppliers of some commodities like: palladium 37%, natural gas 17%, wheat 12%, oil 11% and nickel 9%. Palladium is used in semiconductor chip manufacturing. Disruption in supply of palladium and sharp increase in price may further aggravate global chip shortage affecting diverse sectors.
- High energy and high commodity prices, disruption of supply lines, greater funding towards arms, etc. are all likely to affect global growth outlook.
- US economic situation is tricky: (a) Historically high government debt to GDP (b) Excessive stock market valuation (c) Scarce resource and demand fueled inflationary environment
- Fed is now expected to increase interest rates by 25bps rather than 50 bps expected earlier in March in view of weak cues from Russia-Ukraine crisis. It is clearly behind the curve with inflation at a 40-yr high at 7.5%.
- Gold as a safe haven asset has jumped by 11% crossing USD 2000 for the first time. Russian and Chinese Central Banks have been replacing US T-Bills in

their forex reserves with Gold and the trend is likely to continue supporting Gold prices in the medium term.

Outlook

Equity

- Geo-political tension, high crude & commodity prices, quantum of FED rate increase, high global inflation are all factors which will keep markets volatile.
- Indian macros appear sound. Corporate earnings revival is underway and along with government's pro-growth measures and supply side reforms, the trajectory of Indian growth remains robust.
- If oil stays above USD 100 for several months, then earning projections are likely to be downgraded. With the recent correction of 10-25% across large to mid/small caps, equity valuations are inching closer to long term averages from the expensive zone earlier.



- The outlook for equities remains favorable from the medium term perspective. However, the situation in Ukraine remains unresolved and could result in further market turbulence. Thus investors should maintain neutral asset allocation while remaining cautious over the near term. We continue to recommend equity schemes which have the flexibility to move across market caps and themes.

Debt

- On fixed income, RBI is likely to keep its accommodative stance as growth still remains fragile and inflationary pressures on account of Russia Ukraine crisis are likely to be temporary to some extent though higher than the previous base case scenario.
- We continue to recommend arbitrage funds and shorter duration debt funds for shorter-term deployment along with Target Maturity products (4-5 years), medium term funds for the staggered deployment of long-term surplus from a hold-to-maturity point of view.