

Indian Economy

- India's manufacturing PMI stood at 54 in Apr'21 as compared to 54.6 in Mar'21.
- The GST collections touched a record high at INR 1.41 Tn in Apr'21 surpassing the INR one Tn mark for the seventh straight month in a row during 2020-21.

Nomura India Business Resumption Index (NIBRI) registers the steepest weekly fall in over a year to reach ~24pp below pre-pandemic normal.



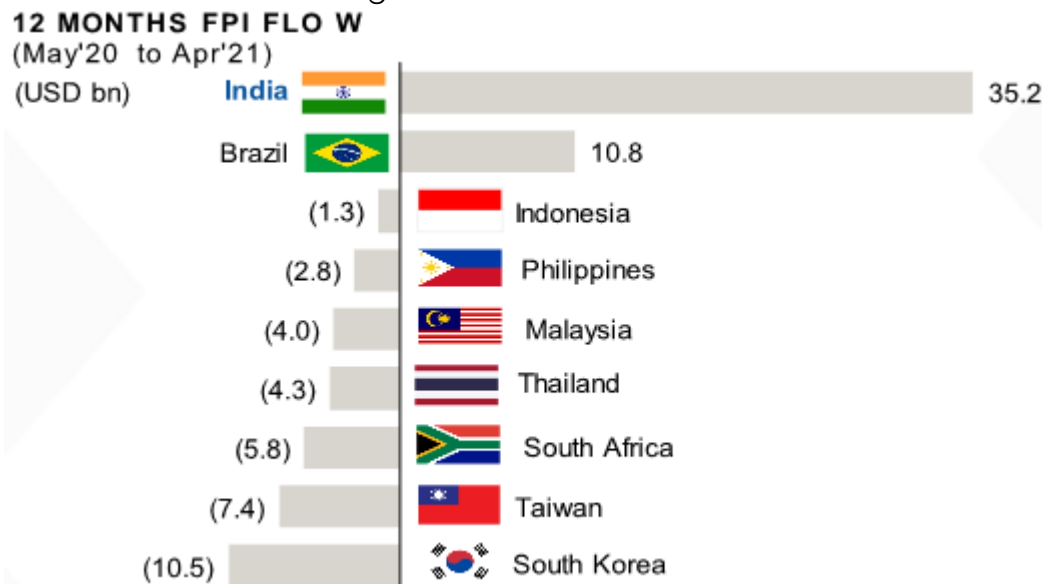
- Corporate earnings are increasing since Mar'20

Quarter	Reported PAT for NSE 500 Rs in Crore	Annualised PAT on Dec 20
Dec 19	1,22,235	
Mar 20	53,406	
June 20	32,400	
Sept 20	1,76,786	7,07,144
Dec 20	2,09,795*	8,39,180
TTM	4,72,387	
Market Cap (30/04/21)	1,94,96,236	
PE Ratio	41.3	23.2

* Highest Ever Quarterly Profit by India Inc.

- The 4Q results announced so far have mostly been positive with a strong forward guidance and several large companies beating market expectations.
- Global Brokerages cut India's FY22 GDP Growth forecasts by ~50bps to 200bps (new projections in range of ~10 - 12.6%) as renewed restrictions due to the second wave impacted activity levels across the country.

- Separately, Fitch affirmed India's BBB- rating with a Negative Outlook, forecasting a growth of +12.8% in FY22.
- Once Covid-19 related lockdowns removed, a V-shaped recovery is expected. FPI flows have been strong barring last one month when we have seen an outflow of INR 15,000 Crs vs inflows of INR 2 lac Crs in the last six months. However, buying from Mutual Funds has kept equity markets range bound and resilient during the current Covid crisis.



- Given the risks emanating from second wave, RBI kept key policy rates unchanged and maintained accommodative stance. RBI is committed to INR 1Tn of bond purchases in 1QFY22. Pre-commitment to use RBI Balance Sheet and a defined quantum made it closest to an Indian version of Quantitative Easing.
- Out of the 5 state elections in April, 3 states (West Bengal-TMC, Assam-BJP, Kerala-LDF) voted for a return of the present ruling parties in a pro-incumbency move. Results of state elections are unlikely to materially impact the Rajya Sabha composition in 2022.
- Monsoon in 2021 is likely to be "normal" at around 98% of the long period average.
- The 4Q results announced so far have mostly been positive with a positive guidance and several large companies beating market expectations. Cost pressures are visible but have been mitigated by product mix changes, cost rationalisation and passing on to consumers.
- All citizens above the age of 18 years are now eligible for vaccination from 1st May. Government is also facilitating fast track approval for various vaccines.
- By year end India is estimated to have sufficient vaccine (AZ, Covaxin, Sputnik, J&J, Cadila, Novovax) to vaccinate 56% of population.

Global Economy

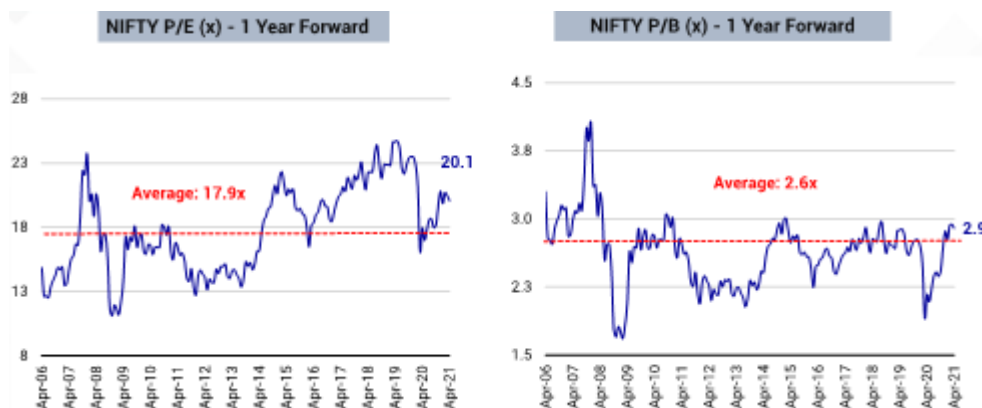
- US GDP expectations for CY21 are incrementally positive (6.3%). US has given a strong push to 'infrastructure' to boost GDP. US services PMI rises to record

high in Apr'21 (64.7) supported by an unprecedented upturn in new business levels. US manufacturing growth boomed in Apr'21, as the PMI rose to a record high (60.5) amid the strongest intake of new orders for 11 years. However, producers also saw the worst delays on record, leading to soaring input costs.

- The large US Tech companies also declared stellar 1Q results.
- Europe: Domestic factory output is showing robust pick up. Retail sales are up. European commission has come out with plans to ease covid-19 restrictions on tourism. The Eurozone Manufacturing PMI reached a fresh series high of 62.9 in Apr'21 (Mar'21: 62.5) amid record growth in investment goods and across several countries.
- **Commodities:** World Bank commodity price outlook report indicates 2021 will be bull run for all commodities.

Outlook

- 2021 had started on positive note: declining COVID cases, increased inflows from global investors and emerging markets doing well. The budget further fuelled hopes of an economic recovery.
- Rising global bond yields and second Covid wave has dented the positivity and led to some correction in Indian equity during April.
- In the near term, the progress on the second wave, associated lockdowns and the pace of vaccination remain the key factors to be monitored on the domestic front. Earnings downgrades will take place as the situation becomes clearer.
- Unlike the first wave, the second wave is likely to be compressed in time and therefore should have lesser impact on economic activity both from time duration and magnitude perspective. Even as states have announced lockdowns, sectors such as manufacturing, agriculture, construction and logistics continue to operate within specific guidelines.
- Aggressive fiscal expansion in addition to super accommodative monetary policy in the West, most notably the US, should augur well for reflation in the global economy. For India, a global reflation may be coming just at the opportune time with both economic growth and corporate profits as a proportion of GDP starting at multi-year lows.
- Valuations are at higher end of fair value. We remain 'neutral' on equities while markets are expected to be range-bound.



- Near- term uncertainties notwithstanding, we may be in the initial stages of a new economic and earnings growth cycle
- **Debt:** The short-term conditions of continued RBI support and excess liquidity remain strong which have led to softening of yields by 20-25 bps. However, if supply disruptions as well as stronger global growth were to lead to further pressures on headline inflation, it may warrant some dial down in the extent of monetary accommodation provided. 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.