Indian Economy

- India has avoided a third wave so far as COVID cases continue to decline in Oct'21.
- 72.4% of India's adult population has received the 1st. dose and 32% is fully vaccinated. Total vaccine shots administered have crossed the 1 billion mark.
- Economic activity has recovered to 7% above pre-pandemic levels

- India's manufacturing activity has gained momentum. Manufacturing Purchasing Managers' Index (PMI) rose to 55.9 in Oct'21 expanding for the fourth consecutive month.
- GST collections for Oct'21 came in at INR 1.30 Lac Cr, compared with INR 1.17 Lac Cr in Sep'21, indicating strengthening economic recovery.
- UPI transactions were over USD 100 Bn in Oct'21.
- Segments such as toll collections, digital payments, GST collections, exports, government capex are depicting strong momentum on a 2-yr CAGR basis. Worst of household income, jobs and consequently retail sales are behind us.
- Select services indicators such as railway freight remained strong (9.4% 2yr CAGR in Sep vs. 10% in Aug). Port cargo continued to hold up (1% y-o-y/-0.7%

2yr CAGR) and air cargo started to gain traction (14% y-o-y/5% m-o-m/-2% 2yr CAGR).

- Nearly all TVs sold in India are now 'Made in India.'
- Passenger vehicles (because of supply constraints), steel consumption, consumption of petroleum products remained below pre-COVID levels. Electricity generation moderated due to seasonality and coal shortages.
- Production, core imports and capacity utilization are still weak. This is likely to improve in coming months on improved demand, restocking activity and ironing out of supply disruptions.
- Corporate Earnings: Q2FY22 earnings surpassed expectations as the companies benefitted from a) strong revenue growth b) steady recovery in loan growth as well as recovery and upgrade in the asset quality of most private banks, c) higher commodity prices and volume growth in the energy and metal sectors, d) opening up of economy that boosted consumer and retail growth.
- Auto sector underperformed amid rising input costs and operating deleverage. Cement sector saw increased sales but squeezed margins due to higher operating costs (energy, freight). Several other sectors like paints, etc. also saw robust sales growth but sharp fall in margins on account of higher raw material/oil prices.

Global Economy

- Covid cases are still contained as vaccination gathers pace. ~55% of global population has been fully vaccinated. 68% of population (66% EM and 75% DM) is likely to be vaccinated by year end (Source: UBS)
- US Congress passed USD 1.2 Tn Infrastructure Bill to rebuild and repair roads and bridges; replace all lead water supply pipes in the country; extend high-speed internet network; modernise the public transport system, passenger rail, and airports; build a network of charging stations for electric cars; upgrade the power infrastructure and secure the infrastructure against cyberattacks and climate change over the next 10 years.
- The US Federal Reserve announced the tapering of its USD 120 Bn bond-buying program by USD 15 Bn a month. High inflationary pressures have raised concerns that the US Fed may hike policy rates much faster than anticipated which could trigger foreign portfolio investor (FPI) outflows from emerging market including India.
- China's manufacturing purchasing managers' index (PMI) came in at 49.2 in October, down from 49.6 in September. The slowdown was a result of tight power supply and a sharp rise in prices of some raw materials. Industrial production, housing sales, property prices and auto sales have plunged in recent months.
- However, China posted a record monthly trade surplus in Oct'21 as exports surged despite global supply-chain disruptions. The strong trade performance

is providing support for a Chinese economy that's slowed sharply in recent months due to weak domestic demand caused by a real estate downturn, electricity shortages that have slowed industrial output, and weak consumer spending worsened by sporadic outbreaks of the coronavirus.
- The price of Brent Crude has gained over 60 % this year and is hovering between USD 83-86 per barrel, supported by recovering demand and supply restraint by the OPEC and allies.

Outlook

- India's Real GDP is likely to grow by 9-10% in FY22 (vs. -7.3% in FY21).
- Nominal GDP may likely grow at 17% for FY22 vs. (-)3% in FY21.
- Easy liquidity and financial conditions, Government's push to infrastructure, continued global demand for Indian goods and services and bottoming out of adverse job situation bodes well for continued growth recovery in India.
- Consensus expects 20%+ EPS growth CAGR for the Nifty over FY20-FY23
- Real estate should support economic recovery. Mortgage rates are at all-time low and affordability is at an all-time high. Inventory in Tier 1(Top 7) cities has fallen to 2.3 yrs from 3 yrs.
- Mounting inflationary concerns may put pressure on the US Federal Reserve to hike interest rates sooner than indicated earlier. The uncertainty on the easing of supply constraints leading to inflationary pressures, China's power outages and Evergrande/real estate liquidity crisis may continue to weigh on the global stock markets
- Indian equities have stayed strong outperformer relative to EM equities leading to a significant expansion in their valuation premium
- Attractiveness for equities has receded and a recovery in earnings is vital to support further upsides though we continue to be constructive on corporate earnings
- At a time when economic growth has likely troughed, an uptick in profits to GDP could lead to non-linear uptick in earnings over the next few years.
- Equity outlook stays positive premised on our view that we are in early stages of an earnings upcycle, even as investors would do well to moderate their return expectations. It would be a good time to rebalance asset allocation and we believe that one should add on to pro-economy assets during any significant pullbacks.
- The issue of policy normalization remains both on rate and liquidity side somewhere in the near future, which keeps us conservative on fixed income as an asset class.
- Hence we continue to recommend target maturity funds, Index funds and short and medium term funds for the debt allocations depending on suitable time horizons. Arbitrage funds being tax efficient are a good option for parking 3 month to 1 year surpluses.