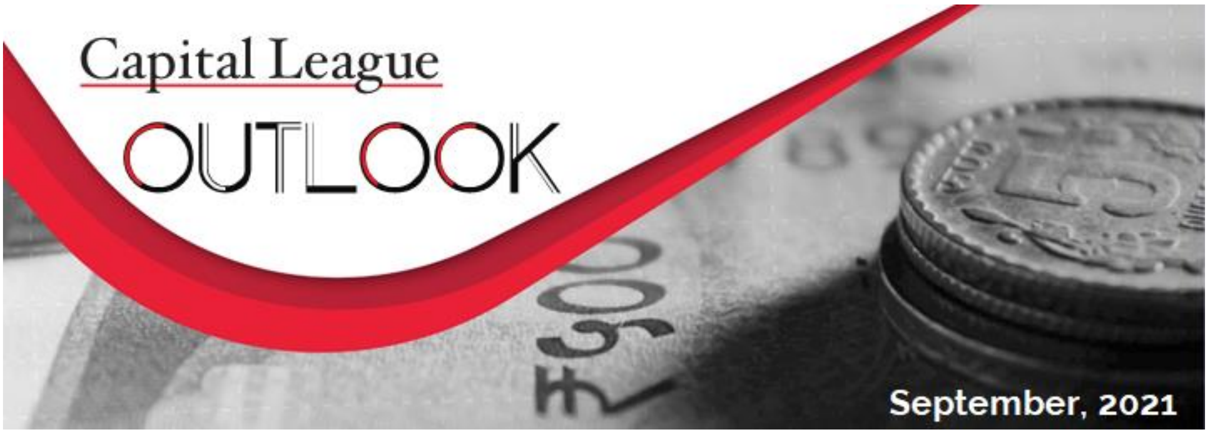
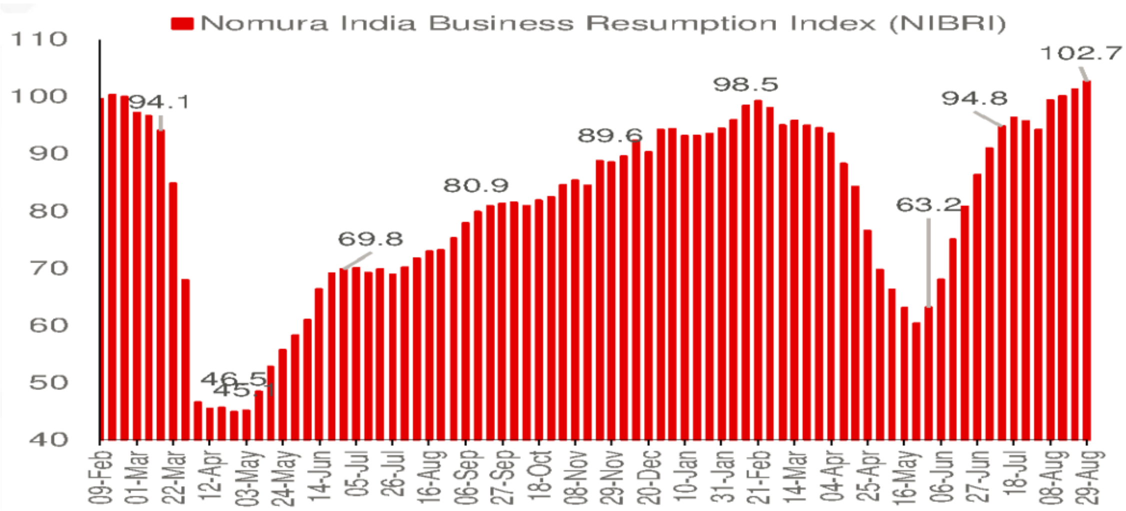


Indian Economy

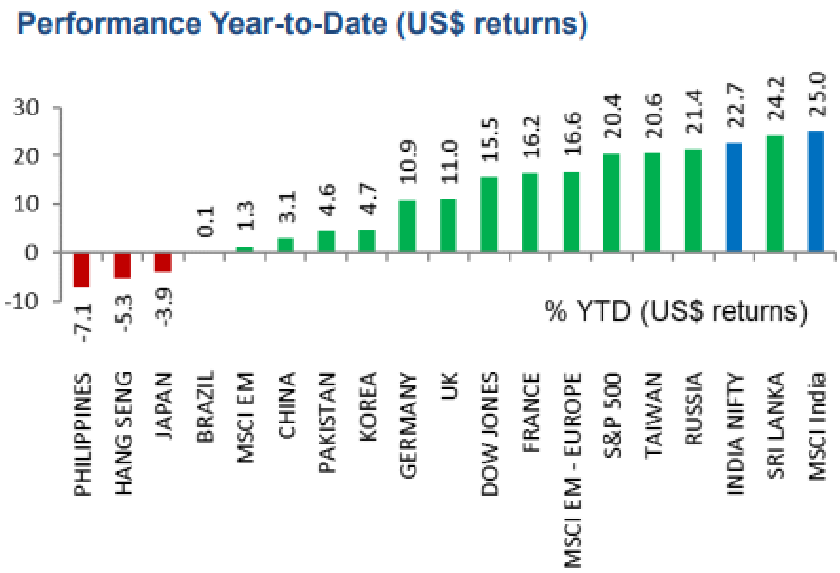
- Vaccinations have gathered pace in the last week of Aug'21 with daily vaccinations topping 1 Cr mark. Over 74 Cr doses have been administered so far in the country.
- Real GDP growth rose to 20.1% YoY in Q1FY22. Industrial sector led the recovery recording a growth of 46.1% YoY led largely by construction and manufacturing.
- Manufacturing PMI dropped to 52.3 in Aug'21 from 55.3 in Jul'21 but continued to remain in expansion zone. Services PMI jumped to 56.7 in Aug'21 from 45.4 in Jul'21 and far above market expectations of 48.5. The reading pointed to the first expansion in the sector since Apr'21, and the strongest growth since Feb'20, due to the continued receding of pandemic and improved vaccine access. New orders expanded at the fastest pace since January 2013, while output grew for first time in four months.
- Business activities resumption has continued to stay consistent, with the Nomura India Business Resumption Index (NIBRI) crossing its pre-pandemic level.



Source: Google, Apple, CMIE, Bloomberg and Nomura Global Economics

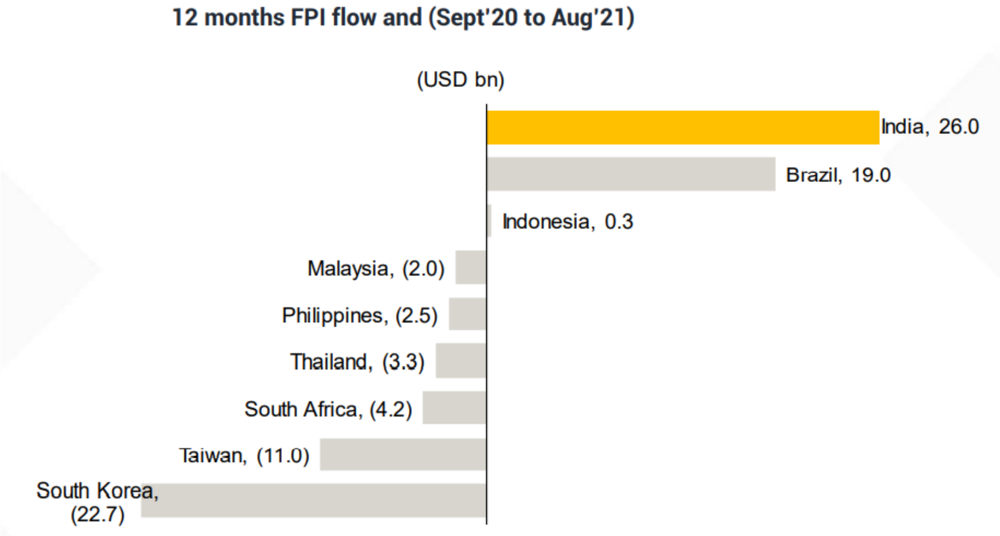
- Exports are up 45% to USD 33.14 Bn in Aug'21.
- GST Collections in Aug'21 were at INR 1.12 Lac Cr, continuing to stay above the INR 1 lac Cr mark.

- The Indian Government launched the National Monetization Pipeline (NMP) to monetize INR 6 Lac Cr of brownfield infrastructure public assets over a period of four years. The top three sectors identified for asset monetization include Roads, Railways and Power with respective shares of 27%, 25%, and 15% in the total assets value.
- India is one of the best performing market among global markets. YTD (Year to Date), MSCI India Index has returned 25%. India's market capitalisation to GDP ratio at 115% is highest since Oct, 2007 when it was 156.25.



Source: Bloomberg, SBIMF Research

- FPIs bought USD 284 Mn of Indian equities while DIIs bought USD 1.2 Bn in Aug'21. In the last 12 months, India has received USD 26 Bn of FPI flows.



Source: Axis Capital

- Robust revenue growth and contraction in expenditure has kept fiscal deficit at record low. At about 21% of budgeted estimates during Apr-Jul'21, it is the lowest in 25 years.
- Kharif acreage is -1.6% below its year ago levels but 2% above the normal acreage. With reduction in monsoon deficit, this acreage is expected to go up further.
- Consumer Price Index (CPI) eased further to 5.30% in Aug'21 vs 5.59% in Jul'21 due to moderation in food prices The inflation level has come within the RBI's

targeted range, easing concerns of an immediate rate hike action by the central bank.

Global Economy

- Global equity indices hit all-time highs in August led by the US market. The S&P 500 (+2.9%) also rose to an all-time high as dovish remarks from the Fed bolstered optimism in an economic rebound and eased fears of a sudden tapering in monetary stimulus.
- Global trade volume growth has moderated in Q2CY21 due to increasing order backlogs, logistics disruptions and demand composition shifting in favour of services.

Outlook

- The domestic macro data is indicating a recovery post the second COVID wave. Hence, profit to GDP ratio in India is expected to continue to rise in the foreseeable future.
- A significant part of India's earnings is linked to global demand oriented (Exports) and global commodities sectors. India is witnessing a favourable global cyclical tailwind thereby enhancing the earning possibilities.
- Indian equities have stayed strong outperformer relative to EM equities leading to a significant expansion in their valuation premium.
- Given the sharp run up, a potentially higher volatility is expected in equity market. Overall, domestic markets are well positioned for a reasonable recovery across different segments.
- **Debt:** India saw a further steepening of yield curve in Aug'21 with less than 10-year segment witnessing softening in yields. Decline in crude oil prices and the RBI's sustained efforts of injecting liquidity via G-SAP and OMOs aided the fall in yields.
- Although a normalization schedule for monetary policy may begin in the months ahead, it is likely to be gradual and clearly flagged. Thus, while bond yields may rise, they may do so gradually thereby allowing the steepness in intermediate maturity points to still offer reasonable cushion over longer investment horizons.
- We re-emphasize the importance of maintaining asset allocation to debt for the purpose of reducing portfolio volatility, preservation of capital and provision of liquidity.
- We recommend short term corporate fixed deposits, short duration strategies and target maturity/roll down fixed income strategies to insulate the portfolio from interest rate volatility and flexibility to reinvest at higher rates at a later date. Funds meant for long term deployment should be parked in short to medium duration funds/products rather than liquid funds as the increasing steepness of the yield curve has created a huge difference in the yields of the two and shall provide reasonable cushion as and when interest rates come down.