Capital League outlook

April, 2019

Indian Economy

- Capacity utilization in Q3 FY19 has improved to 75.9%, a 23-quarter high from 74.8% in Q2, exceeding its long term average.
- Mar’19 GST collections at INR 1.06 Lac Crores were highest since the commencement. Overall FY19 GST collections were at INR 11.77 Lac Crores, indicating a growth of 10.3% in average monthly GST collections over FY18.
- The government has exceeded its disinvestment target for the current fiscal by INR 5,000 Crs and the proceeds have touched INR 85,000 Crs.
- The government has managed to meet the revised fiscal deficit target of 3.4 % of the GDP as it rolled over fuel subsidies to make up for the shortfall in tax collection.
- The RBI reduced the interest rate by 25 bps in its last monetary policy this month and maintained its neutral policy stance.
- The RBI relaxed foreign exchange management regulations pertaining to opening of accounts by Foreign Portfolio Investors (FPIs) and Foreign Venture Capital Investors, and opening of Non-Resident Ordinary (NRO) account by long-term visa holders.
- CPI inflation rose to a five-month high of 2.86% in Mar’19 on the back of rise in food prices. However, inflation still remains within the RBI’s medium term target of 4%± 2%.
- The Nikkei India Manufacturing Purchasing Managers' Index (PMI) declined to 52.6 in Mar’19 from 54.3 in Feb’19 which indicated that although operating conditions in the Indian manufacturing industry continued to improve, there is still slowdown in growth.
- Indian equity markets moved up sharply in March 2019 delivering positive returns across all the sectors. In FY19, BSE Sensex has outperformed most of the global equity indices in USD terms.

Market Indices	**% change in FY18-19 in USD terms**
India (Nifty 50)	10.2
United States (S&P 500)	8.8
Russia (RTS)	-2.3
Brazil (BVSP)	-2.5
China (SSEC)	-7.2
Japan (NIKKEI 225)	-3.1
UK (FTSE 100)	-4.8
Emerging markets (MSCI)	-9.0
Germany (DAX)	-12.3

- The global narratives around emerging markets is beginning to change favorably in the last 3 months, helped by increased dovish bias by the US Fed and easing trade tensions between US and China.
- India has received highest share of FII investments in Asia based Emerging Markets. FIIs have invested more than USD 6 Bn in equity in CY19 on YTD basis, offsetting the USD 2 Bn outflows by the Domestic Institutional Investors during same period.

Global Economy

- In the latest Fed meeting it lowered its US GDP growth estimation to 2.1% in 2019 from 2.3% projected during its December meet. Inflation projection has also been lowered to 1.8% in 2019 from its December projections of 1.9%.
- The International Monetary Fund (IMF) lowered its global growth forecast for 2019 to 3.3% from 3.5% estimated in Jan'19. The projections reflect downside risks being faced by the world economy brought on by potential uncertainties in the ongoing global trade tensions, as well as other country- and sector-specific factors.

Outlook

- We remain positive on India's overall economic growth going forward and expect broader earnings growth for the market to remain supportive. However, in the first half of FY20, earnings growth may remain subdued given broad based slowdown in the economy and no major policy announcements before elections.
- Nifty is close to its all-time high with valuations at 18.5X on 1-Yr forward P/E multiple which is at a slight premium to their long-term average. However, broader indices like NSE Midcap and Small cap are down by 16% and 29% respectively from their peak levels in 2018. Hence there has been both a price correction and a time correction in broader markets. Consequently, valuations for the broader market still have the potential to offer reasonable returns in the long-term.
- We recommend existing clients to maintain their asset allocation and new investors to take advantage of any intermittent volatility before the elections for fresh equity investment.
- The steps taken by RBI to increase the liquidity situation may also take time to percolate in the economy and stimulate the demand. However, 2HFY20 is expected to be significantly different from 1H and growth could overshoot expectations led by policy initiatives of the new government, expected rate cut by RBI and moderate inflation scenario.
- On the fixed income side we continue to recommend high credit quality accrual and short term funds.