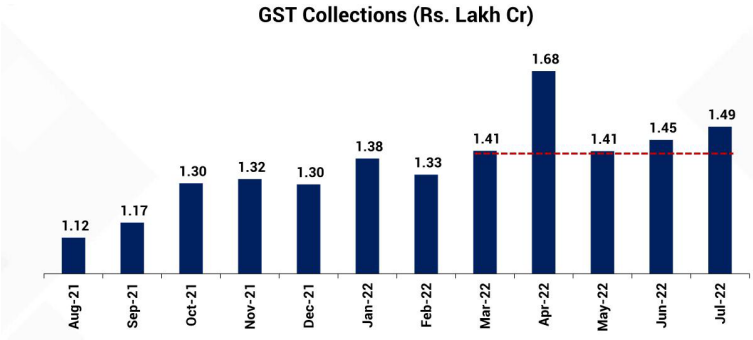
Capital League

OUTLOOK

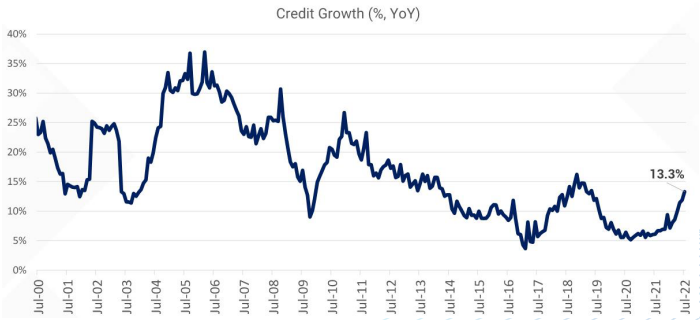
AUGUST 2022

INDIAN ECONOMY

- India's Manufacturing PMI hit 8 month-high of 56.4 in July and Services PMI came in at 55.5.
- Index of Industrial Production in India grew at 19.6% in May, as against 7.1% in April. This is one of the strongest growth since Aug'21, as output across the sectors - Electricity, Manufacturing, and Mining saw a sharp improvement.
- Consumer Confidence Index for May inched to the highest level of 75.9 since Jun'21 and the outbreak of the pandemic.
- GST collection for July at INR 1.49 Lac Crs was second highest till date.



- Power consumption grew 3.8% YoY in July, indicating pick-up in economic activity.
- Auto sales are showing positive trend.
- The combined Capex by State and Central governments is increasing. This will have a multiplier effect on the economy.
- Credit growth is reviving. Corporate credit growth has hit a 7-year high.



- Monsoons are normal. A positive for rural income. Government's investments in rural economy are picking up.

- India's overall exports for the month of Jun'22 were at USD 64.91 Bn with double-digit growth for the 14th month in a row, while imports were at USD 82.42 Bn, due to high crude oil prices leading to deficit of USD 17.51 Bn.

- Corporate results announced so far have been mixed. Banks and NBFCs have come out with very good earnings growth on the back of write-backs, higher NII margins, and pick-up in credit offtake. IT, Auto, FMCG, Cement have seen dip in operating margins resulting in earnings compression on the back of input cost pressures – commodities, wages and salaries, freight, etc.

- There are likely to be some analyst downgrades in the next few weeks though the management commentary has been largely positive as commodity prices have come off the leak levels and supply constraints have eased out.

- RBI led MPC in its Aug policy, raised the Repo rate by 50 bps to 5.4%. The MPC noted the recent fall in oil and key commodity prices and their expected positive impact on headline inflation but maintained the CPI forecast at 6.7% and GDP growth at 7.2% for FY 23.

GLOBAL ECONOMY

- Oil has fallen by nearly 22% since Mar'22. This is a huge positive for companies where derivatives of oil are inputs as well as global economies like India which are net importers of oil.

- Key metals like Aluminium, Zinc and Copper have fallen by 25% to 30% from peak levels.

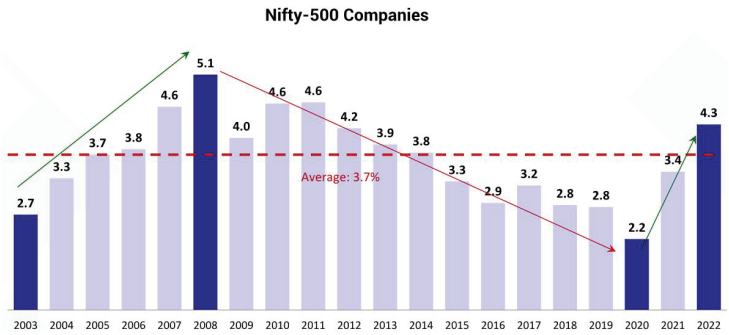
- The Dollar Index has gained momentum in view of ongoing geopolitical tensions, triggering safe haven demand for USD.

- Inflation continues to remain high across the globe. High energy prices, food scarcity and supply line issues are key contributors.

OUTLOOK

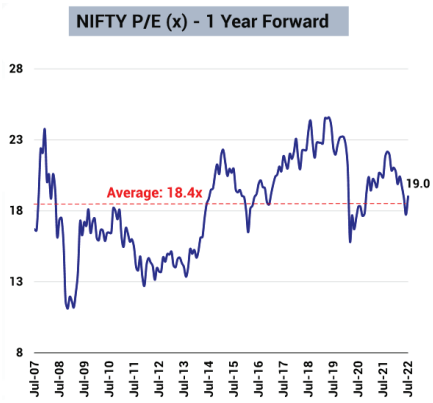
- Ukraine conflict has impacted global GDP growth (3.1%). India is projected to grow at 7.2%, slower than last year (8.8%) but still the fastest growing major economy.

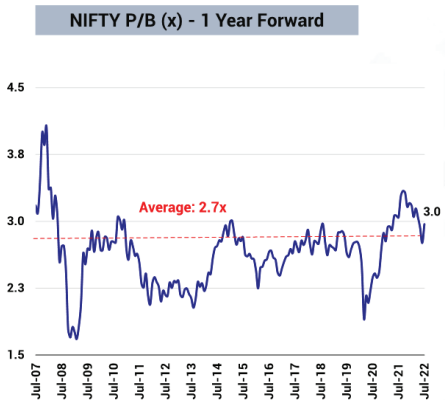
- In India, the corporate profit to GDP ratio is at a decade high. Corporate balance sheets are at their healthiest.



- MSCI may move Korea to the 'Developed Markets Index' from 'Emerging Markets Index'. In that case, it will increase India's weight in MSCI Emerging Market Index. This has the potential to attract FII inflows.

- Nifty 50 forward P/E and P/B (Price to Book) are now nearly at long-term averages. The outlook on equity is neutral. Asset allocations are being maintained.





- Debt Outlook: India's long-term yields hardened again after the RBI August Policy. The rates are expected to move in a narrow range with the expectation of further rate hikes, declining liquidity surplus, and a large borrowing program. The risk-reward favours adding 'duration' to the debt portfolios in a staggered manner. We continue to recommend locking into attractive yields offered by Target Maturity Funds of 4-10 years duration depending on the investment time horizon for superior tax-adjusted returns. Corporate Fixed deposit rates are being increased gradually and there is a lag with respect to secondary market rates.