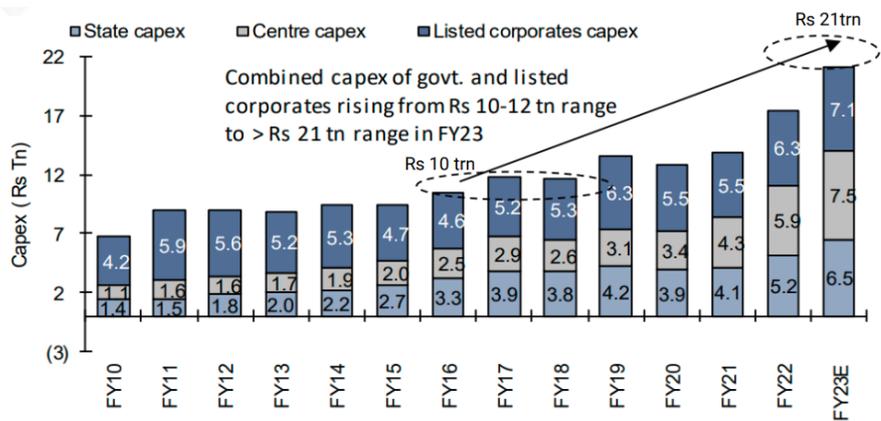


Indian Economy

- Indian economy is growing and showing resilience:
 - GDP growth likely to be 6.8% to 7.7% in FY23E; the fastest growing major economy
 - Services PMI in Jun'22 increased to 59.2, the strongest expansion since Apr'11. This is also the 11th month of straight growth in services.
 - Manufacturing PMI decreased to 53.9 in Jun'22. While the manufacturing sector witnessed growth on account of robust demand, it was affected by the rise of input costs & inflation concerns.
 - Railway freight grows 11% YoY.
 - Power consumption grows 17.2% in Jun'22
 - Core sector growth expands by 18.1% in May'22, highest in 13 months
 - Fuel sales rise in June, due to the start of the cropping season, demand for travel and pick up in the economy.
 - Gross NPA ratio of banks fell to 6-year low of 5.9% in Mar'22: RBI
- India has moved to a leadership position globally, in large value digital payment system
- GST collections continue to stay above INR 1.4 Lac Crs.



- Housing cycle is turning around from multi-year lows. Residential inventories are showing a continual drop. Affordability levels are among the best ever. Sales of top 10 listed developers is showing a surge across the board.
- Combined Capex of government and listed corporates likely to increase significantly in FY23



- Rural spend by the government is budgeted to increase. Along with a (projected) normal monsoon this will reflect in increased rural income.
- Inflation trajectory remains largely dependent on crude oil prices.

Global Economy

- Commodity prices have corrected by 20-40% in anticipation of a global slowdown. Copper has slid to a 2-year low.

Commodity	Price as on 30/06/2022	Peak Price in 2022	Price in May 2021	% Fall from peak price in 2022
Aluminum	2,433	3,750	2,500	-35%
Zinc	3,183	4,500	2,969	-29%
Copper	371	480	470	-23%
Palladium	1,916	3,000	2,200	-36%
Oil (Brent)	115	128	65	-10%
Wheat	869	1,280	700	-32%
Soybean	1,675	1,750	1,400	-4%
Sugar	19	20.2	17	-6%

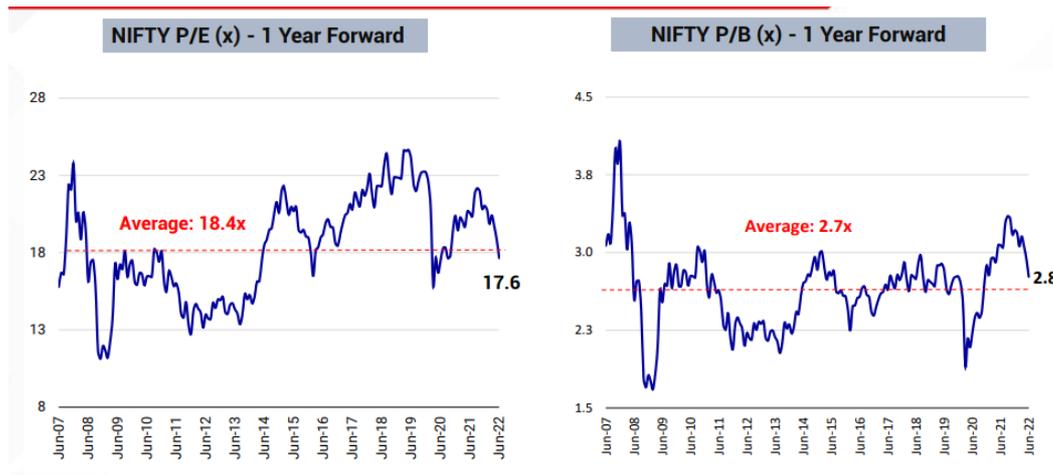
Source: Bloomberg

- The US Fed hiked Fed Funds rate by 75bps in Jun'22 to 1.50-1.75%. A further 75bps rate hike is expected in the July'22 policy.
- In the US, consumer confidence is at an all-time low, mortgage demand is slowest since 2001 and credit card debt is up 20% in Jun'22.
- China has restarted production in most sectors, thus the existing supply chain constraints are easing leading to improvement in Emerging market economies PMI.

Outlook

- GDP Growth projections for FY23 lowered in India to about 7%, on account of slower global growth and inflationary pressures leading to weak domestic demand. Beyond the near term, growth prospects are promising with early signs of recovery in the Real estate sector.
- Corporate earnings outlook in the immediate future may have to be revised downwards. Higher input costs impact corporate profits and inflation persistence leads to demand destruction.

- Equities have seen a derating in valuations. Forward P/Es are down 30% - 35% on an average from last year highs.
- Valuations are near to long term averages



- Globally, focus has shifted from fear of inflation to fears of recession. Central bankers are aggressively hiking rates to tame inflation.
- India's long term yields are nearing peak. The risk-reward is favouring adding 'duration' to the debt portfolios. We continue to recommend locking into attractive yields offered by Target maturity funds of 4-6 years duration depending on investment time horizon. Corporate Fixed deposit rates have increased marginally and are still much below their 2 year highs.
- We have a cautious view on equity and recommend a close watch on corporate earnings and guidance while maintaining a neutral asset allocation.