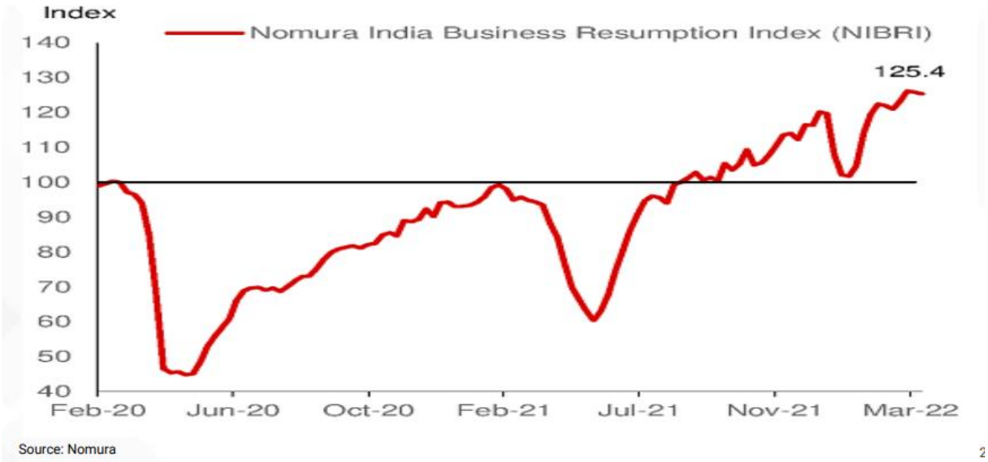
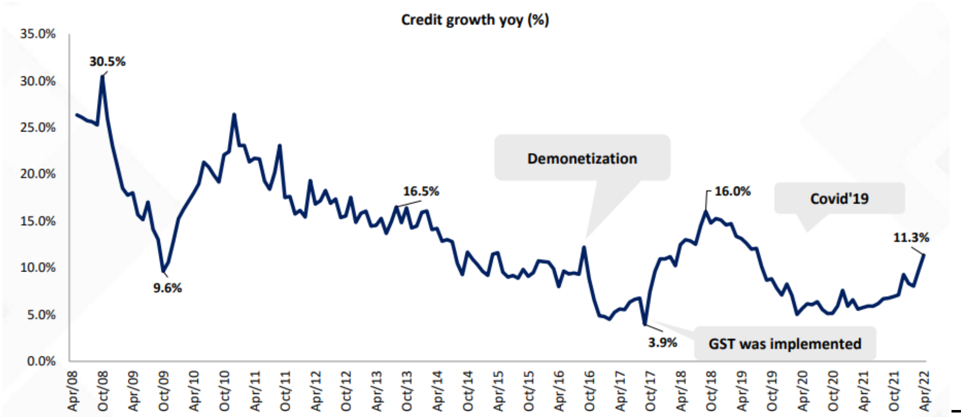
Indian Economy

- United Nations report: India's GDP growth at 8.7% in FY22 makes it the fastest growing major economy. India's growth contrasts with the global growth that is forecast at 3.1% this year and next.
- Services sector PMI touches 11-year high of 58.9 indicating strong expansion.
- Nomura India Business Resumption Index is about 25% above pre-pandemic levels.



- Indian labour market added 8.8 Mn jobs in April in the largest monthly increase since Covid.
- Exports jumped 30.7% in April; trade deficit widened to USD 20.1 Bn as imports became costlier on account of surge in crude and edible oil prices.
- Credit growth is picking up, a strong indicator of pickup in economic activity.



- GST collection for May at INR 1.4 Lac Cr were up 44% YoY indicating strong growth
- IMD predicts normal monsoon. A normal monsoon bodes well for farm incomes.
- Capex has started improving. Capex projects started now will be growth multipliers in a few years.
- Housing cycle has turned around from multi-year lows. Residential inventories continue dropping pan India. Low interest rates, and increased wages are supporting affordability.
- **RBI Policy**: MPC increased Repo Rate by 50 bps to 4.90%. Repo rate remains below its pre-pandemic level. GDP growth for FY23 has been retained at 7.2%. Inflation is projected at 6.7% for FY23. 75% of the increase in inflation is attributed to the food group. Information for April-May suggests domestic economic recovery is firm. Both urban and rural demand is recovering. Surveys show capacity utilisation in the manufacturing sector increased to 74.5% in 4QFY22. India's forex reserves stand at USD 601 Bn. The governor assured that they will take measures, if required to conduct orderly government borrowing programme.
- India has emerged as the best performing Emerging market in April'22, based on indicators like Real GDP growth, exchange rate, Inflation, PMI, export growth etc.
- **Equity Markets:** FII ownership is showing a declining trend and DII plus retail ownership is growing. India continues to be the top performing emerging market in dollar terms over the last decade viz. China, Brazil, Emerging Market index.

Global Economy

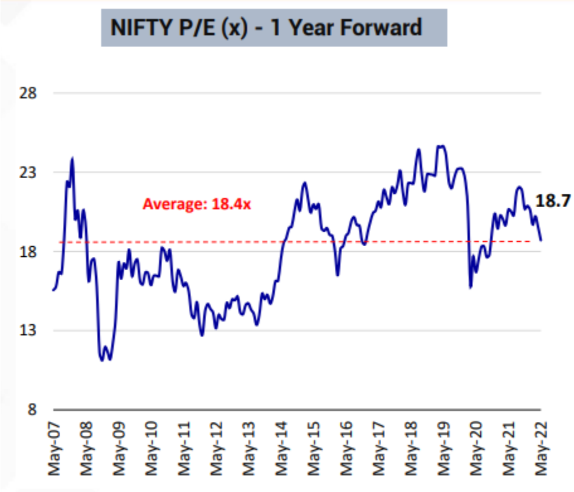
- Heightened inflation, increasing interest rates and tightening liquidity, disrupted supply chains are all leading to a slowing global economy.
- Commodity prices have begun to correct, though agri products like wheat, soy continue to remain high. Crude at over USD 120 is a big contributor to global inflation.

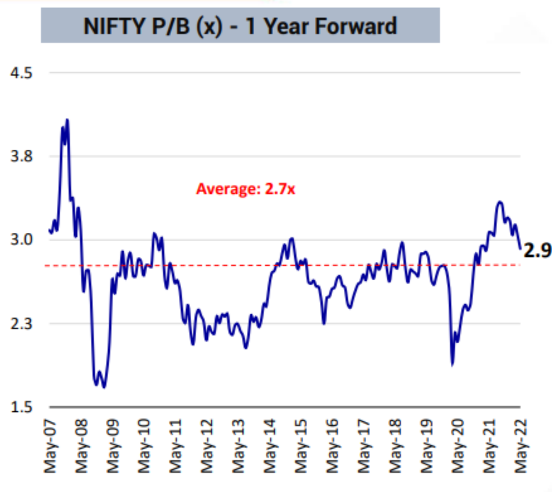
WPI inflation is closely linked to movements in commodity prices

- Globally inflation is expected to stay elevated in FY23 too. Companies may see moderation in gross margin, resulting in downward revision in earnings.

Outlook

- Q4FY22 corporate results have been marginally below expectation. Of the Nifty 50 companies, 23 have seen earnings upgrade and 27 have seen earnings downgrade. There is weakness in Small and Midcap earnings. Corporate profitability is critical for markets to sustain at these levels.
- Valuations are fair. Both Nifty 1-yr forward P/E and P/B are near long term mean.





- Market cap to GDP ratio at 98 is above long term average (81) in India but much below global average of 125.
- We recommend neutral asset allocation. Fresh flows into equity should be made in a staggered manner over the next 4-6 months.
- On the Debt outlook, interest rates may continue to harden though at a more gradual pace as the market has already baked in another 100-125 bps of rate hikes by RBI. The risk-return trade-off is most optimum at 4-5 years on the yield curve.
- We recommend investment in Target maturity funds, medium-term funds, bonds, and corporate Fixed deposits for an investment horizon of three years and above and arbitrage funds for 3 months to 1-year time duration.