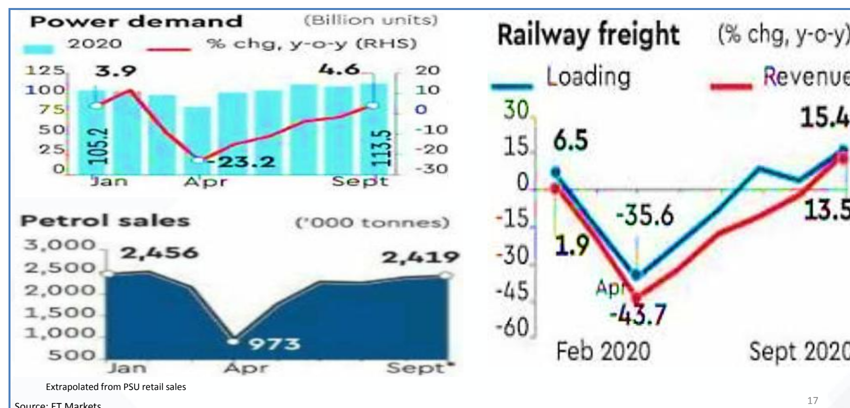
Capital League outlook

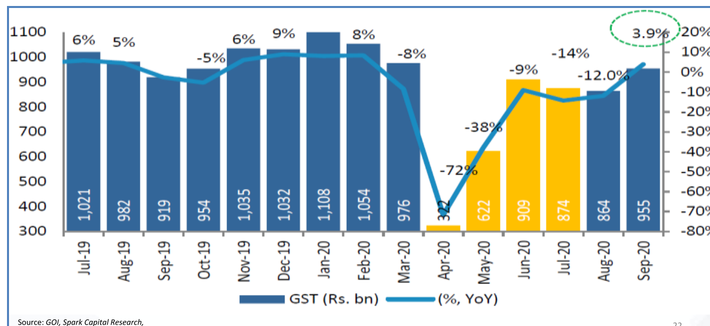
October, 2020

Indian Economy

- Indian economy is recovering at a robust pace. High frequency economic indicators show **improving trends**.



- **Current Account balance** is in surplus with highest level of surplus since 2004.
- **Foreign Exchange Reserves** of India have grown to USD 545 Bn, highest ever.
- **GST** collection in September'20 was at INR 0.95 Tn up 4% YoY.



- Centre's fiscal deficit widened to 109% of budgeted estimates in first five months of FY'21, compared to 79% during same period last year. This is mainly due to sharp contraction in tax revenues, both direct and indirect.
- Auto sales data is showing pick up momentum. Monthly wholesale data for major OEMs are above pre-COVID levels.
- **Monsoon** rainfall levels continue to trend above long term averages. Sowing has been 5% higher compared to last year. Rural India's economy has remained relatively unaffected by lock down.
- **Manufacturing PMI** for September is 56.8 compared to 52 in August'20. This is highest PMI since January '12.
- FII flows into India have been one of the highest this year.

Country	YTD FII Investment (USD Mn)
India	3953
Brazil	-18747
Philippines	-2017
Malaysia	-5223
Indonesia	-2933
Thailand	-8748
South Africa	-6351
Taiwan	-3339
South Korea	-24240

- Indian equity market (in line with global equity) has benefitted from the excess global liquidity created by central bankers to support economies.
- Corporate earnings growth is expected to bottom out in FY21, recover sharply in FY22 (due to low base & stringent cost controls by companies). Both the economy and corporate earnings are expected to normalise by FY23.
- Parliament has passed 3 major bills pertaining to labour reforms. These have the potential to improve 'ease of doing' business in India and reduce compliance burden of companies.
- **RBI monetary policy:** RBI estimates GDP to fall by 9.5% in FY 21 with risks to downside and inflation close to target (4%) by Q4 FY21. The rates were left unchanged but the RBI and the monetary policy committee (MPC) acted and spoke with emphasis while providing stronger forward guidance to continue softer interest rate regime for at least during the current financial year and into the next financial year. They renewed their commitment to stable market yields through proposed open market operation (OMOs). RBI also assured of further liquidity measures.

Global Economy

- Global forecasts for 2020 have been upgraded due to easing lockdowns.
- Global Manufacturing PMI has further expanded to 53 in September, indicating a robust pace of recovery.
- Global equity markets will continue to remain volatile in the short term due to upcoming US elections. However fiscal and monetary policies continue to be accommodative and high liquidity will provide support for equity.

Outlook

- Equity valuation indicators are near long term averages. At 2.5x, Nifty 12-month forward Price/Book is at historical average levels. Market cap to GDP ratio at 75% plus is also near long term historical average.
- Going forward, given uncertainty on the duration and severity of the pandemic, economic recovery in FY22 remains uncertain. This is also reflected in the earnings estimates across sectors. Markets are watching out for indicators on how quickly corporates will come back to earnings of FY20 levels. On the other hand, the move from Mar'20 lows till now has seen a long stretch of the market up move. The markets have run ahead of fundamentals on the

back of easy liquidity and lack of returns from other asset classes like fixed income and real estate. Any correction should be seen as an opportunity and used to add to equity.

- On the fixed income front, the measures announced in the monetary policy should arrest the steepening of yield curve witnessed in the past few weeks. Fiscal stress is real and multi-year, and the RBI's approach is to keep yields stable in the face of the extraordinary bond supply that needs absorption.
- We continue to recommend short-term, corporate bond and banking & PSU bonds funds though return expectations have to be brought down to 5-6% as interest rates stabilise at these low levels.